City Priorities Shine Through in FY18 Omnibus Spending Bill.

Funding proposal reflects strong federal-city partnership

WASHINGTON — March 22, 2018 — The House and Senate have reached a deal on the omnibus appropriations bill (H.R. 1625), a $1.3 trillion spending proposal that maintains or increases funding for key programs that cities use to fund infrastructure, economic development and public safety, among others. The bill comes after more than 1,000 city leaders lobbied Congress over the past year to save Community Development Block Grants (CDBG), TIGER grants, workforce development and education programs, and energy efficiency and renewable energy programs.

"The spending bill before Congress shows that our federal partners have heard the thousands of city leaders urging them to reject the severe budget cuts proposed by the administration and that were required under sequestration," said NLC President Mark Stodola, mayor of Little Rock, Arkansas. "This bill makes clear that city leaders are part of the solution to our country's greatest challenges. It's a victory not only for America's 19,000 cities, towns and villages, but for the more than 250 million residents that rely on safe and reliable infrastructure and strong local economies that contribute 91 percent of the nation's GDP."

The bill also includes additional funding for water infrastructure through the U.S. Environmental Protection Agency, including for lead testing and lead reduction in schools, which NLC has been calling for in its Rebuild With Us infrastructure campaign. NLC also supports the bill's reauthorization of the brownfields redevelopment program, which helps cities clean up contaminated properties, the expansion of Low-Income Housing Tax Credits to make up for losses in affordable housing stemming from tax reform, and the extension of the National Flood Insurance Program until July 31, 2018.

Continue reading.

National League of Cities

GASB Outlook E-Newsletter, Q1 2018

Read the Newsletter.

Educators, Finance Officers Team Up to Build a Better Budget.

Having a plan to tackle your school district's critical problems doesn't mean you have the money to pay for it, and many districts find their best-laid improvement plans can fall apart with just one state budget cut or failed local bond issue.

That's why a growing number of districts nationwide are working to bring together educators and budget officers early and often, to make sure budgets support the most critical priorities.

"One of the hardest things is when you talk about academic [return on investment], educators are not used to putting a dollar sign on students; they look at quality education and what's best for the kids," said Claire Hertz the Beaverton, Ore., district's chief financial officer. "And I look at dollar signs, but I don't necessarily know what's most important instructionally," she said. "We each bring a strength and a source of data to each other."

Continue reading.

Education Week

By Sarah D. Sparks

March 20, 2018

CUSIP Request Volume Signals Strong Pace of U.S. Corporate Equity & Debt Issuance in Q1.

NEW YORK, NY, February 22, 2018 – CUSIP Global Services (CGS) ttoday announced the release of its CUSIP Issuance Trends Report for January 2018. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity, found an increase in CUSIP request volume for new U.S. corporate equities and debt, but sharp decreases in the municipal bond market. This is suggestive of as strong pace of new corporate issuance and a slowdown in new muni issuance in the early weeks of 2018.

Read the Report.

CUSIP: Municipal Volumes Trending Down Following Tax Reform.

"We're still seeing fallout from the Tax Cuts & Jobs Act in our muni request volumes," said Gerard Faulkner, Director of Operations for CUSIP Global Services. "While lawmakers are currently reviewing a new bill that would restore the tax exemption for advance refunding bonds, for now, the marketplace is reacting to the tax reform by dramatically curtailing their pre-trade activity."

Read the Press Release.

Public Debt Upgrades Top Downgrades in 2017: Moody's

NEW YORK (Reuters) – In the U.S. public finance market, debt rating upgrades topped downgrades for the third year in a row in 2017 as the U.S. economy continued to improve, according to a report by Moody's Investors Service released on Monday.

The ratings agency said the upgrades indicated continued improvement in credit quality across the public finance sector but warned of "pockets of weakness," particularly in the healthcare and higher education sectors.

"While the number of upgrades continued to grow, the amount of upgraded debt declined for the fourth year in a row," the report said.

Despite the economic upswing, the dollar value of downgraded debt was $201.8 billion last year, double the $100.3 billion of upgraded debt. This was driven primarily by the downgrade of Puerto Rico and related issuers in the aftermath of Hurricane Maria, which devastated an already fragile economy.

California led in upgraded debt in 2017, helped by an upgrade of Los Angeles County's $1.6 billion worth of debt.

Nearly 35 percent of upgrades and 14 percent of upgraded debt in 2017 stemmed from a change in Moody's U.S. Local Government General Obligation Debt methodology, which revised the agency's approach to rating general obligation limited tax (GOLT) debt.

The change drove less than one percent of downgraded debt, and upgrades still topped downgrades when stripping out the effects of the change, Moody's said.

In general, housing and infrastructure bonds performed strongly in 2017. Annual toll increases contributed to a $2.8 billion upgrade of Central Florida Expressway Authority revenue bonds, and the California Housing Finance Agency's mortgage revenue bonds accounted for $1.2 billion of upgraded debt in 2017.

Performance was weak in the higher education and healthcare sectors.

Illinois, which accounted for the most credit downgrades last year as the state and local governments continued to face pension challenges, also had a number of downgrades to its public universities

The State of New Jersey marked the largest downgrade last year at $37 billion, followed by downgrades of over $20 billion each in Illinois, Puerto Rico, and Connecticut. These four entities accounted for almost 70 percent of downgraded debt in 2017.

Puerto Rico Electric Power Authority (PREPA) accounted for more than half of downgraded debt in the infrastructure space, which overall saw $9.4 billion worth of credit ratings lowered versus $19.8 billion of upgrades, Moody's said.

Reporting by Reade Levinson; Editing by Daniel Bases and Diane Craft

March 13, 2018

[Bloomberg Brief Weekly Video - 03/15]

Amanda Albright, a reporter for Bloomberg Briefs, talks with Joe Mysak about this week's municipal market news.

[Watch video.]

Bloomberg

March 15th, 2018

[Fitch Updates Criteria for US SHFA Single Family Mortgage Program Bond Ratings.]

Link to Fitch Ratings' Report(s): [U.S. State Housing Finance Agencies: Single-Family Mortgage Program Rating Criteria]

Fitch Ratings-New York-15 March 2018: Fitch Ratings has published an updated criteria report titled 'U.S. State Housing Finance Agencies: Single Family Mortgage Program Rating Criteria.' The report replaces the existing criteria of the same title published on June 28, 2017.

The changes to the criteria mainly relate to the reordering and clarification of key rating drivers and the incorporation of a flow chart to describe the credit review process. In addition, the criteria revisions provide clarity to the FHA-insured loan loss assumption.

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

Contact:

Mikiyon Alexander
Director
+1-646-582-4796
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Ronald McGovern
Senior Director
+1-212-908-0513

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com

Additional information is available on www.fitchratings.com

[America's Cities Are Exporting Bonds.]

- **Foreign investors have increased holdings steadily since 2012**
- **It may provide lift for taxable debt, Citigroup's Rai says**

America's states and cities have hit on a popular export product: their bonds.

Foreign buyers have expanded their investments in U.S. municipal securities every quarter for more than five years as low — or even negative — interest rates prod European and Japanese investors to hunt for higher yields than can be found in their home countries. That continued during the last three months of 2017, when they boosted their holdings by a record $4.5 billion to $104.6 billion, according to Federal Reserve Board statistics.

The steady buying is a welcome development for the $3.9 trillion municipal market, where demand from banks and some insurance companies may be curbed by the corporate tax cuts that took effect in January. This year, municipal bond prices have slid amid concern about rising interest rates, pushing up yields on top-rated 30-year debt by about half a percentage point to 3.12 percent, the highest in a year.

The overall impact from the overseas spending spree may be limited. Such buyers tend to focus on taxable bonds, which pay higher yields than traditional municipal securities. Tax-exempt municipals aren't as attractive, given that they have no use for the income-tax breaks typical state and local bonds provide.

"Foreign investor demand will drive the richening of taxable munis, but it provides no safety net for tax-exempts," said Vikram Rai, a municipal-bond analyst for Citigroup Inc., the second-biggest underwriter of the securities. "That's not where they choose to invest."

Bloomberg Markets

Amanda Albright

March 12, 2018, 10:04 AM PDT

— With assistance by Zachary Hansen

Protons Beams Zap Cancer With Muni-Bonds as Market Strains.

- **Bond sales for the new cancer centers swelled in 2017**
- **'Investors are going to be caught asleep at the wheel'**

Hospitals and health-care centers borrowed more in the municipal-bond market last year for cancer treatment facilities known as proton clinics than they did over the previous decade after private lenders balked following a string of financial failures brought about by the industry's aggressive expansion.

Local government agencies — which sometimes lend tax-exempt bond proceeds to businesses — issued $418 million of debt last year for such clinics, up from the $239 million in the prior 10 years, according to data compiled by Bloomberg. The surge is helping to bring new clinics on line, with 18 set to finish construction by 2021, according to the National Association for Proton Therapy. None of the bonds sold last year carried credit ratings, a step that borrowers take to avoid the potential stigma of being labeled junk.

The rapid expansion has concerned some analysts and health-care experts, who say the market for such clinics is already near saturation and wider expansion of proton treatment overextends the clinical use of the technology. Debt sold by rural hospitals and other types of medical clinics are one of the biggest sources of defaults in the municipal market, a haven for individual investors seeking steady, tax-exempt returns.

[Continue reading.](#)

Bloomberg Markets

By Zachary Hansen

March 13, 2018

[A Better Way to Revive America's Rust Belt.](#)

The government should spend money on research, not life support.

Harvard economists Benjamin Austin, Ed Glaeser and Larry Summers think the U.S. government should do more to help the country's struggling regions. It's a great idea, but their specific policies could use some work.

Many economists believe in focusing policies on people, rather than places — essentially, having the government help the poor and disadvantaged, but letting the market sort out where people live and where economic activity is concentrated. There are several arguments for this approach. First, even if aid is aimed at a struggling area, it might benefit some richer individuals — few people want to see their taxes being spent on millionaires, even if those millionaires live in Detroit.

Second, many worry that it's foolish to fight the vast, unstoppable forces of economic geography. Monkeying with the highly complex web of trade, clustering and specialization could prop up cities that have no business existing, causing continued struggle for the people living there, and costing taxpayers a bundle as well. According to this conventional wisdom, if a place is in decline, the best thing the government can do is help people move away. I myself have advocated pro-mobility policies. But those policies can also come with a big downside.

When huge numbers of people flee a region, the people who are left behind suffer. Neighborhoods dotted with empty houses become centers of drugs and crime. A dearth of taxpayers makes it impossible to pay for upkeep on roads, water pipes and other essential local infrastructure. Inadequate tax revenue also makes it hard to pay the pensions of city workers, police and firefighters, requiring painful municipal bankruptcies. Shopping centers without a critical mass of customers become wasting assets. Life in a declining region is not the best, but life in a half-depopulated declining region is far worse.

Thus, more economists are starting to think about place-based policies. The election of Donald Trump was a startling wake-up call: Even though identity issues were a bigger factor explaining why Michigan, Ohio, Pennsylvania and Wisconsin flipped to Trump in 2016, the long-term economic decline of the Rust Belt probably contributed substantially to an overall climate of discontent.

In a paper presented at the Brookings Institution this past weekend, Austin, Glaeser and Summers don't single out the Rust Belt. Instead, they identify the struggling region as the "eastern heartland," meaning non-coastal states admitted before 1840. The authors show that by a number of measures — employment rates, per capita GDP, mortality rates, and self-reported life satisfaction — the eastern heartland has done somewhat worse than either the coasts or the interior west over the last two to four decades.

This regional breakdown is too arbitrary and broad. There’s no reason we need to think about the country in terms of three vast regions when focusing on declining places, when we can pick out specific cities and states that are struggling. But the general principle is correct — helping lagging regions is a good and important idea.

The next question, though, is what kind of help to provide. The authors discuss an array of ideas. One that they zero in on, unsurprisingly, is infrastructure investment. Another is the relocation of government offices from coastal enclaves to interior regions. They suggest an array of federal tax credits and wage subsidies for people living in distressed areas. And they call for the strengthening of community colleges to provide targeted training.

These are all ideas worth thinking about. With the exception of relocating government offices, however, most of these would impose large costs on the American taxpayer. This is true even of infrastructure — a road in an economically growing, thriving place will often pay for itself, but a road in a depopulated region with no one to drive on it is a white elephant project. As for tax credits and employment subsidies, these could end up keeping whole regions of the country on permanent fiscal life support.

Committing to long-term expenditures on economically unproductive regions can have dramatic fiscal consequences. Few nations know this better than Japan, where the central government in Tokyo has long pandered to outlying regions with lavish redistribution. Partly as a result, Japan now has the world’s highest public debt, which forces it to keep interest rates permanently at zero.

Using direct fiscal lifelines to support struggling places should therefore be a last resort. Instead, governments should focus on trying to make these places as economically productive as possible.

The best approach is to spend more money on research at universities. Evidence shows that such spending boosts local economies. Top institutions like Carnegie Mellon in Pittsburgh are widely credited with industrial revivals in previously hard-hit Rust Belt areas. A flood of research dollars from the federal government, targeted at universities in struggling areas, has the potential to turn the region around. This should be matched with encouragement of immigration to declining areas, which will help shore up local tax bases and keep city services running.

There may come a time when some U.S. regions are doing so badly that they need to be kept on life support. But that time has not yet come. There is still a chance to make struggling American towns productive again.

By Noah Smith

March 13, 2018

Bloomberg View

Noah Smith is a Bloomberg View columnist. He was an assistant professor of finance at Stony Brook University, and he blogs at Noahpinion.

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

The Week in Public Finance: 3 Things State and Local Governments Should Know About the Banking Deregulation Bill.

The first major bipartisan banking bill since Dodd-Frank has some potential pluses and minuses for states and localities.

This week, the U.S. Senate passed the first major banking bill since the Dodd-Frank financial overhaul in 2010. If successful, it would roll back and loosen regulations on banking institutions prompted by the 2008 financial market meltdown.

The new bill is the result of a bipartisan effort. More than a dozen Democrats joined the Republicans to pass it. But passage in the House, where it heads next, is not guaranteed as Republican lawmakers there want an even bigger rollback of regulations.

The measure, supporters say, will provide regulatory relief for small banks. Meanwhile, critics argue that it benefits larger institutions more by loosening important consumer protection requirements for lending.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | MARCH 16, 2018

S&P U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions.

S&P Global Ratings is publishing its methodology for assigning ratings and related credit products to U.S. and Canadian not-for-profit airports, ports, toll facilities, or parking systems (transportation infrastructure enterprises, enterprises, or entities), and for debt secured by specific revenue streams tied to special facility projects or by demand tied to transportation infrastructure.

Continue Reading

Mar. 12, 2018

S&P: New GASB Statements 74 And 75 Provide Transparency For Assessing Budgetary Stress On U.S. State & Local Government OPEBs.

In June 2015, the Governmental Accounting Standards Board (GASB) adopted Statement No. 74 (GASB 74), related to financial reporting for postemployment benefit plans with irrevocable trusts (other than pension plans), and Statement No. 75 (GASB 75), related to accounting and financial reporting for postemployment benefits.

Continue Reading

Mar. 14, 2018

Insights: How Steel and Aluminum Tariffs Might Impact State Economies; More Negative News on Infrastructure.

How Steel and Aluminum Tariffs Might Impact State Economies

The Brookings Institution released some very interesting state-specific details on the potential impact of steel and aluminum tariffs. Here is some of what they had to say.

When measured by total volume, the nation's largest states dominate steel and aluminum imports — Texas, California, Illinois, Michigan, Louisiana, Pennsylvania, Ohio, and New York all import more than $2 billion annually in steel and aluminum products, together accounting for 60% of the nation's total.

Louisiana presents a particularly notable example. Oil and gas drillers, and petrochemical producers in that state, rely on imported steel and aluminum to support their operations. The Port of New Orleans imported 2.48 million tons of steel in 2017, accounting for 30% of its tonnage. Maryland's imports are also disproportionately weighted toward aluminum and steel. As the Baltimore Sun reported, Maryland manufacturers of steel products are concerned that they will be put at a disadvantage, both due to higher input costs and by potentially limiting their access to important export markets should retaliatory measures be put in place.

Continue reading.

Posted 03/16/2018 by Joseph Krist

Neighborly Insights

Insights is brought to you by Court Street Group.

Philadelphia Schools Deal Tops $3.1 bln U.S. Muni Bond Sales Next Week.

NEW YORK, March 16 (Reuters) – The Philadelphia School District plans to price $251.8 million of tax-exempt general obligation bonds on Thursday, the first time the fiscally strained district in Pennsylvania will issue debt since a decision to return it to mayoral control.

The deal is the largest negotiated offering of the $3.1 billion of U.S. municipal bond and note sales planned for next week.

The state-formed oversight commission that ran the district for the past 16 years began dissolving at the end of last year. Mayor Jim Kenney is selecting a nine-member school board to be in place by July 1.

Financially, the shift could benefit the district but hurt the city. Moody's Investors Service said in December that its negative outlook on the city, rated A2, in part reflects possible challenges in fiscal 2019 in funding the district.

Moody's assigned to the district's forthcoming bonds an underlying rating of Ba2 with a positive outlook and an enhanced rating of A2 with a stable outlook.

Kenney’s recent city budget proposals would allocate permanent tax increases to schools, Moody’s noted. A Pennsylvania intercept program that funnels state aid to bondholders if the district cannot meet debt service payments lifted the enhanced rating.

Proceeds of the sale will fund capital projects, with the district returning to invest in classrooms “after years of austerity operations,” Moody’s said.

For the past few years, the district has been trying to stem its fiscal crisis, leading to protests by teachers who were tired of seeing their schools shuttered, colleagues laid off and supplies cut.

But the district has also secured at least $58 million from the state annually from a cigarette tax that was made permanent and $2 million of new revenues from ridesharing fees, according to a presentation for prospective bondholders.

It has also refunded more than $1 billion of high-interest debt to save $100 million over the next 20 years, leading to Moody’s upgrade by one notch to Ba2 in September.

The bonds have serial maturities through 2038 and term bonds due 2043. The lead manager is Bank of America Merrill Lynch.

Next week’s largest muni deals are both competitive. Maryland’s Anne Arundel County is expected to sell $263.7 million of bonds for general improvements and water and sewer projects, and the city and county of San Francisco, California will price $251.3 million of debt for parks and road projects.

(Reporting by Hilary Russ in New York; Editing by Richard Chang)

Berkeley To Use Blockchain For Tokenized Bonds.

The City of Berkeley, California will be the first U.S. city to explore blockchain-based financing to tackle social issues such as affordable housing. Mayor Jesse Arreguin and Councilmember Ben Bartlett are collaborating with the UC Berkeley Blockchain Lab and San Francisco-based financial startup Neighborly for the Berkeley Blockchain Initiative (“BBI”) to develop a tokenized municipal bond. According to Forbes, Berkeley had a similar idea twenty years ago with a local currency called “Berkeley Bucks.” This time, Neighborly explains, “[t]he initiative will explore how to harness the power of blockchain and cryptocurrencies to democratize access to public finance and improve social outcomes.”[1]

Termed an “initial community offering” rather than an initial coin offering (“ICO”), municipal bonds will be divided into micro-bonds and sold as a token as a new source of capital that will enable more Berkeley residents to invest directly in their community through various projects at low denominations. According to Coindesk, Councilmember Bartlett claims the offering will be less risky than an ICO because the tokens will be backed by an underlying bond. Residents will be able to choose specific social impact projects of interest compared to the traditional nature of a single bond that may be raising funds for multiple municipal projects. Councilmember Bartlett believes “[b]lockchain’s benefits, such as security, efficiency, transparency and speed, are not only applicable, but much needed at the government level to deliver better and more streamlined services to the people who need it most.”

Details on what this new token will be named and whether it will be issued on a private or public blockchain are up in the air, but the plan is to keep the initiative local to Berkeley. Issuing tokenized micro-bonds through blockchain will fund smaller ventures like purchasing an ambulance at first, but the City of Berkeley envisions the model will eventually fund affordable housing projects and could potentially give the homeless population access to other goods and services in the future.

This project may be a signal that tokenized public finance models could become mainstream in the near future. Local investors may like the flexibility that these municipal tokens allow in investing in smaller investments in specific projects the investors support. Bonds issued by states, cities, and municipalities are exempt from the registration requirements and certain of the reporting requirements under the federal securities laws. Nevertheless, these products are subject to the Securities and Exchange Commission's ("SEC") antifraud rules and therefore it is important that issuers make appropriate risk disclosures with respect to the crypto market and nature of the tokens to investors.

Issuers also should carefully weigh the risk of special treatment by the SEC. The agency may more carefully scrutinize bonds issued as crypto tokens out of concern that the issuer chose to issue crypto token bonds rather than traditional bonds to garner attention or to capitalize on the euphoria associated with crypto investments. This offering will test the waters for new security token issuances amid an environment where the SEC is scrutinizing a broad swath of so-called "utility" tokens for being unregistered securities.

---

[1] The statement can be found at neighborly.com/.

Last Updated: March 15 2018

Article by Herbert F. Kozlov, Kari S. Larsen, Michael Selig and Kelley Chittenden

Reed Smith

Berkeley Is Turning to the Blockchain for City Funding.

In an effort to reduce their reliance on federal and state funding, the City of Berkeley is turning to a surprising source: cryptocurrency. The idea is to leverage the blockchain — the technology that makes bitcoin and other cryptocurrencies possible — to spur private, crowdfunded investment in affordable housing and other local projects.

Led by Berkeley Mayor Jesse Arreguín and City Councilmember Ben Bartlett, the city is partnering with University of California Berkeley's Blockchain Lab and finance technology company Neighborly to create an initial coin offering. The offering will allow individuals to buy Berkeley's cryptocurrency to fund city-issued municipal bonds. The money raised will pay for things such as affordable housing, homeless shelters, ambulances, street trees, even a community theater. Coin owners will potentially be able to spend the cryptocurrency at some Berkeley businesses. As with any municipal bond, investors who get in on the offering will earn a small return on their investment over time as the city pays them back with interest.

The idea grew out of concern over the impact corporate tax cuts (not to mention threats to cut funding to sanctuary cities) would have on their ability to address their affordable housing and homelessness crises. With lower corporate tax rates, corporations have less incentive to buy low income housing tax credits, a key source of affordable housing funding. In addition, big banks raised interest rates on loans to local governments in the wake of the tax cuts.

“We have over a thousand homeless people in Berkeley and expect that to grow by a factor of five,” says Bartlett. “We knew we needed to find a way to fund these things. This need is going to grow and it’s already a disaster that’s affecting our moral and physical integrity as a city.”

Beyond that, Bartlett says conventional municipal bonds are expensive, slow and have lots of red tape for investors, making it hard for individuals to invest in them at all, let alone in the small denominations most people might have to invest. With their idea, bonds could be smaller and be issued more quickly.

Neighborly was launched to do just that — to allow individuals to crowdfund municipal bonds. Austin issued a bond on the platform to pay for historic preservation. Cambridge, Mass., used it to fund schools and utility infrastructure.

Berkeley’s idea operates on a similar principle, but will use the blockchain technology to improve security and transparency, factors they hope will help spur investment (and provides a bit of flashy tech-factor that Bay Area residents might find appealing).

“You conceive of an idea, get the costs ready, push it out to the community, they can buy it right away,” Bartlett explains. “It’s more flexible. It doesn’t have to be a $100 million bond for a sewer. It could be smaller projects and with the lower denomination ability…It’s projected to be 50 percent less expensive to the issuer [than conventional municipal bonds].”

In simplified terms, a blockchain is a database stored concurrently on a peer-to-peer network of computers, making it less vulnerable than storing everything on a central server. Each copy of the database serves as a permanently available public record of every transaction on the blockchain. The technology keeps every copy of the database updated as people buy and exchange each “coin.”

“It’s immutable. It’s transparent. There might be fewer concerns about misappropriation of funds,” explains Stacie Olivares-Castain, who recently became state of California’s first ever senior advisor for impact investments and blockchain.

Olivares-Castain says she is encouraged by Berkeley’s experiment. “It’s very, very early, but what we’re starting to see is the blockchain can be used to improve a sense of individual agency and create more opportunity. The Neighborly model is a very interesting partnership. I think it could be used by other communities, too…Through the blockchain, there’s more democratization of access to capital.”

There are plenty of criticisms of cryptocurrency — coin wallets getting hacked, the wild fluctuation of currency value, the absurd amount of energy bitcoin “miners” consume to run their computers as they continually search for new bitcoin tokens produced somewhat randomly by digital algorithm. Bartlett says none of those issues apply to Berkeley’s project. There will be no coin “mining” for Berkeley’s coins, so the city’s coins “won’t be a tool for speculation. It has a set rate of return at darn near public rates,” he explains.

There are still plenty of details to work out in the plan, but the city is aiming to launch its initial coin offering in May. Bartlett says he’s already fielding calls about it from cities in the U.S. and abroad and is confident that there’s a future for their approach to city funding.

“Digitization, crowdfunding—these are just social impact bonds for the next generation,” he says. “For cities to survive this escalating disinvestment in the public trust, we’re going to have to start thinking outside the box and creating our own resources.”

NEXT CITY

BY JOSH COHEN | MARCH 15, 2018

[Investing in Water Infrastructure and Workers: Examining the Bay Area's Regional Approach.]

Investing in water infrastructure represents a major challenge and opportunity across the United States. As pipes, plants, and other facilities reach a breaking point, utilities and local leaders must plan and pay for increasingly costly repairs. However, many places have responded with innovative approaches, using new management techniques and modern technologies to deliver water infrastructure that is more cost-efficient, durable, and resilient.

Crucially, these challenges and opportunities do not simply end with the infrastructure itself.

The country's water workforce is also undergoing change. Similar to millions of other workers involved in infrastructure nationwide, the water workforce is aging, experiencing rapid turnover, and facing a huge gap to fill in terms of hiring, training, and retention—from operators and engineers to accountants and office clerks. At the same time, these jobs offer competitive wages, have lower educational barriers to entry, and consequently provide a pathway to greater economic opportunity for all types of workers across all skill levels.

Continue reading

by Joseph Kane
Senior Research Associate and Associate Fellow – Metropolitan Policy Program

March 7, 2018

The Brookings Institute

Infrastructure Series: Paying for and Permitting Water Infrastructure.

This is the fourth issue of WilmerHale's 10-in-10 Infrastructure Series. In this series, our attorneys share insights on current and emerging issues affecting infrastructure project developers in the United States. Attorneys from various practice groups at the firm offer their take on issues ranging from permitting reform to financing to litigation, and share their insights from working with clients in a variety of infrastructure sectors, from water infrastructure to energy development to infrastructure development on tribal lands. Read all issues in this series and our other recent publications.

President Trump's February 12, 2018, Infrastructure Plan highlighted the need for investment in the nation's water infrastructure. The Plan included general provisions that could support water infrastructure, and specific provisions intended to increase federal, state, local and private resources for water infrastructure. Implementation of the Plan will depend on whether Congress acts on proposed legislative reforms, which will be challenging in an election year. Nevertheless, there are opportunities and resources available now to assist in developing water infrastructure projects, including streamlined permitting under Title 41 of the Fixing America's Surface Transportation Act (FAST-41), expanded credit assistance programs and state programs.

Continue reading.

by H. David Gold and Andrew L. Spielman

USA March 15 2018

Wilmer Cutler Pickering Hale and Dorr LLP

Patience Is Not A Virtue When Reviewing Municipal Bond Credit.

Municipal bond market innovation continues to lag most other major financial markets – the sector is arguably light years behind the equity market in transparency, timely reporting, electronic trading and analytics. The sector's history of low default rates against corporate bonds is likely one of the reasons why investors are somewhat blasé about lagged financial reporting, thin disclosures, and the reluctance to include alternative data in the investment process.

It is safe to say that corporations with publically traded debt and/or equity provide more transparency to their investors than municipal bond issuers, albeit not necessarily by choice. Indeed, there are several reliable vendors that aggregate historical corporate financial data, versus relatively few for municipal bonds.

The municipal bond market should consider leveraging some of the same innovation that equity markets have already adapted, including technology that rapidly identifies sound investments, analyzes credit and monitors positions in a cost effective manner. As the hedge fund sector demonstrated in the past, some investors will turn a blind eye to higher management fees, if a money manager produces above average returns over peers or pertinent index benchmarks.

Many of those outperformers in the equity market have successfully deployed a "quantamental" approach – which takes the sector expertise of an analyst and improves investment decisions through a combination of machine learning and alternative data which identifies "diamonds in the rough" and avoids "landmines". That same approach can be applied to high yield and unrated municipal bonds to potentially enhance a portfolio's performance and accurately price risk.

In the case of more plain vanilla strategies and certain SMAs, investors will bargain shop based on fees, which has been driving down fees and profitability across the wealth management industry. This drive to more of a low cost asset accumulation model will require AI based tools and not the hiring of more analysts to rapidly analyze new issue and secondary credits, create accurate and comprehensive marketing material for pitching bonds to their clients, and automated surveillance tools to identify local or regional economic/financial distress using financial statement and public/alternative data sources.

The holy grail of municipal bond analytics will likely mimic that of an industrial supply chain, where every source of revenue and expenses will be identified or estimated through a non-traditional data proxy. These metrics can then be compared to changes in liabilities and the tax paying population (citizens and corporations).

An investor would begin with an aggregate view of every potential bond offered by the dealer community – coupled with MSRB trade price history and government bond yields – and supplemented with accurate evaluated bond prices/yields to fill in the days where a round lot did not trade.

The next layer will use natural language processing (NLP)-driven news-to-CUSIP mapping applications, and alternative datasets – such as US port ship traffic and US Customs bill of lading data – to proxy revenue through the flow of goods in and out of a state, while mining through publicly available bespoke data from data.gov to enhance standard economic data releases.

The biggest leap will be made when the performance of the largest private employers for the issuer is added to the credit picture, enabling the identification of a growing or shrinking tax base. Lastly, all of the aforementioned elements will be combined with financial statement data to model which factors drive the issuer's assets and liabilities the most – with the end goal of determining its performance outlook.

The successful implementation of AI and alternative data in the investment process will benefit asset managers and issuers by modernizing investment and due diligence processes. The investment community has the resources and expertise to discover an issuer's tax revenue base shift through advanced data, with those same findings having the potential to help guide municipalities' financial and policy decisions.

Machine learning has been used by credit card companies for fraud detection for decades, and can potentially be used to identify discrepancies and errors in financial statements, when compared with data sourced outside of the issuer.

Deploying these types of technologies may eventually be a matter of pure survival for money managers, because clients will likely gravitate towards money managers that successfully combine alternative datasets, AI, and sector expertise to identify real-time shifts in credit.

Those who are patient enough to wait until the issuer's next quarterly or annual report is released will not fare as well.

Seeking Alpha

Mar. 6, 2018

California's $83 Billion of Bond Debt Isn't Enough for Some.

- **Golden State is selling $2.1 billion of bonds this week**
- **California has $31 billion of unissued bonds still pending**

California's sale of $2.1 billion in bonds this week isn't enough for some buyers and interest groups.

The state is sitting on $31 billion of unsold bonds, about a fifth of the $149 billion approved by voters over the decades, according to a financial report by the state treasurer. And the state hasn't matched recent voter enthusiasm for billion-dollar measures with immediate sales: most of the $17 billion added to the authorized pool since 2014 haven't been issued.

Proponents of initiatives approved by voters, such as school construction and water infrastructure, would like to see California sell those bonds sooner. State officials, on the other hand, have focused on paying down outstanding debt and timing sales more closely to when those projects get started.

The subdued pace demonstrates the fiscal restraint that along with the state’s economic rebound has helped boost California bond prices. But California isn’t seizing the opportunity to tackle its significant capital needs such as water projects at low costs, said Dora Lee, vice president at Belle Haven Investments, which manages about $7 billion of municipal bonds.

“They’re not only missing out in terms of lower interest rates, they’re missing out on future economic growth and they’re limiting their choices down the road,” she said.

Sitting Idle

California has about $83 billion in outstanding general obligation and lease revenue debt, down by $3 billion from 2016, according to state treasurer reports.

Governor Jerry Brown’s administration doesn’t want to sell bonds before the proceeds are needed for different stages of construction, said H.D. Palmer, a spokesman for the finance department. Otherwise, “you start racking up debt service costs for cash that’s sitting idle,” he said.

Indeed, a large increase in outstanding bonds could pressure California’s rating, which at AA- from S&P Global Ratings is lower than the company’s average AA rating for states but is at the highest in almost two decades.

“They could afford to issue a bit more debt than they’re currently amortizing and maintain their current credit profile but not a significant amount,” said Bernhard Fischer, senior fixed-income analyst at Principal Global Investors, which oversees about $8 billion in munis. Fischer said the state could probably sell about $1 billion more than it is now.

Those chafing at the pace include the California School Boards Association, which wants quicker sales of $7 billion on bonds for construction projects at elementary and high schools and $2 billion for community colleges. Brown, who opposed the measure, had wanted tighter accountability requirements before selling the debt.

So far about $433 million have been sold for the schools and about $17 million for community colleges, excluding what will be allotted from the proceeds of this week’s deal. If the current pace continues, it would take more than a decade to sell the bonds, said Nancy Chaires Espinoza, a lobbyist for the association.

“The bond sales aren’t keeping pace with demand,” she said.

Bloomberg Markets

By Romy Varghese

March 6, 2018, 6:55 AM PST

U.S. Muni Bond Market Inches Up to $3.851 trln in 4th Quarter - Fed.

NEW YORK, March 8 (Reuters) – The U.S. municipal bond market inched up to $3.851 trillion in the fourth quarter of 2017 from $3.809 trillion the previous quarter, according to a quarterly report from the Federal Reserve released on Thursday.

Households, or retail investors, held $1.570 trillion of debt sold by states, cities, schools and other muni issuers in the latest quarter, slipping from $1.573 trillion in the third quarter, the Fed report said.

U.S. banks' muni bond buying spiked after dwindling the previous three quarters. Financial institutions added $37.4 billion in the fourth quarter, compared with $8.6 billion in the third quarter.

Property and casualty insurance companies took on $7 billion of munis in the fourth quarter after adding $3.4 billion in the third quarter. Life insurance companies picked up $5.1 billion of the bonds.

U.S. mutual funds bought $25.3 billion of munis in the fourth quarter, down from $40.7 the previous quarter, while exchange traded funds added $7.6 billion, up from $4.8 billion.

Foreign holdings of munis rose to $104.6 billion.

(Reporting by Laila Kearney in New York Editing by Matthew Lewis)

US Green Finance: A Clearer Year Ahead.

The US green finance surge continues regardless of federal government, argues S&P Global Ratings' Michael Ferguson

The American green bond market has been stepping up. Last year, dollar-denominated green issuance grew substantially: self-labelled US municipal bonds reached $10.4bn, a 43 per cent increase on 2017. Importantly, American municipal issuance alone accounted for 34 per cent of the global sub-sovereign issuance, and included 10 first-time issuers, according to the Climate Bonds Initiative (CBI).

This expansion of the marketplace could just be the beginning. Forecasts suggest that issuance by US municipalities could top $15bn in 2018 – representing an increasingly diverse and proactive group of sub-federal actors, which also extends to large corporations. On this evidence, state-level climate action is significantly bolstering the country's green marketplace even amid uncertainty at the federal level.

In turn, this is driving forward a decarbonisation agenda, despite the current federal disinclination to pursue comprehensive carbon reduction policies. Indeed, uncertainty about US regulatory policy may have hitherto contributed to limited growth in corporate green bond issuance. The US' revised tax code, however, has provided some market clarity, at least for now.

It ensures that both the production tax credit (supporting wind) and the investment tax credit (supporting solar) will continue. So, corporate taxpayers can still benefit from the credits, which have propelled investment in renewable assets in the past. And though the credits' retention was a surprise to many, it has revealed a clear bipartisan support for renewable energy in the US, possibly contributing to a continuing a surge in green finance.

Continuing tax credits

The production tax credit (PTC) has historically supported wind power generation. With its help, America's wind capacity quadrupled between 2007 and 2014. Then, in 2015, the market suspected (incorrectly, with hindsight) that the PTC would be excluded from future budgets. As a result, installed wind capacity surged to capture the credits before expiry. When the credit was omitted from early versions of the 2017 federal budget – along with the investment tax credit (ITC) for solar – the market gave pause.

However, the final version of the tax reform bill signed into law by President Trump in December 2017 continued the credits. Many believe that the bill could substantially increase the federal deficit, based on non-partisan estimates. Yet, in a bill passed without a single democratic vote, the preservation of both the PTC and the ITC speaks to the enduring value of the credits as tools for spurring renewable development.

With the phase-out of the tax credit temporarily avoided, S&P Global Ratings expects that renewable financing, especially corporate power purchase agreement (PPAs), will continue to grow. Although growth will be spurred in part by diminished costs, we don't expect an immediate surge in financings as experienced in 2015. But with a clearer outlook ahead, the US renewable energy market will likely enjoy a steadier growth trajectory through the beginning of the next decade.

Worth a little less?

That being said, the revised tax code may have an indirect impact on the value of the PTC and ITC, thereby presenting a possible new market dynamic. A lower corporate tax rate – with the marginal percentage down to 21 per cent from 35 per cent – could undermine the value of some tax equity investments. In turn, this may influence issuers' decisions about whether to use tax-exempt municipal issuances, corporate debt, or project finance debt.

Further, in the absence of a federal policy on climate change, we're not likely to see the pricing signals associated with a carbon tax or emissions trading, and consequently the financeability of projects could be dependent on both state level policies (including RPS) and the value of these tax credits. Given the limited pool of equity investors, revisions to the tax code may also have ramifications for the green marketplace – and alter how such projects are funded.

Infrastructure goes green

Regardless, the funding will have to come from somewhere. America's infrastructure needs are vast – with green finance increasingly used to fund improvements. According to the US Environmental Protection Agency, the country's water, wastewater and irrigation systems require over $630bn of investment through to 2033 in order to bring them up to modern standards. And there is broad consensus on Capitol Hill that the country's aging infrastructure, which has been underfunded for decades, is in need of an overhaul.

The White House has recently proposed over $1tr in infrastructure investments, in addition to the $200bn included in the 2018 budget. However, much of the funding for these projects – about 75 per cent according to the Council on Foreign Relations – will have to come from state and municipal budgets, as it has done for most of the past century. This, coupled with heightened sub-federal decarbonisation and adaptation initiatives, makes more green financings possible nationwide.

In turn, S&P Global Ratings anticipates another banner year for US green bond issuance – and the wider green finance marketplace. Propelling the market will likely be a mixture of renewable-backed issuances and others to repair, or even replace, some of the country's infrastructure. While estimates for green bond issuance vary wildly, and can hinge on a bevy of market and political conditions, it is clear that green instruments have firmly secured their place within the US financial landscape, and their prominence will only grow as investors become more sensitive to climate concerns.

businessgreen.com

Michael Ferguson, S&P Global Ratings

09 March 2018

Michael Ferguson is director of US energy infrastructure at S&P Global Ratings

---

GASB Invitation to Comment on Revenue and Expense Recognition.

Read the Invitation to Comment.

[03/07/18]

GASB 2018 Request for Research: The Gil Crain Memorial Research Grant.

Read the Request for Research.

Bloomberg Brief Weekly Video - 03/08

Taylor Riggs, a contributor to Bloomberg Briefs, talks with editor Joe Mysak about this week's municipal market news.

Watch video.

Bloomberg

March 8th, 2018

California Shows Bond Buyers Willing to Jettison Industry Staple.

- **State opted for shorter call dates after U.S. tax change**
- **Deputy treasurer says didn't pay up for different structure**

Since the Great Recession, the $3.8 trillion municipal-bond market proved adaptable as the debt insurance industry collapsed, derivatives disappeared and the federal government created a new type of taxable security to stoke the economy by encouraging spending on public works.

If California's bond sale this week is any guide, it seems just as willing to embrace the latest change: Shorter call dates, in response to provisions in the U.S. tax overhaul that curbed governments' ability to refinance debt before it can be repurchased from investors.

When the most-populous U.S. state sold $2.2 billion of general-obligation debt, it gave itself the option to call back most of the bonds in five or eight years, meaning bondholders could be forced to part early with what they expected to be a long-term investment. But that did little to deter demand, with buyers placing orders for twice as many bonds as were being sold and some maturities six-times oversubscribed, Tim Schaefer, California's deputy treasurer, said in an interview.

"The fact that we did this and got such good reception on it is confirmation that the market has grown to a much more sophisticated place," he said.

The sale marked the biggest test yet of whether investors would be willing to embrace the shorter call dates, though demand may have been stoked in part by the dearth of new municipal bond issues this year. Wisconsin and Utah's Davis School District sold similar securities on a smaller scale this year, and analysts anticipate that more borrowers will follow suit.

Investors accepted yields of 2.74 percent on a 5 percent coupon bond due October 2029 with an eight-year call, while the same maturity with a five-year call yielded 2.42 percent. The price of the securities edged up in subsequent trading.

The state didn't appear to pay a price for the call-option shift because the difference between the state's yields and top-rated securities was similar, or lower, than during its debt sale a year ago, Schaefer said.

While some other governments may have to pay higher yields to compensate buyers for the risk the securities will be paid off ahead of schedule, the earlier calls will preserve their ability to save money if interest rates fall.

"It's a good compromise for issuers who want that flexibility going forward, don't want to wait 10 years, and are willing to accept modestly higher rates on a yield to maturity basis and in a rate environment that is still historically quite low," said Jay Wheatley, head of Citigroup's municipal syndicate desk. "It's going to become more of the norm, especially in a low issuance environment."

Bloomberg Markets

By Romy Varghese

March 9, 2018, 6:07 AM PST

— With assistance by Danielle Moran

If You're Fleeing Volatility, There's Refuge in the Muni Market.

- **10-year yield has budged 0.01 percentage point in three weeks**
- **Muni prices haven't been this steady in nearly three years**

Quick: What are the most commonly used adjectives when describing the $3.8 trillion municipal-bond market?

If you said, "sleepy," or "boring," you win.

Over the last three weeks, it has lived up to that reputation, with yields on 10-year AAA municipal bonds moving exactly one basis point, to 2.49 percent from 2.48 percent. The difference between the daily high and low yield over that period is nearly as minuscule — a range of a mere 2.6 basis points, a difference that amounts to about $26 on a $100,000 investment. The price volatility over the past 20 days is the lowest since mid-2015, according to data compiled by Bloomberg.

Treasury yields haven't moved much either since Valentines Day, just 3 basis points. But there's been a 15 basis point difference between the three week high of 2.95 percent on Feb. 21 and the 2.81 percent low on March 1.

So why has trading municipal bonds become about as exciting as working as the Maytag repair man?

New offerings of long-term, fixed-rate state and local government debt is down 40 percent, compared with last year, because municipalities rushed to market in December before the federal tax overhaul sharply limited their ability to refinance debt. The issuance drought helped support the market amid the selloff in January triggered by speculation that the Fed will raise interest rates more aggressively than expected, leaving munis with a smaller loss than Treasuries so far this year.

"The lack of supply has kept the market from sort of falling off a cliff," said Nicholos Venditti, who oversees $11.5 billion of municipal bonds at Thornburg Investment Management in Santa Fe, New Mexico.

What's more, retail investors, who drive the muni market, haven't been spooked — yet — by the losses showing up in their month-end statements. Munis lost 1.5 percent through the end of February, their worst start to a year since the 2008, during the early pangs of the credit crisis.

The market may get more volatile as mom and pop investors start selling and signs emerge that banks and insurance companies are gradually paring tax-exempt bonds and buying taxable bonds instead because corporate tax cuts have made tax-exempt debt less attractive, Venditti said.

Add a pick-up in issuance by municipalities and that could lead to a bearish market, Venditti said, making his job — and maybe yours — more interesting.

Bloomberg Markets

By Martin Z Braun

March 7, 2018, 11:29 AM PST

Trump Can't Derail Renewable Energy Push

Public-private partnerships at the state and local levels are stepping in for federal funding.

When President Donald Trump entered office, it was clear that policies boosting energy production would take precedence over those protecting the environment.

The administration's 2019 budget and its addendum proposed sweeping rollbacks to programs designed to limit environmental pollution and mitigate the effects of climate change, while slashing funds devoted to research on renewable energy.

Yet despite this setback, these policies should not leave investors in renewable energy holding the short end of the stick. Instead, this sector is showing signs of a revival thanks to public-private partnerships at the state and local levels.

Continue reading.

Bloomberg View

By Shelley Goldberg

March 9, 2018

Mayors and Governors Urge Congress to Pass Legislation Expanding Public-Private Partnerships (P3s) for Public Buildings.

The Performance Based Building Coalition calls for rebuilding America's unsafe and dilapidated public buildings

WASHINGTON, March 2, 2018 /PRNewswire/ — March, 1 2018, A bipartisan group of 14 mayors and 10 governors have sent letters to Congressional leadership expressing their strong support for the Public Buildings Renewal Act (S. 3177/ H.R. 5361) or PBRA, which will spur private investment in rebuilding America's unsafe and dilapidated public buildings.
http://www.p3buildings.org/wp-content/uploads/2018/02/PBBC-Letter.pdf

The bill would permit state and local governments to access $5 billion in private activity bonds (PABs) for the financing of critical construction and infrastructure projects for qualified public buildings, such as schools, hospitals, courthouses, universities, police stations, and prisons.

"Infrastructure across our country is in desperate need of investment; and that includes our nation's public buildings. Providing services to our citizens depends on it," said Colorado Governor John Hickenlooper. "This proposed legislation needs to be a part of the conversation that brings us a comprehensive solution to our infrastructure needs."

Currently, the use of public-private partnerships (P3s) to deliver public buildings is extremely limited because unlike the transportation sector, public buildings are not eligible for private activity bonds. This inhibits public building P3s from combining tax exempt financing with private financing, resulting in an increased cost of financing.

"Private Activity Bonds for buildings are a triple win for governments, taxpayers, and the economy," said David Tuerck of Beacon Hill Institute which authored a study on the economic benefits of the PBRA. "Our findings show that, in the short run, every dollar of new infrastructure investment made possible by the PBRA will add $2.80 to the U.S. economy. At the same time, taxpayers save nearly 25 percent over the life of these projects compared to traditional building methods, while these projects are delivered on time with guaranteed long-term performance."

Nearly every U.S. transportation P3 project has utilized federal financing, at least 75% of which have accessed Private Activity Bonds. Over $36 billion in transportation P3 projects have been undertaken since 2010 with a cost savings of more than 20 percent on most projects.

This bill will catalyze the use of P3s in public buildings just as PABs have for transportation. By empowering the private sector to tackle these projects, the bill would make these projects more cost effective, stretching every public dollar further.

The Joint Committee on Taxation provided a very low score for this legislation, which shows it will have a minimal impact on the Federal budget– estimating a cost of only $18 million over five years and $48 million over 10 years.

The PBRA bill has bi-partisan support in Congress. It is sponsored by Senators Dean Heller (R-NV) and Bill Nelson (D-FL) in the Senate and by Representatives Mike Kelly (R-PA) and Earl Blumenauer (D-OR). There are 10 Senate co-sponsors and 28 House co-sponsors. The bill includes more bipartisan Ways and Means support than nearly any other bill pending before the Committee.

About the Performance Based Building Coalition: Founded in 2012, the Performance Based Building Coalition is the nation's only non-profit industry coalition exclusively dedicated to developing the market for social infrastructure public-private partnership (PPP) projects in the United States. The PBBC's mission is to pass federal tax legislation that will create a new category of exempt facility bonds for government owned buildings, while simultaneously educating the public sector on all aspects of executing a P3 project. PBBC leadership & roster of over 90 members. www.p3buildings.org

---

Why the Rust Belt Economy will Suffer in a Trade War.

President Trump's unanticipated announcement of steel and aluminum tariffs has sent markets reeling, and stoked trade war fears. The president appears motivated in part to deliver on his promise to voters in the industrial Midwest, where many responded positively to his anti-trade rhetoric and pledge to dismantle what he called the NAFTA "disaster."

But Trump's proposed tariffs, which many see as his latest negotiating tactic to make Mexico and Canada accept his demands on NAFTA, are unlikely to help these Midwestern voters and their communities. The early consensus is that the tariffs would cost many more jobs than they will keep or create. As Economic Outlook Group chief economist Bernard Baumohl put it, "More workers in the U.S. make products that are made from steel, than make steel itself."

Continue reading.

The Brookings Institute

John C. Austin

Tuesday, March 6, 2018

S&P Global Trade At A Crossroads: U.S. States And Localities May Take Another Look At Budget Forecasts.

In its 2018 sector outlook for U.S. states, S&P Global Ratings cited the potential for policy missteps as a leading risk to its baseline economic forecast for the year. President Trump's recent decision to impose import tariffs of 25% on steel and 10% on aluminum is an example of this type of risk.

Continue Reading

Mar. 9, 2018

S&P: Odds Are Favorable For Continued Strong Credit Quality For U.S. Lottery Revenue Bonds Despite Slower Future Growth.

Consistent with S&P Global Ratings' long-held view, we anticipate that the highly rated U.S. lottery bonds sector will remain stable, despite expectations of slower lottery revenue growth. S&P Global Ratings maintains ratings on lottery bonds issued by four states, with all but one rated 'AAA' (our highest rating).

Continue Reading

Mar. 6, 2018

Issuer Brief: A New Microgrid in Chicago and What It Means for Governments Moving Forward.

Microgrid Approved in Illinois — A Case Study

The Illinois Commerce Commission has approved ComEd's plan to construct one of the nation's first utility-scale microgrid clusters in the Bronzeville neighborhood on the South Side of Chicago. The project, which has received more than $5 million in grant funding from the U.S. Department of Energy, will enable the study of how microgrids support the integration of clean energy onto the grid and increase grid security to keep power flowing even during extreme weather or a catastrophic event.

A microgrid is a small power grid with defined boundaries which can operate both when connected to the larger electric grid and as an "'island" when there's an interruption on the main grid. It draws on distributed energy resources, such as solar power or cogeneration facilities, to serve customers within the microgrid footprint.

In this case, the project will serve an area that includes 10 facilities providing critical services, including the Chicago Public Safety Headquarters, the De La Salle Institute, and the Math & Science Academy, a library, public works buildings, restaurants, health clinics, public transportation, educational facilities, and churches. It will also be connected to an existing microgrid at the Illinois Institute of Technology. The completed project will serve about 1,060 residential, commercial, and small industrial customers. It will be constructed in two phases and will include battery storage and solar photovoltaic cells. It is scheduled for completion in 2019.

Our interest here is the technological improvement. Although it is being undertaken by an investor-owned rather than a municipally owned and operated utility, there are clearly many municipally operated utilities which could potentially use and benefit from this technological step, by reducing peak capacity requirements and carbon footprints. So we will look with interest at the results of the project as they impact, cost, efficiency, and reliability for this major urban electric distributor.

Privatization Takes a Hit

From the earliest days of the Trump Administration, Rep. Bill Shuster R-PA has been pursuing an effort to privatize the federal air traffic control (ATC) system. For a while, the ATC privatization plan was the only thing that the Trump Administration could cite as its infrastructure program. Since then, the Administration has put out an infrastructure plan weighted in favor of private interests. Over that same period, the Shuster privatization legislation has met bipartisan resistance, and Rep. Shuster has announced that he will retire at the end of his term in January.

So it is with real interest that we received the news that "despite bipartisan support among lawmakers, industry and labor groups, there isn't enough support to approve the proposal this year," Shuster said. He also said that instead he would work with his counterpart, Sen. John Thune, R-S.D., to approve FAA legislation without air-traffic control privatization.

General-aviation advocates feared that the corporation would favor airlines at busy airports and would have charged higher fees than the government. Groups including the Aircraft Owners and Pilots Association, the General Aviation Manufacturers Association, the National Air Transportation Association and the National Business Aviation Association issued a joint statement opposing the effort.

The moral of the story is that privatization is not the answer for all infrastructure situations. A successful process will concentrate on the best result rather than the method used to accomplish it.

Is the NY-NJ Gateway Tunnel Project Hitting a Wall?

There have been concerns since the unveiling of the Trump administration infrastructure "plan" in mid February about whether funding commitments to the Gateway Tunnel project by the Federal government would be adhered to. In December, the acting administrator of the Federal Transit Administration, K. Jane Williams, said in a letter to officials in New York and New Jersey that any such agreement was "nonexistent." The signals this week were not very encouraging. First, Transportation secretary Elaine Chao told transportation advocates that federal loan funds provided to participants in the Gateway project would not be counted as part of the states' equity contributions. This would require N.Y. and N.J. to come up with even more locally generated funding. At a Senate Environment and Public Works hearing Sens. Kirsten Gillibrand (D-N.Y.) and Cory Booker (D-N.J.) pressed Chao about why the administration doesn't consider federal loans as equity, she said it's simply not the way things have been done. Gillibrand and Booker disagreed, and at one point Booker cited a DOT webpage he said seemed to invalidate her position. Chao said that wasn't her understanding, but promised to "look at it."

The Secretary ran into additional pushback during a hearing held by the House Transportation and Infrastructure Committee Tuesday. Chao said the concern is that the project would consume all of the available federal funding. "If they absorb all of these funds, there would be no others left for the rest of the country," Chao said. That does echo fears some rural legislators have expressed.

The project is also getting caught up in the maelstrom of chaos engulfing the White House. President Trump is pressing congressional Republicans to oppose funding for a new rail tunnel telling Speaker Paul Ryan this week not to support funding for the $30 billion project. The stance is likely fueled by Trump's animus toward N.Y. Sen. Chuck Schumer. The project is widely considered to be among the most pressing and most expensive infrastructure needs in the country, making up 20% of the nation's GDP. A document issued by Trump's transition team listed the Gateway project as the No. 1 national infrastructure priority.

Congressional appropriators are looking to spend at least $950 million in federal funds on the Gateway project in the coming omnibus spending bill. Lawmakers are expected to pass the legislation ahead of a March 23 government shutdown deadline. The chairman of the House appropriations subcommittee on transportation, said the project was among the top priorities to be funded in the new bill. On the Omnibus funding, if the money is added to the New Starts program or

State of Good Repair program for it, then it has to be signed off in by Chao which could present problems if Trump is super dug in. However, if the money goes through the Amtrak account, it goes straight to the Amtrak board who then can get it out without DOT signoff.

Posted 03/08/2018 by Joseph Krist

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

Neighborly Insights

First Municipal Bond ICO Is in the Works.

Investors can't seem to agree on the value of cryptocurrency, but when it comes to blockchain, there's a strong consensus: the public ledger has the potential to transform the investment world. As it turns out, blockchain technology might offer an innovative method for cost savings and transparency in the municipal bond market.

Berkley, California and underwriting firm Neighborly will make history this spring when they launch the first initial coin offering (ICO) backed by municipal bonds. The city plans to hold the ICO in May, giving investors an opportunity to purchase municipal bonds in tokenized form. ICO is a controversial but extremely popular crowdfunding model that startups have used to generate billions of dollars in financing over the past 14 months.

However, unlike typical ICOs that generate cryptocurrencies, Berkley plans to implement a "tokenized system for creating, distributing, storing and relaying bonds denominated in USD," according to Neighborly chief executive, Jase Wilson. The company has already set up the technology to issue the tokens and has a proven track record in delivering to non-traditional markets. In 2017, Neighborly took home the Bond Buyer Deal of the Year award in the non-traditional assets category for the mini-bond sale it executed for Cambridge, Massachusetts.

Continue reading.

municipalbonds.com

by Sam Bourgi

Mar 08, 2018

Paul Ryan Says House Infrastructure Action Will Happen in 'Stages'

The House speaker's remarks come one day after he ruled out the idea of raising the gas tax.

House Republicans will move ahead with a series of infrastructure bills in the coming months, Speaker Paul Ryan said Thursday.

The Wisconsin Republican's comments came a day after he ruled out the possibility of hiking the federal gas tax, and as the Trump administration is promoting a public works plan that calls for $200 billion of federal spending, mostly for new grant programs.

Until legislation starts to emerge, it will be unclear how closely the efforts Ryan described will hew toward the plan Trump has proposed. Some of the bills the speaker referenced were due to arise in Congress even without any extra prodding by the president.

Continue reading.

Route Fifty

By Bill Lucia,
Senior Reporter

MARCH 8, 2018

City Leaders Prepare for an Infrastructure Lobbying Push.

The effort will take place this week as part of the National League of Cities 2018 Congressional City Conference.

WASHINGTON — City leaders from across the U.S. vowed Monday to keep pressure on Congress to advance infrastructure legislation.

Infrastructure is the marquee issue at the National League of Cities 2018 Congressional City Conference taking place here this week. Over 2,000 city officials are attending the event and more than 200 NLC delegates have about 150 meetings planned on Capitol Hill.

"It's no secret," Little Rock, Arkansas Mayor Mark Stodola, the current president of the National League of Cities, said at a press conference Monday, "America has an infrastructure problem."

Continue reading.

Route Fifty

By Bill Lucia,
Senior Reporter

MARCH 12, 2018 10:16 PM ET

U.S. DOT Announces TIGER Grants Totaling Nearly $500 Million.

The White House has called for axing the grant program in each of the two budget plans it has sent to Congress.

The White House has called for axing the grant program in each of the two budget plans it has WASHINGTON — Nearly a half-billion dollars is set to flow to 41 infrastructure projects in 43 states through grant awards the U.S. Department of Transportation announced on Friday.

The grants come via the Transportation Investment Generating Economic Recovery program, commonly referred to as TIGER. President Trump has proposed ending the competitive, Obama-era grant program in each of his last two budget requests.

Even so, the White House touted last week's awards in an email to media outlets on Friday, linking them to the Trump administration's ongoing push for greater infrastructure investment.

Continue reading.

Route Fifty

By Bill Lucia,
Senior Reporter

MARCH 11, 2018

Insights: Threat to State Tax Revenues, What's Next for Advanced Refundings?

The potential threats posed to state revenues by the tax reform law have already been discussed. The other shoe to drop has been the steady stream of budget proposals that have been articulated since tax reform was enacted. Many of these cuts are in areas broadly defined as social service based. They include health, housing, income maintenance as well as the administration's love affair with block granting.

In each case, the proposed changes would either reduce revenues available for services to satisfy demographically driven demand or would replace cash income available to generate retail sales. No matter how you slice it, the budget ideas from the Trump Administration are bad for state finances.

Take the proposal to replace half of the cash portion of the food stamp program with the distribution of food boxes. While presented as a source of both cost savings and better health, the plan would make a serious dent in the income generated from the sale of the products to be distributed. The federal government would buy food products at wholesale and compete against entities whose purchases currently generate sales tax revenues on their own. The government could also use its scale of purchasing power to drive down prices and therefore, agriculture-related incomes. By reducing the amount of food purchased by SNAP recipients from retailers, those retail food distributors would see their sales go down, thereby reducing their taxable incomes. The likely result would be employment reductions at those stores resulting in further declines in the taxable income base.

Then there are the stealth proposals to reduce benefits to the fast-growing elderly population. The Centers for Medicare and Medicaid Services (CMS) actuary said this week that American healthcare spending will grow from 4.3% in 2016 to 5.3% this year and 5.7% by 2021. Much of that increase will be driven by aging baby boomers in need of more medical care. With the retirement assets of most Americans way below their needs, much of that cost will be borne by Medicaid—the health insurance program for low-income and disabled Americans —not by Medicare. Some states are taking a proactive approach.

At least five states — Maine, Arizona, Utah, Wisconsin and Kansas — have asked the Department of Health and Human Services (HHS) to approve proposals that would put a cap on how long Medicaid beneficiaries can receive coverage. Republicans on the House Budget Committee are pushing forward with a new budget resolution this year designed largely to rein in spending on entitlement programs like Medicare and Social Security.

The Administration has proposed a freeze on most funding under the Older Americans Act, which provides money for social and nutrition services for seniors, including Meals on Wheels. While the proposal contains a small increase for food programs, it would cut funding for disability programs by about 30%. It would also eliminate federal block grants that states use to fund programs for seniors.

Since Congress just passed a two-year spending plan, it's highly unlikely Trump's budget will be enacted but it signals where, at least the Republican party, would like to go on entitlements. All of this would be credit negative for the states.

Response to the Loss of Advanced Refundings and Alternatives For the Market

Much has been written about how issuers of new deals, issuers with bonds that are not yet callable, and investors are likely to respond to the loss of advanced refundings. That loss was a substantial blow to financial flexibility for issuers—certainly an ironic result, given the purported desire to generate more capacity to finance and fund infrastructure.

Here are the key considerations for all three parts of a muni transaction:

- First, issuers seeking to maximize flexibility on new long-term financings need to be cautious about expectations that shorter-call paper will be absorbed readily by the market at a yield commensurate with how short-call paper has traded recently. We believe that if short-call paper becomes more common, the yield spread between this paper and bonds with 10-year calls will increase dramatically.
- Second, we support the use of variable-rate debt for a portion of a strong issuer's financings as a way to enhance flexibility without increasing all-in borrowing costs. The challenge will often be in getting credit backstop for such an issue, or in keeping current credit ratings. Stronger issuers such as double-A-rated states will have more flexibility in this context.
- Third, some issuers have discussed the use of much larger amounts of lower-coupon bonds as a way to reduce the yield-to-call on paper with a 10-year call, and thus the urgency to find an alternative to advance refundings. As with short-call paper, issues with coupons well below 5% may find that the market is not willing to buy such deals except at substantial yield premium over more traditional 5s. This pattern may also reduce the proportion of competitively sold paper. Competitive issues tend to use bidding requirements that lead to a large proportion of lower-coupon bonds—the type that the market may increasingly require to have higher yields to the call date than 5s.
- Fourth, institutional investors with old, short-call paper that they would like to unload also need to be cautious. We expect that either new or aged short-call paper will run into situations of diminishing returns as more of it reaches the market.
- Fifth, issuers seeking to refund bonds significantly before the first call date need to be cautious about paying up too much in yield for alternatives such as forwards or taxable crossover bonds, rather than simply waiting until the bonds are currently refundable. Most potential techniques for refunding such bonds before the first current refunding date will lead to a relatively sharp increase in the borrowing cost, which only makes sense under the assumption that muni yields will be moving significantly higher between now and the first current refunding date.
- Sixth, we are less worried than some observers about the use of floating-to fixed swaps or other derivatives as a way to do an early refunding—but only if the issuer is equipped to recognize the risks and extra costs involved in such a transaction. Many issuers will need outside expertise to handle such potential risks and costs. We note that some of the well-described disasters in swaps

stemmed from a reliance on auction rate securities or other warning signs that no longer apply. We do agree strongly with the need for strong hands-on expertise when considering such a choice, however.

03/02/2018 by Joseph Krist

Neighborly Insights

[Insolvent "On Behalf Of" Municipal Bond Issuers: Chapter 9, Chapter 11, or Ineligible?]

Last week, President Trump unveiled his proposal to fix our nation's aging infrastructure. While the proposal lauded $1.5 trillion in new spending, it only included $200 billion in federal funding. To bridge this sizable gap, the plan largely relies on public private partnerships (often referred to as P3s) that can use tax-exempt bond financing. In evaluating bankruptcy and default risk with P3s and similar quasi-governmental entities it is important to understand whether such entities are eligible debtors under the Bankruptcy Code, and, if so, whether they are Chapter 11 or Chapter 9 eligible.

P3s often involve the issuance of bonds by quasi-governmental hybrids, including so-called "63-20 corporations" (named after an IRS Revenue Ruling) that meet IRS criteria for the issuance of bonds by a non-profit corporation "on behalf of" a state or municipality. Such hybrids are used because they have a sufficient nexus to a state or municipal government to satisfy federal tax criteria for the issuance of tax-exempt municipal debt, while being sufficiently distinct from the state or municipal government to escape otherwise applicable state law restrictions on the incurrence of debt. Given such hybrid nature, questions can arise about whether the issuing entity is eligible for Chapter 9 of the Bankruptcy Code (in those states that have authorized filings under that Chapter) or Chapter 11 of the Bankruptcy Code. That distinction is significant.

Not only are the rules in Chapter 9 and Chapter 11 different (particularly as they relate to bond debt), but there are more eligibility restrictions in Chapter 9 than in Chapter 11. Chief among these is the requirement of specific state authorization for Chapter 9 eligibility. Where such authorization currently does not exist, bondholders can be lulled into a false sense of security thinking their issuer cannot file bankruptcy under Chapter 9, only to find out that the issuer is Chapter 11 eligible.

Continue reading.

By William W. Kannel & Charles W. Azano

February 26, 2018

Mintz Levin

Yes, Special Revenue Bonds Remain Special: Mintz Levin

Judge Swain's decision in the PROMESA Title III bankruptcy proceeding of the Puerto Rico Highways and Transportation Authority ("PRHTA") that a federal bankruptcy court cannot compel a municipal debtor to apply special revenues to post-petition debt service payments on special revenue bonds has generated controversy and caused some market participants to question whether, if the decision is upheld by the First Circuit on appeal, the perception that special revenue bonds have special rights in bankruptcy remains justified.

The short answer is that, whatever the First Circuit does with the Swain ruling, bonds secured by special revenues should continue to emerge from bankruptcy proceedings more unscathed by the issuer's bankruptcy than bonds that are not special revenue bonds or secured by statutory liens.

Judge Swain's order dismissed a complaint by PRHTA's bond insurers for declaratory and injunctive relief requiring PRHTA to remit special revenues received by PRHTA to its bond trustee for payment of bond debt service, and for a declaration that PRHTA lacked a property interest in the trustee-held debt service reserve fund (which would have permitted the trustee to apply the debt service reserve fund to bond debt service payments without further legal analysis.)

It is important to focus on what Judge Swain did and did not hold:

- The most controversial portion of Judge Swain's opinion addressed the meaning of Section 922(d) of the Bankruptcy Code, which exempts from the bankruptcy stay "the application of pledged special revenues." Judge Swain stated that Section 922(d) "makes clear that the automatic stay is not an impediment to continued payment, whether by the debtor or another party in possession of pledged special revenues, of indebtedness secured by such revenues…." She held, however, that the quoted exception from the stay did not extend to lifting the stay in order to permit a creditor to seek a court order compelling the debtor to turn over special revenues to a bond trustee.
- Even under Judge Swain's narrow reading of Section 922(d), a bond trustee in possession of special revenues need not seek or obtain relief from stay to apply special revenues to debt service payments. Special revenue bonds structured with a "true" lockbox, in which revenues flow directly to the bond trustee or an agent for the trustee, should not be impacted by Swain's decision, even if upheld. In contrast, under Judge Swain's reading of Section 922(d), special revenue bonds in which revenues flow to the issuer and the issuer covenants to turn the revenues over to the bond trustee upon receipt may, at a minimum, suffer delay in the payment of scheduled debt service.
- Judge Swain's rulings on the debt service reserve fund consisted of rejection of the proposition that the debtor lacked a property interest in the reserve, and an assertion that the court lacked authority to compel the application of the reserve fund to debt service. Even under Judge Swain's narrow reading of Section 922(d), a trustee-held reserve fund containing special revenues may be applied by the bond trustee to debt service on the bonds without relief from stay. It is unclear whether the bond trustee in the PRHTA case lacked confidence that the funds in the reserve fund qualified as special revenues; if they so qualified, there was no apparent need to seek any court ruling prior to applying such funds, nor is there anything in the court's ruling precluding such application of special revenues.

On appeal, the bond insurers will seek to persuade the First Circuit that Judge Swain's reading of Section 922(d) is overly literal, that legislative history suggests Congressional intent that special revenue bonds not be "impaired" in a bankruptcy, and that failure to receive scheduled post-petition payments when due constitutes the type of impairment Congress intended to preclude by enacting Section 922(d).

However the First Circuit reads Section 922(d), good reasons remain for an issuer to turn over net special revenues, as debtors in Chapter 9 proceedings have historically done. Section 928 of the Bankruptcy Code provides that a "lien on special revenues … derived from a project or system shall be subject to the necessary operating expenses of such project or system." In the PRHTA proceeding, the "special revenues" included, in addition to toll revenues, some Commonwealth-imposed excise taxes that may not qualify for this operating expense carveout because they are not "derived from a project or system." But most special revenue bond issuers are protected by Section 928 from being left without a source of payment for necessary operating expenses even if they turn over net special revenues. Moreover, even under a narrow reading of the special revenue protections, to the extent an issuer seeks to apply net special revenues for purposes other than debt service, it is dissipating cash collateral and the creditors should be entitled to relief from stay in the absence of "adequate protection". What may or may not be "adequate protection" for an issuer's expenditure of cash collateral is a separate topic that Judge Swain has addressed tangentially in other opinions, but in most instances special revenue bond issuers should have little incentive to hang on to net special revenues versus turning them over – they may lose adequate protection litigation, and even if they do not, special revenue bond issuers are often standalone authorities precluded by state law (and in the case of PROMESA, federal law) from applying their revenues for purposes other than their own operating expenses, debt service and, although there is yet another litigable issue over whether funding capital expenditures at the expense of paying current debt service is permissible (and if so, under what circumstances) under the Chapter 9 special revenue provisions, capital expenditures on the system that generates the special revenues.

In any event, however broadly or narrowly the courts ultimately construe the Section 922(d) exception to the stay for application of special revenues, the primary reason that special revenue bond status is important and beneficial resides in Section 928(a) of the Bankruptcy Code, which provides that, unlike most revenue pledges that are cut off upon the filing of a bankruptcy petition, "special revenues acquired by the debtor after the commencement of the case shall remain subject to any lien resulting from any security agreement entered into by the debtor before the commencement of the case." This is the main source of protection for special revenue bonds – the fact that the bankruptcy process does not permit the debtor to free itself from the lien on its post-petition special revenues. Because pledged special revenues can stretch into perpetuity until the special revenue bonds are fully paid, there is generally little advantage to issuers in not keeping current on post-petition debt service.

The fact that special revenue bondholders have a permanent lien on special revenues generated by the debtor does not, of course, guarantee full payment of special revenue bonds in instances where structural issues prevent an issuer from fully servicing its debt – i.e the special revenues being generated are simply insufficient to service the debt . But it does mean that special revenue bonds should do better in bankruptcy than comparable bonds that are unsecured or secured only by pre-petition revenues.

Where a special revenue bond issuer claims that it will not be able to repay special revenue bonds in full, the case for relief from stay to preclude the issuer from dissipating cash collateral in excess of any applicable operating expense carveout is compelling. The most disturbing element in Judge Swain's opinions to date are statements, mostly in dicta, that come close to the line, or cross the line, of suggesting that PROMESA Section 305, which states that a bankruptcy court "may not, by any stay, order, or decree, in the case or otherwise, interfere with … any of the property or revenues of the debtor", precludes a bankruptcy court from granting any relief from stay when a creditor seeks to prevent detrimental application of cash collateral. Section 305 cannot be read to override other provisions of PROMESA, such as provisions authorizing relief from stay for lack of adequate protection, nor is the lifting of a stay to permit a creditor to pursue state court remedies against a municipal debtor the equivalent of a bankruptcy court's "interfering" with the debtor's revenues. Accordingly, Judge Swain's overbroad pronouncements on Section 305 are likely to be cut back by the First Circuit.

With all of that said, it is understandable that special revenue bondholders would prefer a reading of Section 922(d) that permits creditors to seek to compel a municipal debtor to turn over special revenues during the pendency of a bankruptcy proceeding in those instances where there is not a "true" lockbox and the debtor fails to do so voluntarily. But whether the First Circuit reads 922(d) narrowly or more broadly than Judge Swain, special revenue bonds will remain justifiably "special."

by Leonard Weiser-Varon

USA February 26 2018

Mintz Levin Cohn Ferris Glovsky and Popeo PC

[MSRB: How Do Interest Rate Movements Affect Municipal Bond Prices and Yields?]

Find the answer [here].

[Follow the Money: How to Track Federal Funding to Local Governments.]

Abstract

To respond effectively to state and federal policy changes, city leaders, non-profit service providers, advocates, and researchers all need accurate data on how federal funds flow to local governments. Unfortunately, those data are spread across multiple sources that are often indecipherable or inaccessible to non-experts. The purpose of this guide is to help data users navigate the patchwork of primary data sources and online portals that show how the federal government distributes funding to local governments. We drew on the literature, an inventory of online resources, interviews with local and federal officials, and Urban Institute research staff experience to catalog available data on federal-local transfers. We describe the strengths, weaknesses, and best uses of various data sources and portals and provide guidance on where users can find information to understand trends or how their community stands relative to its peers. Our guide concludes with simple recommendations for how to improve data quality, comparability, and usability at all levels of government.

[Read the full report.]

The Urban Institute

by Megan Randall, Tracy Gordon, Solomon Greene & Erin Huffer

February 26, 2018

[Bloomberg Brief Weekly Video - 3/1]

Taylor Riggs, a contributor to Bloomberg Briefs, talks with editor Joe Mysak about this week's municipal market news.

Watch video.

Bloomberg

Muni Market Headed for Worst Start of a Year Since 2008 Crisis.

- **Munis poised to post 1.5% loss in first two months of the year**
- **Selloff driven by Fed, less corporate buyers after tax reform**

This year hasn't been kind to the $3.8 trillion municipal-bond market, which is starting off with the biggest loss since the turmoil of the credit crisis a decade ago.

State and local government bonds are headed for a 1.5 percent loss, the first drop for the first two months of a year since 2008, when they tumbled by more than 3 percent, according to Bloomberg Barclays indices. The poor performance comes after Congress enacted an overhaul of the tax code that reduced the appeal of tax-exempt debt to corporations and amid expectations that the Federal Reserve will raise interest rates more aggressively than previously expected.

"It's going to be a very tough market," said Mike Brilley, senior vice president for Sit Investment Associates, which holds about $4 billion of municipals. "But getting interest rates up to levels above inflation is a very attractive development."

Yields on top-rated municipals maturing in 30-years have soared in 2018, climbing to 3.1 percent on Wednesday, the highest since last March.

Brilley said the selloff has been driven by "significantly reduced" interest from insurance companies and banks after their income-tax rates were slashed to 21 percent, reducing the allure of tax-exempt bonds.

Investors may want to thank the deep slowdown in the pace of new bond issuance this year for preventing returns from going deeper in the red. Sales fell 38 percent in January and February from a year earlier after Congress eliminated a key debt-refinancing tool and as interest rates rise.

"If it were not for the lack of supply, year-to-date muni returns would be even weaker," Jeffrey Lipton, head of municipal research and strategy at Oppenheimer & Co., said in a note this week.

Bloomberg Markets

By Amanda Albright

February 28, 2018, 10:02 AM PST

— With assistance by Danielle Moran

Muni Mispricings Seen Stinging Taxpayers for Up to $25 Billion.

- **Consultant study finds prices rise 1.6 percent in early trades**
- **That suggests the debt was priced too low, Fideres says**

Every time America's states and cities sell bonds to build new roads, schools and bridges, they may be leaving a big chunk of money on the table.

Investment banks, which governments hire to line up buyers for their bonds, routinely underprice the securities, delivering gains to early investors at taxpayers' expense, according to a study by Fideres Partners LLP, a London-based consulting firm. It found that bond prices increased by an average of 1.6 percent soon after they were first sold — indicating governments could have raised over $25 billion more from 2006 to 2015 if the debt was sold at those higher prices.

"The reason why these bonds trade so heavily and go up in price so much right after issuance is because people think the issuers overpaid — that that bond is worth more," said Alberto Thomas, who worked on the study. "Someone in that process has not done their job properly."

The $3.8 trillion municipal-bond market is the key way that local governments finance construction projects, so any failure to adequately price the securities would be felt broadly. President Donald Trump has sought to encourage states and cities to pump more money into airports, roads and other infrastructure, some of which was neglected as governments dealt with the economic fallout of the Great Recession.

Other research has raised questions about the efficiency of the municipal market. A study released more than a decade ago by professors at Carnegie Mellon University found "substantial" underpricing of new issues. And others have asserted that governments could save money by selling their debt more frequently in competitive auctions, instead of the typical practice of relying on underwriters picked ahead of time.

Fideres, which also studied the rigging of the Libor benchmark interest rate and often prepares research for use in class-action lawsuits, looked at 8,000 tax-exempt bond issues sold between 2006 and 2015 worth about $1.1 trillion. It was limited to fixed-rate deals above $50 million sold through both negotiated and auction sales.

The price increase from the day the bonds were awarded until the settlement date was "abnormally high" compared to other asset classes, the report said. Corporate bonds rose about 0.64 percent — less than half as much as the munis — while U.S. Treasuries gained 0.33 percent, the firm said. Fideres has previously asserted that the gap shows that corporate debt is being "systematically underpriced," too.

For municipal bonds, those early increases have been shrinking, potentially because low interest rates — which have pushed up debt prices — have given the securities less room to rise. In 2010, prices rose an average of 1.88 percent between the initial pricing and the close date, according to Fideres. That shrank to 0.85 percent in 2015.

The Securities Industry and Financial Markets Association, the trade group for underwriters, hadn't seen the study and declined to comment, spokesman Katrina Cavalli said.

Underwriters may have a reason to underprice securities: They often retain a portion of the bond issue after a sale, which means they'll benefit if the price climbs, the report said.

"Knowing a bond price will increase shortly after issuance allows them to generate trading profits, incentivizing them to set lower issuance prices," the report said.

Bloomberg Markets

By Amanda Albright

March 2, 2018, 5:35 AM PST

— With assistance by Joe Mysak

[S&P 2018 U.S. Municipal Green Bond And Resiliency Outlook: Comparing The Self-Labeled Market With U.S. And Global Peers.]

The volume of U.S. municipal debt issuers label "green"–bonds that finance projects with net positive environmental impacts–continues to increase, and market estimates for 2018 suggest that issuance could top $15 billion. S&P Global Ratings expects to see issuers across a wide variety of sectors continue to use the green label…

Continue Reading

Feb. 28, 2018

S&P: When Analyzing Municipal Utility Credit Quality, Strong Management Is Often An Asset.

When S&P Global Ratings revised its utility revenue bond rating criteria, it added two new components that evaluate the issuer's management team: the operational management assessment (OMA) and financial management assessment (FMA).

Continue Reading

Feb. 20, 2018

S&P U.S. Military Housing Sector 2018 Outlook: Sector Credit Quality Remains High.

S&P Global Ratings believes its rated issuers in the U.S. military housing sector have very high credit quality, with 90% of ratings in the 'AA' or 'A' categories in 2017. Our portfolio of public ratings covers 46 projects consisting of over 143,000 units of housing at bases throughout the U.S., and most of our projects exhibit strong debt service coverage (DSC) ratios, high occupancy levels…

Continue Reading

Mar. 2, 2018

How QE Using Municipal Bonds Happens in the Next Recession.

I'm worried. I know this sounds strange. After all, we are in arguably the best growth phase in this economic cycle. And very few economists are predicting, let alone talking about, recession. I don't see recession around the corner either. But, still, I am concerned. And my worry is about a recession and public pension crisis. I am even talking about the Fed buying up municipal bonds using quantitative easing. That was my last post.

Since I have put this out there so early, let's talk about how the Fed actually does it. I mean, we are still a long way from recession or crisis. So think of this post as an OJ-style "If I did It" piece, with me ghostwriting for the Fed.

[Continue reading.](#)

Credit Writedowns

by Edward Harrison

4 March 2018

Better Data, New Tools Make Municipal Bond Market More Transparent.

Despite numerous regulatory efforts for greater transparency, the nature of the municipal bond market remains opaque due to its fragmented nature. While some of the attempts at increasing transparency such as municipal issuer continuing disclosure requirements or near-real time trade data reporting have been effective, even with 30,000+ trades reported daily, publicly available trade data fails to provide meaningful context for price discovery of municipal securities without extensive manipulation. And even though they may appear to be alike, no two municipal bonds are directly comparable due to the innate diversity of municipal issuers. For many investment professionals, it is difficult to establish the relative value of securities in which they wish to invest. The problem is magnified for the end investor.

Existing solutions fall into two broad categories: benchmarks (i.e. yield curves) and indices. Between the two they provide some framework, but do not necessarily equip the investors with a transparent or complete engine to ease their search for value. For example, popular municipal yield curves use polling techniques to establish an opinion of value (rather than observable market data) and do so over a very small slice of the municipal market. One such curve is limited to bonds rated AAA with a 5% coupon, which represent less than 2% of daily trading in municipal bonds. Another uses a single state (Maryland) and bond characteristic (general obligation) as a general guide. While these simplifications are appealing in that they remove complications from the calculations, they do not make for a more comprehensive depiction of the actual market. With today's large, detailed databases, improved hardware and software techniques for dealing with masses of data, it is time to revisit the need for simplifications that remove available data from calculations.

Indices represent a greater portion of the municipal market and are designed to be broadly inclusive. This inclusive nature means that they will include securities which are not available for purchase. As such, they wholly depend on third party evaluations. And unlike yield curves, indices are primarily used as benchmarks for portfolio total returns rather than facilitating daily trading or investment related decisions by allowing comparisons across bonds at a point in time.

In either case, with current yield curves or indices there is an inherent bias and lack of transparency because neither of the benchmarks are based on actual market observations. What then does the market need?

Emerging technology tools can enable traders and investors to address this problem through a transparent, quantitative and flexible approach utilizing newly publicly available trade data. These state-of-the-art solutions include the fixed coupon investment grade segment of the tax exempt municipal market (representing 80-85% of daily municipal trading activity), and provides what BondWave believes is just the right amount of context to municipal price discovery.

Municipal Benchmarks

In the contemporary municipal market, predominantly two types of benchmarks influence the determination of general level of interest rates:

Yield Curves – the term structure of interest rates, representing the relation between yield levels and maturities at a point in time; and
Bond Indices – a broad rules-based composite used to determine value of a certain bond market segment over time, regardless of the underlying constituent maturities.

While they influence trading patterns, investment decisions and relative value, most popular yield curves and indices have a few common weaknesses which an investor alone cannot overcome.

Prevailing yield curves are defined by a specific set of criteria – such as coupon rate, rating or sector. These criteria, as in the earlier examples, usually define a very narrow portion of the market. The underlying assumptions are also very rarely updated to reflect current trading behavior. The calculated yields are synthesized and updated based on opinions of analysts and market participants introducing the potential for bias into the calculations. The potential for bias can be removed by a properly constructed yield curve that relies on the truest expression of value: arm's length transactions between informed market participants. Historically, this proved impossible prior to the advent of the near real-time reporting of all trades to a publicly available database. More recently it proved inconvenient because the organization, size and diversity of that database made analysis difficult. However, with improved tools for analysis, consumption, and organization of near real-time trade data it is time to update yield curve techniques to reflect these realities.

Bond indices are slightly different. They are more inclusive in nature and provide ways to group similar securities via a set of inclusion and exclusion rules. A few popular indices consider the entire bond universe when creating such groups, while others focus on a much smaller set of issuers (or specific securities). This subjects them to the 'narrowness bias' not unlike the yield curves. When it comes to valuation, indices are not valued based on opinions; but nor are they valued based on actual observable market data. Indices are valued based on theoretical evaluated prices of their constituent securities or estimates from market participants. Therefore, performance of the indices is influenced by the inclusion of a few large issuers regardless of whether those large issues trade in the market.

On-the-run or bellwether securities could also be potential benchmark options, but it is not a notion that fits in the municipal market. Unlike the US Treasury market, defining such a benchmark for municipal securities is a difficult task because of the diverse nature of issuers and the wealth of possible structures. Not all municipal issuers have sufficient debt outstanding to provide the necessary liquidity. And while there is no lack of trade volume on any given day, it is difficult to find a single security which trades consistently enough to be defined as a benchmark. Regulatory (bank qualified securities, disclosure rules, etc.) and other market forces (state/municipal budget deadlines, availability of funding, early redemptions, etc.) heavily influence which bonds are available for purchase. That makes it nearly impossible to come up with something akin to a set of 'on-the-run' or bellwether securities as benchmark.

How does one get beyond the shortcomings of existing benchmarks to arrive at meaningful conclusions?

Why Guess When We Can Measure?

We have at our disposal accurate, comprehensive, publicly available trade data published by MSRB. It holds immense potential to be analyzed numerous ways to create observable quantitative benchmarks. Such an approach can make up for the inadequacies of prevailing benchmarks by being:

1. transparent (based on an observable dataset),
2. quantitative (methodology based on measurable calculations as opposed to opinions), and
3. flexible (enough to provide investors with ways to navigate the murky waters of municipal relative value analysis).

The first step was creating a consistent quantitative methodology based on publicly available municipal trade data to deliver yield context. Various clusters of trades are formed, where each cluster has its own unique set of 'similarity' characteristics. Each of these clusters can be thought of as a distinct 'Bond Type'.
Trades within each given Bond Type can be meaningfully compared to one another. A user can also map any given security to one of these Bond Types based on relevant set of characteristics. Additionally, with these newly available tools, users can create customized versions of the available yield curves tailored to their needs – introducing immense flexibility in the analysis they wish to carry out.

BondWave QCurves Yield Curves: Design and Methodology

The methodology behind BondWave QCurves takes a consistent data-centric, transparent approach to development of yield curves. The basis for yield calculations is publicly available municipal trade data obtained from MSRB. This dataset is examined daily for irregularities and carefully analyzed for inaccuracies.

Bond descriptive elements such as municipal sector, rating, coupon type and state of issue of the security are used to divide trade data into distinct clusters (or Bond Types).
Zero coupon bonds are excluded from the analysis. They usually trade at a deep discount, and have a unique duration/return dynamic due to their non-coupon paying nature, thus demonstrating a trading behavior that is fundamentally different from their fixed coupon paying counterparts.

All three trade types (dealer to dealer, purchase from customer and sale to customer) and all trade sizes are included in preliminary yield calculations. Users have the flexibility to choose between the three trade types and relevant groups of trade sizes to meet their analysis requirements.

Trades are further grouped by years to maturity within each cluster.

Minimum data requirements1 are imposed per maturity year to ensure that yield curve calculations are meaningful. Additionally, a quartile-based outlier removal method2 is applied to each maturity subset within each trade cluster so that the resulting interest rates remain neutral to extreme observations.

Interest rate levels weighted by trade size are calculated from these standardized datasets for the entire term structure, and a 'best fit' curve is also derived. For this, we employ a second order polynomial equation to determine a graphical curve that represents the interest rates accurately.

As an important step taken towards improving transparency in benchmark calculations, the metrics indicative of the depth of data of any given point are displayed. These metrics include, but are not limited to, number of trades, total par traded, number of unique securities traded, R-squared3 value and p-value4 for the best fit curve.

BondWave QCurvesYield Curves will help users drive their search for value both for a specific security, and across the spectrum of these curves. Because of the consistent methodology, these benchmarks can be meaningfully compared to one another at any point in time. They can also be used to understand the trends in municipal yields over time.

A transparent data centric methodology, attractive visual display of calculated data, and intuitive quick filters which provide alternative views of the traded securities should empower the user with material insights into price/yield levels of tax exempt municipal securities.

Traders Magazine Online News

by Madhura Katre

March 1, 2018

Nebraska Archway's Survival Is Cautionary Muni Bond Tale.

- **Tourist attraction was funded in 1998, during a muni bond boom**
- **Checkered history is warning to buyers in current sales spree**

A surviving relic of the first Golden Age of Public Finance returned to the headlines last week, when the Great Platte River Road Memorial Archway outside of Kearney, Nebraska, said it had turned a profit for the first time in 17 years.

“We’re done playing defense!” was how Eric Hellriegel, a Kearney city official who now also runs the Archway, put it to me on Friday.

In 2017, the Archway brought in operating revenue of $799,393, a 3 percent profit.

The Archway was built with $60 million in unrated revenue bonds in 1998, when it seemed that anything could be financed in the municipal bond market, from aquariums and theme parks to paper de-inking mills and a recycler of “broiler mortality.” The Archway, which looks like an enormous covered bridge over Interstate 80 outside of Kearney, was designed as a tourist attraction detailing the history of Western migration.

The first Golden Age of Public Finance ran from the mid-1990s to September of 2000, when the Heartland high-yield municipal bond fund imploded. We are living in the second one, if last year’s issuance is any indication.

The Archway bonds, which carried yields as high as 7 percent, defaulted in 2002. In 2003, the issuer exchanged $22 million in new bonds for the original debt. Even this was too great a debt load, however, and a bankruptcy judge in 2013 eventually awarded bondholders pennies on the dollar.

Once upon a time a bond analyst told me, “Remember, they don’t call them infeasibility studies.” This is the lesson to be learned from the Archway experience.

The 1998 bond issue contained a feasibility study projecting that the Archway would attract 906,000 visitors during the first year it was open. This year, attendance was projected to be just shy of 1.5 million. Revenue from the sales of tickets to these visitors repaid the bondholders.

At least in theory. In reality, the Archway never made its projections. In the first year of operation, about 300,000 people visited. After that, keeping up with attendance figures at the Archway got very sketchy. In other words, I'd call them, and they didn't want to tell me. In 2007, the bond trustee reported that attendance was about 10 percent of projections, or roughly 100,000.

Well, it's a new day at the Archway. Executive director Hellriegel sent me his presentation to the city council, which shows attendance was 49,851 in 2013, 55,959 in 2015 and 57,592 in 2017. Could be time for a site visit!

Investors during the second Golden Age of Public Finance would be well-advised to keep the cautionary tale of the Great Platte River Road Memorial Archway in mind as they consider new deals.

Bloomberg Politics

By Joe Mysack

March 5, 2018, 5:52 AM PST

Fossil-Fuel Giants Take Legal Action Against Local Government.

Exxon Mobil's targets are several California cities and counties that have filed state lawsuits.

WASHINGTON — Exxon Mobil Corp. and other fossil-fuel giants are taking legal action against local governments, seeking to undermine a key part of their finances — their relationship with lenders.

Exxon Mobil's targets are several California cities and counties that have filed state lawsuits, claiming that the oil and coal industries worked for decades to cover up their roles in climate change and the consequences. The local governments want the industries to pay for damage and adaptation costs resulting from climate change, including sea-level rise and more extreme storms.

Exxon Mobil responded last month by petitioning a state court in Tarrant County, Texas, to subpoena California officials and lawyers involved with the lawsuits. In a novel legal tactic, Exxon Mobil alleges that the local government officials are defrauding buyers of municipal bonds by not disclosing to lenders the climate risks they have claimed in their lawsuits.

It is unlikely that Exxon Mobil will ultimately win in court, but the tactic may succeed in discouraging other cities and states from filing similar lawsuits. That may be the point.

"We knew they were going to deliver a counterpunch, but we didn't know what it would be," said Ryan Coonerty, a supervisor in Santa Cruz County, one of the local governments suing the oil companies. Exxon Mobil's response, he said, "is particularly outrageous and clearly an effort of intimidation."

It is not the first time Exxon Mobil has attempted to pre-empt climate change litigation and investigations that could expose it to court damages. After New York and Massachusetts attorneys general issued subpoenas to investigate Exxon Mobil's practices, the company sued both of them, claiming they were part of politically motivated conspiracy against the company.

"The reasons our investigations came to light was because Exxon actually sued us to shut down our investigations," Massachusetts Attorney General Maura Healey said last week.

Healey called the Exxon Mobil lawsuits an "unprecedented step" to "squash the prerogative of state attorneys general to do their jobs." Since then, no other state has joined New York and Massachusetts in going after the company.

For both sides in the ongoing litigation, the stakes are considerable. Climate activists have been preparing for more than a decade to launch mass litigation against the oil industry and other companies responsible for large emission of greenhouse gases. They compare their litigation to lawsuits that eventually cost the tobacco industry billions of dollars.

But the oil companies are not letting this campaign gain momentum. Along with countersuing the jurisdictions that are suing, they've been getting help from a collection of industry-friendly think tanks and trade associations. Those groups launched their own recent counterattack against the litigating local governments, which include San Francisco, Oakland, Richmond, Imperial Beach, Marin and San Mateo counties and Santa Cruz city and county.

Groups that have received oil industry funding, such as the National Center for Public Policy Research and the Chamber of Commerce' Institute for Legal Reform, have recently criticized the coastal communities in Fox News and Sacramento Bee op-eds. In January, the National Association of Manufacturers hired a former Bush administration lawyer to counter litigation filed against oil refiners and other companies.

The Competitive Enterprise Institute has also entered the fray. The recipient of millions of dollars in funding from Exxon Mobil and the oil industry, CEI has been among the most effective nonprofit groups in spreading doubt about climate change science.

In May 2016, the group purchased a full-page ad in the New York Times criticizing the attorneys general of New York and the U.S. Virgin Islands for subpoenaing documents from CEI and other groups related to the climate investigation of Exxon Mobil. The CEI claimed that its free-speech rights were being violated.

"CEI ran an aggressive campaign to generate backlash against the USVI case," said Kert Davies, founder of the Climate Investigations Center, a group that tracks the oil industry and its nonprofit allies.

It worked. By late June that year, the Virgin Islands dropped its subpoena.

In February, three weeks after Exxon Mobil filed its legal action in Texas, the CEI filed a petition with the U.S. Securities and Exchange Commission urging the regulatory agency to investigate the cities and counties suing Exxon Mobil for bond fraud. "The plaintiff cities and counties apparently describe these climate risks in ways that are far different than how they described them in their own bond offerings," the CEI said in its petition.

The language in the CEI petition mirrors that of Exxon Mobil's. Both, for example, cite Santa Cruz County's claims in court that it will face a 98 percent chance of a "devastating three-foot-flood by 2050," an assertion not included in the county's bond prospectus.

A CEI lawyer, however, said the group’s petition to the SEC was based on its own research. “We were reading through some of the cases the cities had brought, and saw it did not match what they were telling investors,” said Devin Watkins, who co-wrote the petition.

If the SEC were to investigate and file charges, the California cities and counties could face fines and risks to their bond ratings. Local government officials and their legal advisers, however, say it is preposterous to claim that they have hidden their climate change risks from investors or anyone else.

“If you look on the websites of these jurisdictions, you will see they have done reports on sea level rise and adaptation planning,” said Sean Hecht, a law professor at the University of California, Los Angeles, who is advising some of the litigants. “It would take 30 seconds to find those documents.”

Several state lawsuits by California jurisdictions have been brought against Exxon Mobil, Chevron and other big oil and coal companies. Litigants include San Francisco, Oakland, Imperial Beach, San Mateo and Marin counties and Santa Cruz city and county.

All the lawsuits seek to hold oil companies responsible for contributing to climate change and attempting to cover up its effects. They all argue that under state law, the companies created a “public nuisance” with their actions and should compensate the local governments for the consequences.

Exxon Mobil did not respond to requests for comment.

In its court filings, Exxon Mobil claims to be the victim of a conspiracy by abusive governments and activists. The company claims the conspiracy began five years ago at a meeting in La Jolla, Calif., and spread to local jurisdictions and state attorneys general.

Jurisdiction is a focus of the fight. Oil and coal industry lawyers want the lawsuits moved to federal court, partly because California has a history of “public nuisance” law that hurts their chances.

Last week, a U.S. district judge in San Francisco, William Alsup, ruled that the Oakland and San Francisco lawsuits must be heard in federal court, a potential setback for the plaintiffs.

But another federal judge who is hearing the Marin and San Mateo case, Vince Chhabria, was somewhat skeptical at a recent hearing about the oil industry’s arguments. His ruling could determine whether at least one of the lawsuits is heard in California state court.

In the meantime, Exxon Mobil is continuing to subpoena top officials in Santa Cruz County and other jurisdictions. Coonerty, the county supervisor, said he doubts that Exxon Mobil will prevail but knows his community and others are in for a long fight.

“Any time you have adversaries that have unlimited resources and a determination to win, it is daunting,” he said.

By Stuart Leavenworth

March 4, 2018

McClatchy Washington Bureau (TNS)

[Appetite Increases for Green Bonds but Investors Demand More Education and Transparency.]

- **Appetite Increases for Green Bonds but Investors Demand More Education and Transparency**
- **Survey by Natixis and the California State Treasurer's Office reveals challenges and opportunities of green bond market**
 78% of California residents believe it's important to make the world a better place while growing assets1
- **Misconceptions around ESG present barriers to investing; 72% want greater transparency and standardization of reporting**

BOSTON & SACRAMENTO, Calif.–(BUSINESS WIRE)–Individual investors in California are keen to make the world a better place while growing their personal assets, but engaging investors in the green bond market will require a deeper understanding of their motivations, perceptions and knowledge gaps. Natixis Investment Managers' Center for Investment Insight and the California State Treasurer's Office announced today the findings from a new survey of 500 California residents during the California State Treasurer's Green Bonds Symposium. The study explores the challenges and opportunities of engaging investors in the state's growing green bond market.

The survey polled individual investors from California on their investment preferences and expectations, their commitment toward environmental, social and governance (ESG) investment principles, and their predisposition to act on green intentions. Key to motivating investors to participate in the California green bond market will be education, transparency and the development of an investment proposition, the study finds. While 66% of California respondents say they would invest in green bonds because of their potential environmental impact, only 53% say they are knowledgeable about ESG investing and merely 29% claim to know what green bonds are.

"The majority of California residents want their investments to have a positive social and environmental impact," said David Goodsell, Executive Director of Natixis' Center for Investor Insight. "But many need guidance before they can act on their preferences when it comes to investing in green bonds. Public outreach and education will be critical in dispelling some of the misconceptions associated with ESG investing, and we can jumpstart these initiatives by having conversations with the broader advisor community."

The research offers four key insights on California residents' sentiment towards green bonds:

- **Californians want to use their assets to make a difference:** Survey respondents said they want their investments to reflect their personal values (77%), to know their assets are doing social good (76%), to invest in companies that are ethically run (82%), and to invest in companies that have a positive social impact (77%).
- **Investors have misconceptions around ESG investing:** Some individuals perceive limitations around ESG investments, with 46% believing they have to give up return potential to invest in green bonds and 55% believing that costs will be higher without green bonds delivering adequate returns. However, green bonds are generally not limited in their return potential, nor do green bonds generally come at a higher cost. Three-quarters of respondents say they believe there is a lack of standardized guidelines on what constitutes as a green investment, therefore we believe public education will be essential to dispelling such misconceptions.
- **Californians are prepared to act with enlightened self-interest:** Californians emphasize the potential investment benefits of municipal bonds over their community impact. When asked for

their main reasons for investing in municipal bonds, they first focus on direct portfolio advantages, citing tax-free income (55%), low risk (51%) and stability (39%) as the main drivers. Investors in California may not fully understand the potential tax benefit these securities could provide given that only 11% said they would invest to manage tax liability.
- **Financial and non-financial variables factor into green investing:** Top considerations when selecting a green bond investment include return on a bond over its lifetime (50%), how long it takes to mature (40%) and amount paid at maturity (36%). However, 66% say they would invest in green bonds because of their potential environmental impact.

“It’s not surprising that nearly four out of five Californians believe it’s important that their investments shape a better world. This research demonstrates there is strong momentum for the leadership role we are taking in California to find solutions to pay for projects that generate solar and wind power, reduce methane emissions, provide clean drinking water, and more,” said John Chiang, California State Treasurer. “At a time when the White House has abandoned its leadership role in the fight against global warming, California stands with the rest of the world that has declared climate change is an urgent and potentially irreversible threat to human societies and the planet.”

Success Factors for California’s Green Bond Market

The survey findings indicate that many worry about accurate reporting and verification around green investing. Nearly three-quarters of investors (72%) say that greater transparency and standardization of reporting would increase their desire for green bonds, and six in ten would be willing to pay more for their investment if it meant greater transparency. Californians are willing to accept validation on a wide range of public and personal sources in order to achieve transparency, starting with the media (58%), reports from the issuer (47%) and a financial advisor (45%). Another factor is access to green issuances; overall, more than half of investors say they would prefer buying green bonds through a fund (59%) compared to individual securities (41%).

“As the green bond market matures, we are pleased to see that issuance is growing in tandem with investors’ interests,” said Chris Wigley, Portfolio Manager at Mirova, a responsible investing affiliate of Natixis Investment Managers. “This symbiotic relationship indicates that both governments and corporations are making the effort to transition to a lower carbon world, which is also motivating the individual investor to consider incorporating ESG into their portfolios.”

Methodology

Natixis Investment Managers surveyed 500 investors in California in August 2017, with the goal of understanding the perceptions, attitudes and opinions of individuals residing in California related to green bonds and ESG-focused saving and investing approaches. For more information, visit im.natixis.com/us/research/california-green-bond-market-survey.

February 28, 2018 12:01 PM Eastern Standard Time

About Natixis Investment Managers

Natixis Investment Managers serves financial professionals with more insightful ways to construct portfolios. Powered by the expertise of 26 specialized investment managers globally, we apply Active ThinkingSM to deliver proactive solutions that help clients pursue better outcomes in all markets. Natixis ranks among the world’s largest asset management firms2 ($997.8 billion AUM3).

Headquartered in Paris and Boston, Natixis Investment Managers is a subsidiary of Natixis. Listed on the Paris Stock Exchange, Natixis is a subsidiary of BPCE, the second-largest banking group in France. Natixis Investment Managers' affiliated investment management firms and distribution and service groups include Active Index Advisors®;4 AEW; AlphaSimplex Group; Axeltis; Darius Capital Partners; DNCA Investments;5 Dorval Asset Management;6 Gateway Investment Advisers; H2O Asset Management;6 Harris Associates; Investors Mutual Limited; Loomis, Sayles & Company; Managed Portfolio Advisors®;4 McDonnell Investment Management; Mirova;7 Natixis Asset Management; Ossiam; Seeyond;8 Vaughan Nelson Investment Management; Vega Investment Managers; and Natixis Private Equity Division, which includes Seventure Partners, Naxicap Partners, Alliance Entreprendre, Euro Private Equity, Caspian Private Equity and Eagle Asia Partners. Not all offerings available in all jurisdictions. For additional information, please visit the company's website at im.natixis.com | LinkedIn: linkedin.com/company/natixis-investment-managers. Natixis Investment Managers includes all of the investment management and distribution entities affiliated with Natixis Distribution, L.P. and Natixis Investment Managers S.A.

About the Natixis Center for Investor Insight

Investing can be complicated: Event risk is greater and more frequent. Volatility is persistent despite market gains. And investment products are more complex. These factors and others weigh on the psyche of investors and shape their attitudes and perceptions, which ultimately influence their investment decisions. The Center for Investor Insight conducts research with investors around the globe to gain an understanding of their feelings about risk, their attitudes toward the markets and their perceptions of investing.

About Mirova

Mirova, an affiliate of Natixis Investment Managers, offers a global responsible investing approach with a single offer revolving around 5 pillars: equities, bonds, infrastructure, Impact investing, voting and engagement. Mirova has $10.8 billion of assets under management (as of 12/31/2017).

About Natixis Asset Management US, LLC and Mirova

Natixis AM US provides access to investment solutions that benefit from the extensive resources of a leading European asset management group. Natixis AM US launched in 2014, is a U.S.-based investment adviser, majority-owned by Natixis Asset Management and minority-owned by Mirova with $561 million in assets under management (as of 12/31/17). Natixis AM US utilizes the expertise of Mirova, which is operated in the U.S. through Natixis AM US.

This material is provided for informational purposes only and should not be construed as investment advice. There can be no assurance that developments will transpire as forecasted. Actual results may vary.

Green bonds are securities that finance projects that provide environmental benefits.

All investing involves risk including risk of loss.

Municipal markets may be volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities.

Sustainable investing focuses on investments in companies that relate to certain sustainable development themes and demonstrate adherence to environmental, social and governance (ESG) practices, therefore the Fund's universe of investments may be reduced. It may sell a security when *it could be disadvantageous to do so or forgo opportunities in certain companies, industries, sectors or countries. This could have a negative impact on performance depending on whether such investments are in or out of favor.*

Diversification does not guarantee a profit or protect against a loss.

Natixis Investment Managers does not provide tax or legal advice. Please consult with a tax or legal professional prior to making any investment decisions.

1 Natixis Investment Managers, 2016 Retirement Plan Participant Survey conducted by CoreData Research, August-September 2016. Survey included 951 respondents, 121 of whom were California residents.
2 Cerulli Quantitative Update: Global Markets 2017 ranked Natixis Investment Managers (formerly Natixis Global Asset Management) as the 15th largest asset manager in the world based on assets under management as of December 31, 2016.
3 Net asset value as of December 31, 2017. Assets under management ("AUM"), as reported, may include notional assets, assets serviced, gross assets and other types of non-regulatory AUM.
4 A division of Natixis Advisors, L.P.
5 A brand of DNCA Finance.
6 A subsidiary of Natixis Asset Management.
7 A subsidiary of Natixis Asset Management. Operated in the U.S. through Natixis Asset Management U.S., LLC.
8 Formerly an investment division within Natixis Asset Management, Seeyond became an independent global affiliate of Natixis Investment Managers effective January 1, 2018. Seeyond is operated in the U.S. through Natixis Asset Management U.S., LLC (Natixis AM U.S.). Natixis AM U.S., which launched in 2014, is majority-owned by Natixis Asset Management (Natixis AM) and minority-owned by Mirova, which is in turn wholly-owned by Natixis AM. Natixis AM U.S. had €467M / $561M / £415M in assets under management as of 12/31/17.

New Report Says FEMA Badly Underestimates Flood Risk.

41 million Americans—not 13 million—are at risk of experiencing a 100-year flood, according to the study.

Over the past 30 years, the United States has suffered an average of $8.2 billion in annual damage from freshwater flooding. Studies show that the destruction is intensifying every year. The August 2016 floods in Mississippi and Louisiana, for example, inflicted $10 to $15 billion in damages.

The wrath of Hurricane Harvey sparked debate over how the country manages flood insurance and brought fresh scrutiny on incentives for new construction on the country's precarious floodplains. But meaningful reform faces a hurdle: the Federal Emergency Management Agency's flood hazard maps. These maps dictate flood risk management in the U.S., and they've been widely criticized for being outdated and underestimating the country's flood risk.

A report released on Wednesday by the University of Bristol, U.K., and the Nature Conservancy concludes that FEMA's maps only account for one-third of the total population that is exposed to serious flooding. Whereas FEMA estimates that 13 million Americans are currently exposed to the devastation of a "100-year flood," the report puts that number at 41 million. (A 100-year flood describes an extreme flooding event that has a one-percent chance of occurring in any year; it is a common benchmark for flood risk management.)

“It’s pretty daunting,” said Kris Johnson, a Nature Conservancy scientist and one of the report’s authors.

The simulations run for this study used large amounts of data from the U.S. Geological Survey National Elevation Dataset, and were “much more accurate and much more comprehensive than anything we’ve had available before,” Johnson said. FEMA’s appraisal of flood risk, on the other hand, relies on time-consuming local assessments of various catch basins and floodplains.

“Producing maps the FEMA way essentially misses a lot of flood hazard,” said Oliver E. J. Wing, a doctoral candidate at the University of Bristol and another of the report’s authors. “And these maps are what inform risk management decisions in the U.S. at the moment.” Wing said that FEMA’s methods “tend to ignore smaller streams.” Smaller streams don’t hold the same volume of water as America’s largest rivers, but they are numerous, and many run through heavily populated areas.

The report finds that FEMA maps overlook risk across the U.S., but but the newly identified exposure areas are concentrated along the Pacific coast, in urban centers around the Great Lakes, and across the inland West. The researchers also projected future changes in population and housing density using the Environmental Protection Agency’s Integrated Climate and Land Use Scenarios. They found that the proportion of Americans living in flood-prone areas will increase over time.

Today, 13.3 percent of the U.S. population is exposed to a 100-year flood, but that number may rise to 15.8 percent by 2050 and 16.8 percent by 2100, according to the report. In some regions, the projected increase is stark. South Dakota, Nebraska, and New Mexico are slated to see a five-fold increase in flood exposure by 2100. In California, Florida, and Texas, exposure is predicted to triple or quadruple, according to the study.

“What’s really unnerving,” said Johnson, “is that in some cases, there’s disproportionately more people and development projected to happen in areas that are at even greater and more frequent risk of flooding. Our policy and planning and incentive structure, our insurance structure—it’s not set up to think holistically and disincentivize bad decisions about where to build.”

In one scenario modeled by the researchers, the amount of developed land that would lie in the 100-year floodplain in 2100 would equal the size of Colorado and would contain assets roughly equivalent to the current GDP of the U.S. And the study didn’t account for how climate change could exacerbate flooding, meaning that these outcomes could be more severe.

Avoiding new construction in these areas will be key to minimizing future flood damage, Johnson said. It could also have another advantage: Instead of being clogged with concrete, these natural drainage areas could do what they’re meant to, and absorb a river’s excess water.

“We’ll get some additional benefit, because those flood waters will be able to spill out on the flood plain instead of being shunted downstream at higher velocity,” Johnson said. “In this country, we overlook and undervalue the roll of intact natural features in helping manage risk.”

For localities to make granular decisions, like how high to elevate buildings or where exactly to avoid new construction, planners will still have to conduct more specific local models. But the study points to the regions of the country that need to be more critical about their risk assessment. With more data, Wing said, this methodology will be able to better inform localities on flood risk: “With this new modeling, at this stage, we’re only scratching the surface.”

MICHAEL ISAAC STEIN

MAR 2, 2018

CITY LAB

[Trump's Infrastructure Plan Puts Workers at the Bottom. They Should Be at the Top.]

Less than two weeks after President Trump's State of the Union in which he declared that "American heart, American hands, and American grit" would rebuild the country's infrastructure, workers barely register in his administration's newly-released infrastructure plan. Out of the plan's 53 pages, it is not until page 51 that workforce development even gets covered, with little public attention beyond that. Instead, the vast majority of the plan focuses on reforming permits to get projects done more quickly and new programs to boost infrastructure investment.

Given the ongoing need for infrastructure investment nationally, it's not surprising to see new funding and financing strategies gaining most of the limelight. But relegating workers to the bottom of the plan underplays the enormous opportunity for future infrastructure programs to promote shared prosperity.

In an economic era defined by inequality, infrastructure jobs offer one of the more stable, competitive career pathways to workers across all skill levels. The infrastructure sector employs over 14.5 million workers, most of who fill long-term, good-paying jobs with low barriers to entry. Moreover, there is a huge need to hire and train a new generation of workers in transit agencies, water utilities, and other sectors experiencing a wave of retirement in coming years. Even though a huge boost in construction hiring seems unlikely given the robust labor market at the moment, the presence of infrastructure jobs in every corner of the country makes workforce development an obvious candidate for federal action.

Continue reading.

by Joseph Kane
Senior Research Analyst and Associate Fellow – Metropolitan Policy Program

Feb 28, 2018

The Brookings Institute

Trump's $1.5 Trillion Infrastructure Plan: Unlikely to Impact the Muni Market in 2018.

President Trump's long-awaited $1.5 trillion infrastructure plan is finally coming into the forefront of discussion moving into 2018.

While details have been sparse, the proposed plan would put a heavy burden on local and state governments, as well as private corporations, and could have a significant impact on the municipal bond market. The upshot is that a finalized plan is unlikely to come to fruition in 2018 despite the administration's promises.

Continue reading.

by Justin Kuepper

Mar 01, 2018

municipalbonds.com

Congress Kicks Off Discussions About Trump's Infrastructure Plan.

There were frictions over issues involving funding and environmental permitting in a hearing on Thursday.

WASHINGTON — President Trump's infrastructure plan got its first public airing in Congress on Thursday, with some of the thornier issues that are likely to guide debate about any forthcoming public works package on display.

These issues are mainly centered on funding and environmental permitting. Transportation Secretary Elaine Chao and R.D. James, assistant secretary of the Army for civil works, who leads the Army Corps of Engineers, appeared before the Senate Environment and Public Works Committee on behalf of the administration.

Chao brushed off a question about President Trump's current position on raising the federal gas tax. In recent weeks, Trump has floated the idea of a 25-cent gas tax increase to help fund infrastructure.

Sen. Chris Van Hollen, a Maryland Democrat, asked about this. "The president has now said on a number of occasions that he does support an increase in the gas tax to fund this $200 billion plan," he said. "Does the president mean what he says about increasing the gas tax?"

"You should ask the White House," Chao shot back.

Later in the day, DJ Gribbin, a special assistant to the president on infrastructure policy, said, as he has previously, that the president has not ruled out the possibility of a gas tax increase. "He's said supportive things about it," Gribbin told state transportation officials at an event.

The president's infrastructure plan calls for $200 billion of federal spending that would mostly go to new grant programs. It aims to stimulate around $1.5 trillion of spending over a decade for roads, water systems and other public works, when factoring in state, local and private funds.

How lawmakers will find or raise the money to pay for new infrastructure spending, or even to shore-up existing programs in future years, like the Highway Trust Fund, is one of the quandaries on Capitol Hill as infrastructure discussions ramp up.

Gribbin has previously pointed to proposed cuts in the president's fiscal year 2019 budget plan as a way to pay for the infrastructure programs the White House proposed. Democrats have lashed out against the idea of chopping existing funding for transit and rail.

Sen. Jeff Merkley, an Oregon Democrat, questioned whether the White House infrastructure and budget proposals amount to “simply moving chairs around on the deck of our infrastructure Titanic.”

And Sen. Tom Carper, a Delaware lawmaker who is the top Democrat on the Environment and Public Works Committee, said he and other senators met with governors who are “concerned” and are “not anxious to accept the kind of deal” outlined in the Trump proposal.

The largest pool of grants under the White House public works plan involves an “incentives program” that would be allotted $100 billion.

By Bill Lucia,
Senior Reporter

March 1, 2018

Route Fifty

[Muni Bonds Face 'Steep Decline' Ahead, Challenging Trump's Infrastructure Plan.]

- **Muni bonds face ‘steep decline’ ahead, challenging Trump’s infrastructure plan Municipal bonds are expected to be considerably scarcer in 2018, with one firm projecting a “steep decline” in issuance.**
- **Rising yields are raising costs for governments, while changes in tax laws have made munis less appealing.**
- **President Donald Trump is pushing an aggressive infrastructure agenda, so crimps in the muni market could hurt his plans.**

The precipitous rise in bond yields is being felt across a number of markets but perhaps none more than municipal bonds, where the trend ultimately could help jeopardize a critical part of President Donald Trump’s economic agenda.

For local and state governments, the cost to finance debt has spiked on some levels even more than the surge in Treasurys.

As a result, fixed-income experts are expecting a major drop in muni issuance. Already, January issuance fell 26 percent from the same period in 2017 and dropped 57 percent from December, which along with November saw a huge rush ahead of new tax laws taking effect.

“This pattern of request volume, layered on top of a secular trend of slowing municipal bond issuance, suggests that new muni volume in 2018 is indeed headed for a steep decline,” CUSIP Global Services said in a report this week.

Tax overhaul legislation that Congress passed in December represented a good news/bad news scenario for the $3.8 trillion U.S. municipal bond market. On the plus side, the legislation preserved tax-exempt private activity bonds, which are used to finance a slew of local projects including infrastructure and nonprofit entities including hospitals.

But the industry, for now, is focusing on the loss of advanced refunding for munis, a key tool governments use to refinance old debt at lower costs.

“We’re still seeing fallout from the Tax Cuts & Jobs Act in our muni request volumes,” Gerard Faulkner, director of operations for CUSIP, said in a statement. “While lawmakers are currently reviewing a new bill that would restore the tax exemption for advance refunding bonds, for now, the marketplace is reacting to the tax reform by dramatically curtailing their pre-trade activity.”

Problems aren’t just on the investor side. Issuers face higher costs now that yields are rising.

Top AAA-rated debt for a 10-year term now carries a yield of 2.4 percent, up from 1.98 percent at the end of 2017. The yield on 30-year debt has zoomed from 2.54 percent in December to 2.95 percent now.

The surge in costs and drop in issuance comes at an inopportune time for the White House. The Trump administration has released the broad sketches for a program aimed at pumping in $1.5 trillion in new spending for America’s ailing infrastructure system.

A tepid muni environment could threaten the program’s success, particularly if Congress continues to tinker with the tax-exempt areas of fixed-income markets as a way to raise revenue.

“Tax reform dealt three curveballs to the municipal market in 2017, and it is conceivable that more surprises could await in 2018,” S&P Global Ratings said in a report. “These potential sources of revenue may remain targets for budget drafters in the coming year.”

Sagging muni issuance runs counter to the broader trend, with the U.S. government expected to issue $1.3 trillion in Treasurys this year. In addition, corporate issuance is likely to be robust, thanks to the tax bill that lowered rates for companies from 35 percent to 21 percent. That also could make corporate debt preferable to muni and could be another factor in driving up the latter’s yields.

CNBC.com

by Jeff Cox

Published 3:08 PM ET Thu, 22 Feb 2018 Updated 3:47 PM ET Thu, 22 Feb 2018

Will Municipal Bond Issuance Fall Off a Cliff in 2018?

Will municipal bond issuance fall off a cliff in 2018? It’s a question that’s been on the minds of fixed income investors, municipal issuers, and analysts as they weigh the potential impact of tax reform and increasing interest rates on municipal borrowing.

With analysts’ projections ranging widely from a decline of 8% to a decline of 34% in new muni issuance1, most observers agree that issuance will slow, but there is little consensus on how significant that slow-down will be.

CUSIP Global Services has been monitoring demand for new municipal debt in the pre-trade market on a monthly basis since 2010 by tracking issuer requests for new security identifiers as an early indicator of forthcoming market activity.

Continue reading.

ValueWalk

Feb 21, 2018

[CUSIP: Municipal Volumes Trending Down Following Tax Reform.]

"We're still seeing fallout from the Tax Cuts & Jobs Act in our muni request volumes," said Gerard Faulkner, Director of Operations for CUSIP Global Services. "While lawmakers are currently reviewing a new bill that would restore the tax exemption for advance refunding bonds, for now, the marketplace is reacting to the tax reform by dramatically curtailing their pre-trade activity."

Read the Press Release.

Fitch Updates Airports Rating Criteria.

Link to Fitch Ratings' Report(s): Airports Rating Criteria

Fitch Ratings-New York-23 February 2018: Fitch Ratings has updated its "Airports Rating Criteria". The update only includes minor clarifications on the model section of the criteria. No rating changes are expected as a result of the updated criteria. The report replaces the version dated November 2017. It is available at www.fitchratings.com or by clicking on the link above.

Contact:

Seth Lehman
Senior Director
+1-212-908-0755
Fitch Ratings, Inc.
33 Whitehall St.
New York, NY 10004

Jeffrey Lack
Director
+1-312-368-3171

Shyamali Rajivan
Director
+ 44 203 530 1733

Bruno Pahl
Director
+ 55 11 4504 2204

Media Relations: Hannah James, New York, Tel: + 1 646 582 4947, Email: hannah.james@fitchratings.com

Additional information is available on www.fitchratings.com

Fitch Updates its Ports Rating Criteria.

Link to Fitch Ratings' Report(s): Ports Rating Criteria

Fitch Ratings-New York-23 February 2018: Fitch Ratings has updated its "Ports Rating Criteria".

The update only includes minor clarifications on the model section of the criteria. No rating changes are expected as a result of the updated criteria. The report replaces the version dated Oct. 2, 2017. It is available at www.fitchratings.com or by clicking on the link above.

Contact:

Emma W. Griffith
Director
+1-212-908-9124
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Stacey Mawson
Director
+1-212-908-0678

Danilo Quattromani
Senior Director
+39 02 879087 275

Shyamali Rajivan
Director
+44 203 520-1733

Glaucia Calp
Managing Director
+57 132 69 999

Media Relations: Hannah James, New York, Tel: + 1 646 582 4947, Email: hannah.james@fitchratings.com

Additional information is available on www.fitchratings.com

Fitch Updates Toll Roads, Bridges and Tunnels Rating Criteria.

Link to Fitch Ratings' Report(s): Toll Roads, Bridges and Tunnels Rating Criteria

Fitch Ratings-London/Milan/New York-22 February 2018: Fitch Ratings has updated its "Toll Roads, Bridges and Tunnels Rating Criteria".

The update only includes minor clarifications on the model section of the criteria. No rating changes are expected as a result of the updated criteria. The report replaces the version dated August 2017.

It is available at www.fitchratings.com or by clicking on the link above.

Contact:

Tanya Langman
Director
+1 212 908 0716
Fitch Ratings, Inc.
33 Whitehall St
New York, NY 10004

Danilo Quattromani
Senior Director
+39 02 879 087 275

Astra Castillo
Senior Director
+52 81 8399 9146

David Cook
Director
+61 2 8256 0363

Paolo Alessi
Director
+39 02 879 087 299

Media Relations: Athos Larkou, London, Tel: +44 203 530 1549, Email: athos.larkou@fitchratings.com
Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com

Additional information is available on www.fitchratings.com

Fitch: Credit Impact of Proposed Utility Sales Generally Limited.

Fitch Ratings-Austin-22 February 2018: Discussions concerning the sale of publicly owned utilities arise periodically in the utility sector, according to Fitch Ratings. There are a number of discussions currently occurring at the federal, state and municipal level. At present, there is no credit impact resulting from the sale discussions for any of these credits. In most cases, Fitch views the privatization of governmental utilities as credit neutral based on the expectation that existing debt obligations will be repaid in full or legally defeased as a condition of the sale. Furthermore, in Fitch's view these proposed transactions are not part of a growing trend but rather the result of specific objectives and priorities of the respective governmental owners.

Consideration of utility sales is often prompted by a specific circumstance such as quality of service issues, high electric rates or the need for cash by the governmental owner. However, few utility sales persist through to completion in the public sector. The reasons the proposals falter vary but it is a time consuming and often expensive process to unwind power purchase contracts and debt obligations. Potential transactions must consider the impact to ratepayers and are not compelling unless ratepayer benefit can be credibly anticipated. Finally, political approval from governing bodies or voter approval is typically required. Fitch views most discussions of asset sales as unlikely to result in a final divestiture of the utility.

Tennessee Valley Authority, TN and Bonneville Power Administration, OR

The 2019 Presidential Budget includes a proposal to sell federal transmission assets of the Tennessee Valley Authority (TVA; AAA/Stable) and Power Marketing Administrations (PMAs), including those of the Bonneville Power Administration (Bonneville; AA/Negative). The key credit consideration in the event of a partial sale of assets is the resulting revenue profile of the remaining assets in relation to a potentially lower leverage position, depending on the ultimate use of sale proceeds. The proposal to sell federal transmission assets has been included in budget proposals offered by prior administrations of both parties. Any final adoption of the proposal will require congressional approval.

If Congress does approve the divestiture of transmission assets only, Fitch believes there would likely be no credit impact to TVA based on the assumption that any remaining debt would continue to be repaid from revenues generated by the balance of assets and the implicit governmental guarantee supporting TVA's current 'AAA' rating. Fitch notes that in the case of a full divestiture of TVA assets, TVA's bond resolution requires either the full repayment or provision for the continued payment of principal and interest.

Similarly, in Bonneville's situation, the potential sale of Bonneville's transmission business line would be evaluated in the credit context of the power business line's ability to support remaining obligations. Since the transmission system has historically been 100% debt financed, the planned use of any sale proceeds would be a material consideration as to the ultimate leverage profile of the remaining utility. Fitch's timeline for reflecting credit implications will be dependent on affirmative legislative action or compelling legislative momentum towards acceptance of the proposal and details regarding final treatment of related debt.

The President's 2019 budget proposal also raised the idea of PMAs being permitted to charge market rates for their services. Bonneville's power supply contracts with 125 preference customers extend through 2028. Fitch believes the contracts would postpone any movement away from cost based rate methodology through the contract term, even if this proposal gained legislative support.

South Carolina Public Service Authority (Santee Cooper), SC

The decision in July 2017 by Santee Cooper (A+/Stable) and South Carolina Electric & Gas Co. (SCE&G; BBB-/Rating Watch Evolving) to abandon construction of the Summer Nuclear Units 2 and 3 ignited controversy across the state and has drawn intense political scrutiny. The Governor has called for the sale of Santee Cooper in a stated effort to eliminate costs to ratepayers related to the $4.3 billion Santee Cooper spent at Summer Units 2 and 3. Discussions regarding the sale of Santee Cooper are occurring against the backdrop of various legislative proposals that include placing Santee Cooper's rate setting under Public Service Commission oversight and not allowing new rates or charges to be imposed for the repayment of costs related to Summer Units 2 and 3.

At present, Fitch continues to view the potential sale of Santee Cooper as credit neutral to bondholders given our expectation that any privatization would require the repayment or legal defeasance of all outstanding debt obligations ($8.1 billion as of September 2017. It remains unclear whether or not the sale will gain the required state legislative approval and whether a willing buyer will propose a satisfactory proposal that will be accepted by the state. Separate and distinct from the sale of the utility, legislative changes that impact Santee Cooper's independent rate authority could weaken credit quality.

Discussion Regarding Sale of JEA, FL

JEA (AA/Stable) is a combined electric, water and wastewater and chilled water utility located in Jacksonville, FL. JEA and its owner, the City of Jacksonville, are proceeding through an evaluation process regarding the sale of the utility. The undertaking does not appear to be driven by concerns such as poor quality of service or the need for cash at the city, but was prompted by the premise that the recent scope and pace of change in the utility market warrants a fresh analysis regarding whether or not JEA should remain a governmentally owned utility. Fitch believes the exercise is in very preliminary stages but that any ultimate sale would involve the full retirement of its over $4 billion in outstanding debt obligations as of Sept. 30, 2017.

Pending Sale of Vero Beach, FL

Vero Beach, FL (A+/Stable) is in the process of selling the city's electric system to Florida Power & Light, which is expected to occur in 2018, nearly 18 months after both parties signed the original letter of intent, and will include the full retirement of Vero Beach's approximately $20 million in outstanding debt.

The sale arose from a strong degree of customer dissatisfaction with Vero Beach's above average electric rates over a number of years. One of the complexities in reaching an agreement was the settlement of Vero Beach's participation in multiple power supply projects at Florida Municipal Power Agency (FMPA) with project-specific secured debt. While the process to complete the sale is a lengthy one, the majority of the many steps necessary have already been achieved, including approval from FMPA's nearly 20 separate participant city commissions and the required transfer and assignment of Vero Beach's obligations under the various FMPA power sales contracts.

Contact:

Kathy Masterson
Senior Director
+1-512-215-3730
Fitch Ratings, Inc.
111 Congress Avenue, Suite 2010
Austin, TX 78701

Andrew DeStefano
Director
+1-212-908-0284

Dennis Pidherny
Managing Director
+1-212-908-0738

Media Relations: Hannah James, New York, Tel: + 1 646 582 4947, Email: hannah.james@fitchratings.com

Additional information is available on www.fitchratings.com

Bloomberg Brief Weekly Video - 2/22

Taylor Riggs, a contributor to Bloomberg Briefs, talks with editor Joe Mysak about this week's municipal market news.

Watch video.

Bloomberg

February 22nd, 2018, 2:38 PM PST

Florida City Ponders Privatizing 8th Largest U.S. Public Utility.

- **Jacksonville has eighth largest public utility in the U.S.**
- **Electric, water company said worth $7.5 billion to $11 billion**

A sizzling sellers' market for power companies could prove enough for Jacksonville, Florida, to put its prized community-owned utility on the auction block.

While elected officials in the city of 881,000 on Florida's northeastern seaboard are divided over whether to place the power, water and sewer utility, known as JEA, up for sale, market conditions may provide the kind of valuation that would make such a deal attractive, consultants hired to evaluate a sale said in a report to JEA's board earlier this month.

The utility could be worth between $7.5 billion and $11 billion before costs are calculated, Michael Mace, a managing director with Public Financial Management, told the city council Feb. 14. A sale to private investors could probably net the city about $2.9 billion to $6.4 billion after debt is retired, he said.

The question of privatizing JEA has vexed Jacksonville officials, mostly because the value of the utility never seemed enough to make it worth while. That's in part because JEA is a cash machine. It gave the city $117 million in the current fiscal year to help prop up Jacksonville's $1.27 billion budget.

Elected officials and community leaders are also concerned about losing local control over the rates the JEA — the eighth largest community-owned U.S. utility — charges its 458,000 electric, 341,000 water and 264,000 sewer customers.

'Old Math'

PFM in its report said federal corporate tax cuts, a rising equity market and low interest rates are contributing to a sellers' market right now. Consolidation in the industry — driven by a weak growth outlook that is forcing companies to merge if they want to boost earnings — led to $68.2 billion of acquisitions in 2017, the most in a decade, according to data compiled by Bloomberg.

These changing conditions "justify a new look at the old math that had always favored municipal ownership," PFM said in its report.

A sale of JEA would be one of the largest and most complex municipal privatization in the U.S., PFM said in the report. JEA has more than $4 billion in municipal debt outstanding. And a sale deal could take years to complete and would face regulatory hurdles, PFM said.

"JEA is a huge entity that is both an electric utility and a water, sewer utility and they also have some telecommunications infrastructure," said Ted Kury, a professor at the University of Florida and a researcher in public utilities. "It's highly unlikely that any potential purchaser would want to buy JEA consolidated," suggesting the only way to sell the utility would be to split it up among at least two, possibly more buyers.

Jacksonville isn't alone in looking to privatize municipal utilities. Florida power giant NextEra Energy Inc. reportedly is interested in buying the troubled state-owned utility Santee Cooper from South Carolina. And President Donald Trump proposed in his budget to sell off transmission line assets now owned by government-run utilities Tennessee Valley Authority and Bonneville Power Administration.

Bloomberg

By Danielle Moran

February 21, 2018, 6:14 AM PST

Welcome to San Francisco. Would You Like to Make a Deposit?

A groundswell of interest in public banking has advocates pondering how city-owned banks could transform the way municipalities collect and spend their money.

It's no surprise that Malia Cohen worries about what local public dollars are doing. As a member of the San Francisco Board of Supervisors, the municipal legislative body, it's her job to know how, where and why the city's money is coming in and going out. But recently, Cohen has joined a growing number of public officials around the country who are wondering what happens in between — what happens when the money in the city coffers goes to sleep at night.

In fiscal year 2017, the city of San Francisco took in an average of $508 million a month in revenues and put out $467 million a month in expenses. But in between, the banks that handle all that cash sometimes used public dollars in ways that, in the opinions of Cohen and others, contradict the reasons why that money is coming and going in the first place.

"The existing banking and financial structures we're operating in don't always mirror our city's values," Cohen says. "For example, we had many people opposing the Dakota Access Pipeline. Many of the banks we bank with support the funding of this pipeline."

Continue reading.

Next City

by Oscar Perry Abello

Feb 19, 2018

Assessing Your Innovation District: Five Key Questions to Explore.

Over the past two decades, a confluence of changing market demands and demographic preferences have led to a revaluation of urban places—and a corresponding shift in the geography of innovation. This trend has resulted in a clustering of firms, intermediaries, and workers—often near universities, medical centers, or other anchors—in dense innovation districts. Local economic development leaders are now exploring ways to support this evolution as a means of fostering job creation, economic opportunity, and revitalization in their communities.

In "Assessing your innovation district: A how to guide," we provide guidance for how public, private, and institutional leaders stakeholders can undertake the first key step in that process: assessing their innovation ecosystem. Such an "audit" provides critical intelligence on an area's strengths, weaknesses, and opportunities, which can inform a unified vision, a clear set of goals, and customized strategies for reaching them.

Developed with our colleagues at Brookings, Project for Public Spaces, and Mass Economics, and road tested through on-the-ground work in Philadelphia, Pittsburgh, and Oklahoma City, the guide lays out a framework to help leaders identify an area or areas in their region with strong potential for innovative growth and development and/or evaluate an area already recognized as an emerging innovation district. The guide is centered around five big questions local "auditors" need to explore:

1) Where are your region's highest concentrations of innovation assets?
Companies today need to be able to interact with researchers, inventors, and entrepreneurs, as well as with other firms, to define new products and identify new markets. Density and proximity are paramount in facilitating this type of interaction. Local leaders therefore need to look across their urban landscape to determine what area or areas have a critical mass of well-connected innovation assets from which a district can grow and develop.

2) Is the district leveraging and aligning its distinctive advantages to grow and strengthen firms' innovation capacity?
Successful innovation districts have the collective ability to translate ideas into new products and services that improve the quality of life in their city and region, and, potentially, have a positive impact on people and places across the globe. This can take many forms and originate from several types of institutions—from research hospitals to engineering schools to technology startups, among others. To assess a district's innovation capacity, local leaders need to understand their innovation ecosystem's inputs (e.g. research strengths), outputs (e.g. start up activity), and levels of connectivity among actors and assets.

3) Does the district have an inclusive, diverse, and opportunity-rich environment?
A healthy innovation district comprises a diversity of people and provides economic opportunity for workers with a range of skills and education levels. And many emerging districts are within or adjacent to areas of economic distress, offering the opportunity to meaningfully engage nearby residents in district growth. But this won't happen by accident: Leaders must assess existing measures of diversity and inclusion and develop intentional strategies to ensure that all residents have a chance to benefit from, and are an integral part of, district development.

4) Does the district have physical and social assets that attract a diversity of firms and people, increase interactions, and accelerate innovation outcomes?
Dense, walkable, and highly connected areas help nurture the increasingly collaborative and open culture of innovation. These places include the kinds of spaces, in both the public and private realms, that bring a diversity of firms, institutions, and workers together in both formal and informal ways; that grow and strengthen social networks; and that offer the kind of vibrant environments where people want to spend time. In short, stakeholders should recognize (and thus evaluate) quality of place—connectivity, proximity, and the presence of dynamic, inclusive spaces—as central to a district's economic proposition.

5) Does the district have the leadership necessary to succeed?
Regardless of their economic, physical, or human capital strengths, burgeoning innovation districts will not reach their full potential without capable leadership. District leaders can play a variety of roles in fostering a new culture of collaboration and collective impact, whether by serving as champions of a district vision, conveners that mobilize stakeholders to engage, or catalysts of action. While leadership structures will vary, districts can't succeed unless leaders of key organizations—anchor research institutions, nonprofits, intermediaries, and/or private firms—make a shared, sustained commitment to drive change.

While the starting points for different districts will vary, knowing the right questions—and tailoring them to the local context and capacities—will help district leaders conduct an analysis most appropriate for their individual needs. Indeed, no two places will use this guide the same way, and we expect that the process itself will evolve over time to consider new measures, and be undertaken in novel and innovative ways by new groups of stakeholders working within districts and across them. As they do, communities will hopefully learn from each other in a virtuous feedback loop that gets sharper and more effective at every turn.

The Brookings Institute

by Jason Hachadorian and Jennifer S. Vey

February 21, 2018

Will Chicago's "AAA-Rating" on Its Sales Tax Securitization Corp. Hold During Bankruptcy?

The City of Chicago's new debt transaction, secured by sales-tax revenues, emerges as the epitome of financial engineering and ingenuity of a bond transaction structuring.

The city, with its own financial challenges and mounting pension obligation, is going to be selling debt instruments under a newly created company secured by a first lien position pledge on the city's sales-tax revenues; these debt instruments are being labeled as secure as U.S. Treasuries with a AAA credit rating. In the municipal debt markets, every local government strives to earn the best possible rating on their debt issuance to bring the cost as low as possible, as high ratings directly correlate to positive outlook and low coupons for the debt instruments.

In this article, we will take a closer look at the debt structuring of Chicago's Sales-tax debt, the rating criteria and the potential impacts during a financial downturn.

Obtaining "AAA-rating" With Relatively Low General Obligation Ratings

A low general obligation rating can substantially restrict a municipality's access to capital markets or make it substantially more expensive to issue debt. In the City of Chicago's case, their general obligation debt ratings vary from strong investment-grade to junk status, which has essentially restricted their access to capital through debt financing.

Recently, with the help of well-known investment banks, Chicago has ventured into issuing revenue-backed debt by creating a new corporation and using it to issue new bonds while assuring investors have first claim on the city's sales tax revenues. This transaction has already earned an AAA-rating by a couple of the rating agencies and a positive outlook on the city's sales tax revenue streams.

However, this presents its own dilemmas in the event of financial insolvency of the municipality; as in, whether the debt holders will continue to get their coupon payments or, if instead, the city will be required to meet its other obligations to its pensioners, local government employees and funding critical city-wide programs.

The Case of Sales Tax Revenue Pledged Debt for Puerto Rico

For many investors, Chicago's sales tax backed debt seems very relatable to Puerto Rico's COFINA debt, which was backed by the first pledge on the sales tax revenue streams. Throughout the financial restructuring of Puerto Rican debt, there has been the emergence of two primary disputes between GO and revenue-backed debt.

Many investors assume, rightfully so, that revenue-backed debt is a relatively safer investment option and consider its position to be higher than general obligation debt due to the specific revenue streams that are typically collateralized to make payment on these bonds. However, this assumption can be severely challenged in the event of local government insolvency or restructuring efforts. This conundrum has caused quite a stir among Puerto Rico's GO and COFINA debt holders. GO bondholders and their legal representatives have brought forward lawsuits claiming that their debt obligations must be met by the island's government before COFINAs are paid, irrespective of any revenue pledges, liens or secured debt. Several references and interpretations have been made toward the GO debt structures, and the island's Constitution states that GO debt must be paid before other expenses. The legal teams in favor of GO bonds have argued that the COFINA structure is invalid and violates the island's Constitution because Puerto Rico cannot continue to pay its sales tax bonds while skipping GO payments, especially when GO debt structure entails a claim on any "available resources" of the Commonwealth, including sales tax revenues.

On the other hand, COFINA debt holders have filed their own lawsuits claiming that their debt indentures allow them to have the first claim on any revenues generated through sales tax, and that these revenues are not part of the general revenue to pay GO debt obligations prior to revenue debt. In addition, they have also claimed the invalidity of GO debt, since any GO debt issued after 2011 has been over the Constitutional limit and, according to the lawsuit, should be rendered invalid. COFINA holders also say that since the sales tax revenue is specifically pledged for payment of revenue-backed debt, it doesn't constitute "available resources" and cannot be mingled into the general fund.

As if this feud wasn't enough to keep investors occupied, there have been internal legal disputes between senior and subordinate COFINA debt holders. As in many local U.S. governments, revenue debt is typically issued depending on the timing and the capital needs of the municipality and can often be structured with senior and subordinate lien positions on the pledged revenues. As the sales tax revenues are also on a decline for the Commonwealth, COFINA holders are scrambling to get clarity on their positioning to claim those sales tax revenues. In obvious terms, senior debt holders claim that their debt service obligations must be met before any junior or subordinate lien positions are paid; senior lien holders would like this to be true for both semi-annual debt payments (such as interest and principal payments) or full payment on senior holdings prior to subordinate debt in the event of bankruptcy. Subordinate debt holders disagree with these terms and would like to have a claim on the sales tax revenues equal to that of the senior debt holders.

Investors and the municipal markets have shown similar concerns on the AAA-rating for the City of Chicago's revenue-backed debt and the validity of these ratings during a financial distress similar to Puerto Rico.

municipalbonds.com

by Jayden Sangha

Feb 22, 2018

[In New Jersey, New York, Tax Overhaul May Be Lifting Muni Bonds.]

- **Analysts expected demand in high-tax states would increase**
- **New Jersey, New York yields have narrowed against benchmark**

Some municipal-bond analysts expected the new $10,000 limit on state and local deductions would increase demand for debt issued by high-tax states as wealthy residents look for ways to reduce their federal tax bills.

The prices of New York and New Jersey bonds seem to be bearing out that call.

The yields on 10-year bonds issued by the two states have drawn closer to top-rated bonds since the federal tax-overhaul legislation was released in early November, according to data compiled by Bloomberg. New York's yields — which were as much as 0.19 percentage point above the benchmark in early November — have since dropped to about 0.06 percentage point below it. For New Jersey, that gap has slipped to about 0.66 percentage point from more than a percent point in November.

That stands in contrast to Florida and Texas, two relatively low-tax states whose bonds have been little changed against the benchmark since the tax changes were enacted.

The limit on state and local tax deductions will fall heavily on residents of states where many pay more than $10,000 a year in property and income taxes. Analysts speculated that the change could boost interest in municipal bonds, whose income is tax-exempt, as a possible way to cut their federal tax bills.

Not all the higher-tax states are seeing a bond-market impact. California's yields, which have been steadily declining against the benchmark for years because of the government's improving finances, have been little changed. And in Connecticut, where Governor Dannel Malloy has been contending with chronic deficits, demand hasn't been enough to turn the tide: Investors are demanding even higher payouts to compensate for that risk.

Bloomberg Markets

By Amanda Albright

February 26, 2018, 9:43 AM PST

[Many Scratching Their Heads Over White House Infrastructure Plan.]

An ambitious White House infrastructure plan released Feb. 12 that depends on private investors and state and local governments to finance as much as $1.3 trillion in projects is leaving out a lot of details, including whether the money and attractive projects are there, potential partners and industry experts say.

A core tenet of the plan is transferring decision-making authority to state and local governments, along with streamlining the permitting process and reducing regulatory barriers. The federal government would put in $200 billion to stimulate that $1.3 trillion, with $100 billion of that going to a new incentives grant program for state and local government projects that attract additional investment, including credit for some past projects if they generate revenue.

Another $20 billion would go toward expanding infrastructure financing programs, with $14 billion for existing credit programs, and $6 billion to expand tax-exempt private activity bonds. Another $50 billion would go to block grants to governors for rural projects, which experts say are now overlooked. Another $20 billion would be for what the White House calls “transformative” projects highlighting next generation approaches as opposed to rebuilding current systems. The remaining $10 billion would be for a “capital financing fund.”

According to the American Society of Civil Engineers, the United States needs to invest $4.6 trillion in infrastructure through 2025 – but only $2.5 trillion in funding identified is available. The ASCE puts the infrastructure investment deficit at $2 trillion over 10 years.

Still, infrastructure investing is growing in the U.S., with $418 billion in private capital assets under management for infrastructure funds, including $65 billion raised for infrastructure funds that closed in 2017, according to data from Preqin.

Ball in states’ court

The major shift away from Washington had board members of the $356.6 billion California Public Employees’ Retirement System, Sacramento, meeting right after the announcement, wondering if states would have the money to match the federal dollars. “When you look at the state and local jurisdictions fiscally, there’s a lot of question marks about whether they can afford to participate in this without raising a whole bunch of charges,” CalPERS portfolio manager and head economist John Rothfield told the board. “There’s been such a build-up in federal debt that the situation here seems to be to pass some of this on to state and local municipal-level debt funding or raising revenue.”

Andrew Marino, Washington, managing director and co-head of Carlyle Group LP’s $750 million global infrastructure fund, is much more optimistic. Providing incentives for state and local governments “is absolutely the best thing for this market,” he said. “What makes our country different than other countries is that the U.S. infrastructure market is fundamentally a local market. And each of these jurisdictions have their own stakeholders to manage and their own process to follow. Those dynamics are incredibly important … to balance the needs of the investors and the stakeholders.

“That means that more deals are going to get done. It means our market is going to get more efficient. It’s going to force investors in infrastructure to be local,” he said, adding, “we are not daunted by local politics.” Carlyle has a long history managing union pension funds, and “we also see creating jobs and protecting taxpayers as integral components of any project,” he said.

Carlyle, which has a large presence in local and state infrastructure markets, is “happy footing the bill (for the project) ourselves,” said Mr. Marino, who foresees state and local governments adopting more of an Australian model that lets local officials step in if agreements are violated. “Out of financial necessity, state and local governments are becoming more innovative and very entrepreneurial,” including airport terminal projects and broadband systems.

Increased demand

“The Trump proposal will increase the demand side. I’d say the investor side is already there,” said Michael Likosky, principal and head of infrastructure at 32 Advisors in New York, whose firm advises on the origination, structure and close of funds. He has seen U.S. investors traditionally in real estate becoming increasingly interested in infrastructure over the last 15 years in terms of the risk/return profile.

“It’s a perfect asset class for institutional investors, who have been doing it for 20 years internationally. What they’re doing is stuff that has worked in other places. It’s a basic formula. It’s just a matter of people seeing that opportunity,” particularly in small markets and particularly overlooked rural areas, said Mr. Likosky. The learning curve for institutional investors, he said, will be monitoring their third-party fund managers. Private-sector pension funds “aren’t allocating as much as they could” because they have been waiting for third-party managers to find the deals in a “Balkanized” market with countless states and counties for investors to figure out.

For the states, a key to making Mr. Trump’s infrastructure plan work is expanding the use of tax-exempt debt, said Vermont Treasurer Beth Pearce, who is also president of the National Association of State Treasurers. She notes that state and local governments finance more than 75% of all U.S. infrastructure projects, and while state and local governments appreciate the emphasis on partnering with them, it’s up to Congress to support tax-exempt financing, including maximizing the use of tax-exempt municipal bonds and private activity bonds, and reinstating access to tax-exempt advance refunding bonds, which were eliminated in the 2017 tax law.

Even coming up with that $200 billion in federal funds will be a challenge, following an expensive tax reform plan that adds $1 trillion or more to the federal deficit over the next decade. The $200 billion for infrastructure would have to be offset by cuts to other programs such as mass transit, which would face stiff resistance in Congress. The fight over infrastructure financing has not even begun and the administration’s proposalis far from the bipartisan solution that affected parties say is necessary.

Add in the midterm elections this fall, and the clock may run out on the proposal, said William Galston, Brookings Institution senior fellow, Washington. “Getting private capital involved makes a lot of sense in principle, (but) the idea that states and local governments are going to be able to come up with that much money strikes me and a lot of other people as a stretch.”

Who pays for it?

Another question is whether Americans will pay to use public assets, a necessary part of making the deals attractive to investors who would need to earn a return on their investments and eligible for the proposed federal incentives. “The problem for U.S infrastructure has never been a shortage of private capital, but rather how it is paid for,” wrote analysts at S&P Global Inc. in New York, in a research note published Feb. 14.

Even if the White House plan, including the role for private capital, is rejected, they see “an inevitable need for Americans to accept paying more to use the nation’s infrastructure. At its very essence, the plan forces into the political debate a conversation about who will support new infrastructure because massive federal funding is no longer on the table. And if the gap cannot be bridged by local and state governments alone or through additional direct federal spending or programs, the private sector will inevitably have to be involved in the solution.”

Mr. Marino of Carlyle believes that federally funded infrastructure projects may follow, but will be more complicated. He sees “the first big wave of transactions” inspired by a shift away from Washington that will pave the way, helping bankers and other intermediaries get more knowledgeable and comfortable, which in turn can lower the costs of infrastructure capital, he said.

“We think that the market right now supports a different type of deal because it requires more expertise to make things happen,” he said. For both the potential financial and societal benefits, “it is really exciting.”

PENSIONS & INVESTMENTS

BY HAZEL BRADFORD · FEBRUARY 19, 2018

Trump Public-Works Plan Gets Nudge From $2 Trillion Pension Pool.

- **Pension industry Down Under says it can help unlock funds**
- **Turnbull leads 22-strong business delegation to Washington**

Australian Ambassador to the U.S. Joe Hockey discusses investing in U.S. infrastructure. President Donald Trump’s pledge to fix America’s ailing roads, bridges and airports may get an unlikely boost from retirement savers some 10,000 miles away in Australia.

In face-to-face talks at the White House this week, Prime Minister Malcolm Turnbull will propose using a chunk of Australia’s A$2.53 trillion ($1.99 trillion) pension savings pool to help unlock funding for Trump’s infrastructure push. He’s being joined on the trip by local money managers who help control the world’s fourth-largest pot of retirement savings.

“There’s a very bold ambition to drive U.S. infrastructure and Australia should be front and center in terms of project design, build, financing and management,” Trade Minister Steven Ciobo said in an interview ahead of the visit.

Trump’s $1.5 trillion public-works plan has hit potholes amid a lack of bipartisan support in Congress and questions over who would pay for the initiative despite his pledge of $200 billion in federal funding over 10 years. Australian officials have pointed to their own success in selling or leasing public assets to finance new construction without incurring new debt — a concept known as asset recycling.

Joe Hockey, now Australia’s ambassador to the U.S., was a key champion of the initiative when he was federal Treasurer and has been pivotal in promoting it in Washington.

“There’s no doubt when it comes to infrastructure and better rollout of infrastructure, Australia has some examples that may be of use to the United States,” Hockey said Wednesday. Australia could help deploy “private money in partnership with state, county and city governments to give the infrastructure America desperately needs just to maintain its current economic growth, not to fall backwards,” he said.

Fund managers in Turnbull’s delegation of 22 business leaders will continue the push at the National Governors Association meeting this weekend.

“The key blockage in the U.S., which is also common across the world, is the political risk due to community concern over private ownership of what people perceive should be public assets,” said David Whiteley, chief executive of Industry Super Australia — the representative body for not-fo--profit funds that invest the retirement savings of 5 million Australians with more than A$224 billion under management.

Assets in Australia's compulsory pension savings system, known as superannuation, have increased nearly ten-fold in the past two decades. Assets aren't expected to peak for another 20 years, with estimates of the system's ultimate size ranging from A$3.5 trillion to A$5.1 trillion.

"Few Australians —- and even fewer Americans —- know Australia has grown a titanic stock of capital in its superannuation funds," the University of Sydney's United States Studies Centre said in a report released on Thursday. "Massive amounts of this colossal investment pool" is already invested in the U.S., helping "grow American firms, build and repair U.S. infrastructure."

Brett Himbury, chief executive officer of Melbourne-based IFM Investors Pty, canvassed potential cross-border infrastructure deals with Vice President Mike Pence last year and joins Turnbull on this trip.

"The administration needs $1 trillion and it's unlikely that can all be supplied from the public purse," Himbury said. "So there is a growing realization that private capital is needed."

IFM, which has A$101 billion of assets under management, invests money on behalf of entities from 16 countries including seven of the top 10 U.S. pension funds, according to Himbury.

"Part of our pitch is that this is worker's money from many different countries being used to build infrastructure in the U.S. and helping to create jobs for U.S. workers," Himbury said. "And we think that is a pretty compelling proposition."

Still, some U.S. states and municipalities remain wary of private ownership, even if assets are bought by not-for-profit retirement funds. Ten years ago, Chicago's move to lease its parking meters for 75 years cost the city $974 million in lost revenue and angered voters who were left paying higher fees.

"The U.S. is obviously free market, but many of the states still have quite socialist attitudes towards ownership of some infrastructure assets," said Jim Miller, chairman of Infrastructure Victoria in Australia's second-largest state. "Many states are pretty unlikely to change their attitudes to private ownership."

Bloomberg Politics

by Jason Scott and Brett Foley

February 21, 2018, 3:00 AM PST Updated on February 21, 2018, 5:13 PM PST

— With assistance by Emily Cadman, and Mark Niquette

White House Unveils Infrastructure Plan: Funding Questions Remain.

The American Infrastructure Initiative (infrastructure plan) released by the White House last week aims to stimulate more than $1.5 trillion in new investment over the next decade, shorten the process for approving projects, and address unmet rural infrastructure needs. But the plan offers little insight into how the government will come up with the initial $200 billion in federal funding, particularly in light of the president's proposed budget for 2019, which cuts spending on existing infrastructure programs.

The 53-page plan, released on February 12—expands on President Trump's initial infrastructure vision released early last year and calls upon Congress to move quickly to enact a law that will enable builders to construct new, modern, and efficient infrastructure across the country.

The plan is divided into four main parts: (1) funding and financing infrastructure improvements; (2) additional provisions for infrastructure improvements; (3) infrastructure permitting improvement; and (4) workforce development.

Infrastructure Incentives Program. The plan outlines various funding and financing mechanisms for infrastructure improvements, including establishment of a $100 billion infrastructure incentives program to encourage increased state, local, and private investment in infrastructure. Incentives include targeted federal investments in the form of grants to states and municipalities that would maximize investment in infrastructure, leverage federal investment, ensure long-term performance of capital infrastructure investment, modernize project delivery practices, increase economic growth, and attract new, non-federal revenue streams. Federal funds would be divided in specific amounts to be administered by the U.S. Department of Transportation, U.S. Army Corps of Engineers, and the U.S. Environmental Protection Agency. Eligible projects include surface and air transportation, passenger rail, ports and waterways, flood control, water supply and resources, hydropower, drinking water and wastewater facilities, storm water facilities, and brownfield and Superfund sites. Each lead federal agency would solicit applications upon enactment of the incentives program and every six months thereafter.

Rural Infrastructure Program. The plan would establish a $50 billion rural infrastructure program aimed at enhancing regional connectivity through public and private interregional and interstate rural projects that reduce costs for sustaining safe, quality rural communities and increase economic growth and competitiveness in rural areas by closing the gaps in local infrastructure. The legislation would create a "rural formula," calculated based on rural lane miles and population-adjusted to reflect policy objectives. The rural infrastructure program also would dedicate a portion of the funding to tribal and U.S. territory infrastructure.

Other Programs. Additional programs under the funding and financing section of the plan include a $20 billion transformative projects program aimed at significantly improving availability, safety, reliability, frequency, and service speed while reducing user costs and introducing new types of services. It also dedicates $20 billion to expanding existing credit programs like those under the Transportation Infrastructure Finance and Innovation Act (TIFIA), Water Infrastructure Finance and Innovation Act (WIFIA), and Railroad Rehabilitation & Improvement Financing (RRIF), and to the expansion of private activity bonds. In addition, it would create a federal revolving capital financing fund, as well as various public land and federal real property asset disposal programs.

Streamlining of Permitting. The infrastructure plan also includes provisions for streamlining and facilitating various authorization and approval processes, and expanding some financing mechanisms. The plan would increase flexibility and reduce barriers for certain state-run infrastructure and project delivery for highways, rail, airport, and water systems. It also would expand funding eligibility and projects for land revitalization for brownfield/Superfund reform, including creation of a Superfund revolving loan fund and grant program.

Worth noting is the mandate to eliminate constraints on the use of public-private and public-public partnerships in transit projects. The National Environmental Policy Act (NEPA) approval process would be streamlined and a "One Agency, One Decision" environmental review structure would be established. Inefficiencies and redundancies in environmental reviews would be reduced further by allowing in some cases for the acquisition and preservation of rail rights-of-way before the completion of the NEPA review process and by delegating some review and permitting decisions to states.

Workforce Development. The fourth and final focus of the plan includes the implementation of policies that will help Americans secure stable, well-paying jobs by expanding access to education and development programs, expanding grant programs, reforming career and technical education, and revamping the Federal Work-Study program.

While the infrastructure plan does expand on President Trump's focus on infrastructure investment, it does not outline any sources for the initial $200 billion in federal funding. The President's proposed budget for the 2019 fiscal year incorporates as much as $275 billion in cuts to existing infrastructure programs, including cuts to Transportation Investment Generating Economic Recovery (TIGER) grants. The plan also does not address the underfunding of the Highway Trust Fund or a potential increase in motor fuel taxes. Additionally, there is no timeline for when Congress expects to address the plan and it remains to be seen how the plan will be received by lawmakers on both sides of the aisle.

Attorneys in Ballard Spahr's Public Finance Group have extensive experience with the rules and regulations set by the IRS and U.S. Treasury. Working closely with attorneys in Ballard Spahr's P3/Infrastructure Group, they routinely monitor and report on new developments that impact federal and state infrastructure programs.

by the Public Finance Group

Feb 20, 2018

Ballard Spahr LLP

Issuer Brief: Trump's Infrastructure Plan Does Very Little to Help the Municipal Industry

The Infrastructure 'Plan' Needs Some Constructive Criticism

The Trump Administration's preliminary plan to support additional infrastructure financing, is purportedly in the form of $200 billion in Federal funding that, along with state, local and private sector resources, would supposedly trigger a total of $1.5 trillion in new infrastructure spending over the next 10 years.

Frankly, we remain highly doubtful that any significant incremental project funding will be triggered by this proposal, which requires considerable new private sector investments, and assumes that state and local governments will enthusiastically seek out subsidies paid at a meager rate of 20 cents in Federal moneys for 80 cents in state or local moneys. Historically, Federal subsidies of state and local programs have provided as much as 80% of total costs of projects, as opposed to the proposed 20% level. We anticipate that the ultimate form of any successful new law will diverge quite dramatically from the initial 53-page proposal.

The plan is structured around four main pillars:

1. Generate $1.5 trillion for an infrastructure proposal, including $100 billion through an incentives program that supports governmental infrastructure. It would also focus on regulations reform to streamline the permitting process for new project down to two years.
2. Invest in rural infrastructure projects and advance workforce training. Half of the federal seed money ($200 billion) would go toward an incentives program to match financing from state and local governments, while a quarter of the appropriations would be used for rural projects in the form of block grants to states so governors may decide where to invest.
3. $20 billion is for "transformative programs" meant for new projects rather than rehabilitation of old infrastructure, while another $20 billion is meant to expand the use of loans and private activity bonds, a common tool used to fund infrastructure projects.
4. The last $10 billion would go into a "capital financing fund," which would fund the construction of federal office buildings and similar infrastructure for actual government use.

Our bottom line at this point is that the proposal 1) doesn't really add ANY new moneys to current Federal spending on infrastructure and 2) reduces the amount of aggregate funding that state and local governments have available. A number of infrastructure experts have already put out analyses and releases that are sharply critical of the proposal, and we expect more to come. While the proposal and budget anticipate more use of private activity bonds, they are offset by deep cuts to existing funding for state and local governments.

The proposal is complex (even the outline is more than 50 pages long). While some commentators have expressed a desire for the President to have called for more spending, the proposal appears to seek a balance between providing capital and encouraging the participation of additional resources to create a sustainable financing mix that will not require permanent budgetary support from the Federal government. Translating the proposal into legislation and getting it through Congress will not be easy, and with mid-term elections looming in the Fall, time is of the essence. That said, we are hoping that the proposal will incorporate much of the criticism before being resurrected in a more effective form. Hoping, but far from confident: any proposal that incorporates actual significant net spending to help support infrastructure in an effective fashion will run into massive resistance from fiscal conservatives who have been reborn since the tax bill was passed, and in the face of $1 trillion dollar or more annual deficits.

Ride-Hailing Fees Popping Up in Chicago, Philadelphia and Others

As Uber and Lyft and other ride-hailing services grow more and more ubiquitous, municipalities are moving to tax these services to fund the existing mass transit facilities against which these services compete. Some examples include Chicago, where a 15-cent fee on Uber, Lyft and other ride-hailing services is helping to pay for track, signal and electrical upgrades to make the city's trains run faster and smoother. In Philadelphia, a 1.4% tax expected to raise $2.6 million this year for the city's public schools that will also generate more than a million dollars for enforcement and regulation of the ride-hailing industry itself.

South Carolina has adopted a 1% ride-hailing fee has yielded more than a million dollars for municipalities and counties to spend as they choose. Massachusetts collects 20 cents for every ride-hailing trip this month, earmarking the revenue to improve roads and bridges, fill a state transportation fund and even help the taxi industry adapt with new technologies and job training. New York State approved a 4% assessment on ride-hailing trips that begin outside New York City (rides in the city are already subject to state and local taxes). It is expected to raise $24 million a year for the state's general fund.

In Oregon, Portland sought to create a single standard for taxis and ride-hailing cars and assessed a 50-cent ride fee on both of them, which is paid by passengers. The 50-cent fee has added up to more than $8 million to help pay for city enforcement efforts, including spot inspections of cars and incentives to companies and drivers to choose wheelchair accessible cars.

Predictably, the ride-hailing industry feels it is being singled out. It views its service as complementary rather than competitive with taxis and mass transit. We beg to differ. Ride hailing has its place but its continued implementation of a business model that resists regulation as one of its basic tenets should not be surprised to find itself in the position of being targeted for its tax revenue generating potential. Another aspects that the public transit system benefits everyone who lives and works in the city regardless of whether they're using it.

Chicago estimates that ride-hailing companies have cost the city about $40 million a year in lost revenue from transit fares, parking fees, licenses and permits. A newly imposed 15-cent fee was the first of its kind to raise money solely for public transit from those who might not even use it because they could afford the ride-hailing cars. It is projected to bring in $16 million this year, which will be turned over to the Chicago Transit Authority. The money will be used to secure additional funding through bond sales to pay for a total of $179 million in capital improvement.

As these companies continue to grow, states and localities will need to keep up revenues and can look to these examples as a creative way to fund infrastructure.

Neighborly

Posted 02/22/2018 by George Friedlander

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

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.*

[What It Would Actually Take to Fund Infrastructure.]

Commentators have broadly agreed Trump's infrastructure proposal is not nearly enough. Here's a blueprint for how to do better.

The coverage of President Donald Trump's recent infrastructure plan has harped on one point: there's not enough funding. The plan, touted as a $1.5 trillion infrastructure stimulus, in actuality only dedicates $200 billion in federal funds over the next ten years for what Trump envisions as "gleaming new roads, bridges, highways, railways, and waterways across our land". For the rest, it relies on state, local, and private investment. The American Society of Civil Engineers gave American infrastructure a D+ rating on its 2017 Infrastructure Report Card and estimates that it will take $4.6 trillion over ten years to get American infrastructure where it needs to be. While this number may be somewhat exaggerated, it's clear that $200 billion and a shrug to state and local governments is not nearly enough to get the job done. The plan needs to be tweaked.

While critical of the plan, few commentators have proposed solutions to make American infrastructure work. The plan is in need of more dedicated federal dollars, and states and cities need to raise lots of money for their own part, but where will this money come from?

To raise the revenue necessary for a real infrastructure overhaul, the United States needs to think big and small. While the national government needs to take radical measures to raise big chunks of money for infrastructure, state and local governments must take a number of smaller actions that together will chip away at the funding gap.

Continue reading.

CITY LAB

STEPHEN GOLDSMITH FEB 21, 2018

[Big Banks Got Huge Tax Cuts, Then Hiked Cities' Interest Rates.]

- **Tax cut triggers loan provisions that protect banks' returns**
- **Muni bank-loan market may be as much as $180 billion**

As U.S. banks were tallying up the billions of dollars in extra profits they'll reap from the sweeping tax cuts signed into law by President Donald Trump, they were quietly delivering unwelcome news to local governments: The interest rates on their loans were about to go up.

That's because banks often include clauses in contracts when they lend to states and cities giving them the right to trigger the increases if legal changes lower the returns on their investments.

The tax cut did just that. Slashing the corporate rate made the tax-exempt loans less valuable than before compared with other assets, once federal taxes are taken into account. So companies including Wells Fargo & Co., U.S. Bancorp and SunTrust Banks Inc. demanded more interest to make them whole.

The impact is being felt across the country by governments and non-profits that borrowed through loans, a loosely regulated niche of public finance that took off after the end of the last recession. Municipal Market Analytics estimates that there are about $180 billion of such loans outstanding. That could translate into tens of millions of dollars in extra costs each year for local agencies that Trump is pushing to boost spending on roads, airports and other projects.

“It takes away from money that would help the state’s reserve, or it takes away from money the state may appropriate for other statewide public purposes,” said David Erdman, the capital finance director for Wisconsin, whose payments on a $279 million loan will jump by about $750,000 next year. He declined to name the lender.

Direct lending proliferated in the $3.8 trillion municipal market because states, local governments and non-profits can borrow at rates comparable to those on bonds, without the fees or disclosure requirements associated with securities sales. They also offered a way for borrowers to refinance floating-rate bond deals that unraveled after the 2008 credit crisis.

Because loans aren’t classified as securities, states and cities aren’t immediately required to disclose them, making it impossible to know how many borrowers might be subject to rate increases. Banks may also decide to waive the provision to preserve other business with municipalities, like investment work, and governments may opt to refinance, though interest rates in the bond market have been on the rise.

But several banks have been alerting borrowers that their interest rates are going to increase. Tennessee, the Metropolitan Atlanta Rapid Transit Authority, and Portland, Oregon, are among those whose payments are set to rise, according to public officials.

“We’ve heard underwriters are dealing with it in different ways,” said Emily Brock, federal liaison for the Government Finance Officers Association, which represents local government officials. “One things for sure, not all issuers understand clearly how that gross-up provision is going to impact them.”

Gross-up, or rate-hike provisions, are common for loans that are pegged to the London Interbank Offered Rate. A standard formula calls for multiplying the interest rate by 1.22 if corporate tax rates decline to 21 percent. For bonds bearing a fixed rate with a 5 percent coupon, the increase would be more than a full percentage point.

Tennessee will pay an extra $300,000 a year on a $70 million credit line with Wells Fargo and U.S. Bancorp, said Sandra Thompson, director of the state comptroller’s Office of State and Local Finance. The increase is significant “considering it wasn’t a cost that we incurred before Jan. 1 of this year,” she said.

Wells Fargo has informed its clients the rate increase is automatic, but borrowers can try to negotiate new terms, said Adam Joseph, the head of Public Finance Capital Strategies at the San Francisco-based bank. He said the increases haven’t come as a surprise.

“The existence of the factor was very much known to the client at the time of the deal,” he said.

SunTrust “is working through” the rate adjustment with clients, said Thomas Crosson, a spokesman for the bank. Dana Ripley, a U.S. Bancorp spokesman, declined to comment.

The San Francisco County Transportation Authority is paying 0.45 percentage point more in interest on its $72 million revolving credit facility to State Street Corp. than it did last month because of an increase in Libor and the effect of the gross-up. State Street informed the transportation authority in advance that its borrowing cost would rise, said Cynthia Fong, the authority's deputy director for finance. The credit facility expires in June. Julie Kane, a State Street spokeswoman, didn't return a call and email seeking comment.

While larger borrowers will likely be able to handle the impact of the rate increases, small non-profits may find it more of a burden. One non-profit client of Michael Wiener, a bond lawyer at Holland & Knight in Lakeland, Florida, could pay an extra $100,000 a year in interest on $27 million in variable-rate debt, he said.

"One hundred thousand dollars a year is still a decent amount of money for a lot of these borrowers," said Wiener, who declined to name the client.

Some are getting a break. First Republic Bank has told California non-profits that it won't trigger the clause in their loans, said Cathy Martin, treasurer and chief financial officer of Guide Dogs for the Blind, in San Rafael, California. If it hadn't, its costs on a $30 million loan would have jumped by $100,000 a year. Greg Berardi, a spokesman for First Republic, declined to comment.

"I can't tell you how grateful I am because it would have been fairly significant money for us," said Martin.

Bloomberg

By Martin Z Braun and Benjamin Bain

February 15, 2018, 5:52 AM PST

When Public-Private Partnerships Fail: A Look at Southern Indiana's I-69 Project.

The United States has major transportation infrastructure needs. According to the American Society of Civil Engineers, the surface transportation sector—defined as highway, public transportation, and rail facilities—will face an investment shortfall of approximately $1 trillion over the next decade.

Public-private partnerships (P3s) are often mentioned as a solution to this shortfall.1 This idea is simply wrong. State and local government project sponsors do not lack access to financing but rather have insufficient tax revenues to repay new project debts. As the U.S. Treasury Department notes, "All infrastructure investments ultimately depend on either user fees, government tax revenues, or a combination of both."2 Government project sponsors can access low-cost financing through the municipal bond market and the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan program at the U.S. Department of Transportation.3 Private financing in the form of private activity bonds (PABs) and equity capital are still project obligations that must be repaid. Simply changing the source of project debts through a P3 does not resolve the two most common restraints on government revenues: economic hardship and insufficient political support.

Public-private partnerships offer state and local governments the ability to shift project risks to a private concessionaire in ways that are not possible through traditional design-bid-build procurement. When structured properly, P3 agreements allow project sponsors to offload three categories of risk: delivery, finance, and operations.4 The private concessionaire charges a premium price for taking on project risks. A key challenge for project sponsors is determining the appropriate risk-adjusted price to ensure that the procurement is cost-beneficial. Given the nation's major need for expanded and improved surface transportation infrastructure, it is crucial that policymakers understand that risk transference through P3s is not guaranteed.

Continue reading.

Center for American Progress

By Kevin DeGood

February 15, 2018

S&P: Diagnosing Distress In U.S. Local Governments.

Highly rated credits that demonstrate a strong level of stability are the hallmarks of the local government ratings sector. So when rare occasions of fiscal distress arise, it offers opportunities for S&P Global Ratings to incorporate observations and lessons from municipal market events into our view of ratings.

Continue Reading

Feb. 12, 2018

Fitch Report: Puerto Rico Ruling Muddies Special Revenue Debt Waters.

Fitch Ratings-New York-14 February 2018 – Last month's Chapter 9 ruling over Puerto Rico's highway and transportation debt, if upheld, could increase the risk of delayed payments on special revenue debt in future municipal bankruptcies, according to Fitch Ratings in a new report.

With an appeal of the district court ruling already pending and the ultimate outcome likely to change, Fitch does not envision any immediate impact on criteria or ratings. "The Puerto Rico ruling suggests a different paradigm for assessing special revenue obligations and is very much at odds with prior bankruptcy treatment of special revenue obligations," said Managing Director Amy Laskey. "Chapter 9 protections shielding special revenue debt from the automatic stay provisions have consistently insured timely payment from available special revenues during bankruptcy proceedings."

Various restrictions around diverting enterprise revenues could remove much of the incentive to delay payments to special revenue bondholders during a municipal bankruptcy even if a final ruling upholds the district court decision. "Any potential criteria modifications would need to fully consider how to account for such protections when separating enterprise ratings from a municipal IDR," said Laskey.

"What Investors Want to Know: The Impact of the Puerto Rico Ruling on Special Revenue Debt"

Contact:

Amy Laskey
Managing Director

+1-212-908-0568
Fitch Ratings, Inc.
33 Whitehall St.
New York, NY 10004

Thomas McCormick
Group Credit Officer, U.S. Public Finance
+1-212-908-0235

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com

Additional information is available on www.fitchratings.com

Pullback From Muni-Bond Could Be a 'Yellow Flag' After Market Losses.

- **Muni funds saw outflows this week after weeks of gaining cash**
- **Investors may be responding to worst January on record**

The municipal market's short-term future might be on shaky ground.

Mutual funds that focus on state and local government bonds saw investors pull out about $443 million in the week leading up to Wednesday, breaking a five-week streak during which they continued to pour in funds, according to Lipper US Fund Flows data. Exchange traded funds lost $30.3 million this week, its first negative since April 2017, according to CreditSights analyst Pat Luby.

"It's a yellow flag, not a red flag yet," Luby said. "Inflation news has provided a dose of reality for the market."

The outflows come after municipal bonds slid amid speculation that the pace of the economy will fuel higher interest rates, sending the securities to their worst January loss since at least 1981, according to the Bloomberg Barclays index. Analysts have speculated that the loss may cause a pullback by individual investors, who are the largest holders of municipal bonds.

Greg Kaplan, the director of fixed income for City National Rochdale, said such investors are "historically reactionary." After January's performance, he expected flows to worsen as investors saw their account statements.

Jeff Lipton, managing director for Oppenheimer, said some investors have been cautious about state and local bonds because of concerns about the ripple effects of the federal tax overhaul enacted in December. He said outflows are a result of market uncertainty, especially looming interest rate hikes from the Fed, though he expects that the retreat from municipal funds will only be temporary.

"Even with disproportionate volatility, it will be positive for the year," Lipton said. "There will just be intermittent periods of negative flows."

Bloomberg Markets

By Zachary Hansen

February 16, 2018, 8:28 AM PST

Access and Affordability in the New Housing Finance System.

Abstract

One of the measures by which any proposed housing finance system must be judged is how well it would serve low- and moderate-income (LMI) households. In this analysis, we assess how well the multi-guarantor system proposed in the draft bill under discussion in the Senate Banking Committee (as of February 2018) would serve these households, concluding that they would do considerably better than they do under the system we have today. The bottom line is that the proposed system provides considerably more and better-targeted support to assist LMI households.

Read the full brief.

The Urban Institute

by Jim Parrott, Michael Stegman, Phillip L. Swagel, and Mark M. Zandi

February 13, 2018

Neighborly Insights: Florida Puts a Price on Resilience, KC Airport Moves Closer to Takeoff and the Impact of Tech on Property Values.

Costs of Resiliency Begin to Come Into Focus in Florida

For Monroe County, Florida, home of Key Largo, resiliency is a more pressing concern than it has ever been. Like many other places in the Keys, Monroe is coming to terms with change in climate and sea levels, and the impact of recent storms. While national policymakers debate the climate issue and the need – or lack thereof – for action, Monroe County residents have seen enough evidence to move them to support governmental action.

The county's plans to address resiliency concerns currently focuses on road projects, and it's clear why: half of the Monroe's 300 total miles of county roads have been assessed by the county to be susceptible to sea level rise in the next 20 years. The county has already spent $10 million on road projects that include elevation, and plans to spend at least $7 million more in the near future. One such plan is to elevate the lowest, most flood-prone road in the Twin Lakes Community of Key Largo and in the low-lying Sands neighborhood of Big Pine Key, 70 miles south.

In Big Pine, the road is going up a foot. In Key Largo, it's being raised six inches. Those elevations are just an inch above what researchers say is necessary for both roads to be above sea level for the next 25 years. But it is a start and will provide useful experience and help to refine cost estimates for wider-scale flood mitigation.

Continue reading.

Posted 02/16/2018 by Joseph Krist

[Recent Legislation Further Limits School District Options in Connection with the Sale of Excess Property.]

Legislation enacted in 2017 and amended last month significantly expands the range of prohibitions on a school district's ability to influence the future use of real property that it sells or transfers. When disposing of real property, school districts often desire to obtain affirmative covenants restricting the use of the property to types of uses which support its interests, such as a residential development project to add families to the community. Prior to this recent legislation, Section 1260 of the Revised School Code prohibited school districts from using negative deed restrictions prohibiting the use of disposed property for any lawful public education purpose and further prohibited school districts from refusing to lease or rent property to a party solely because the party intended to use the property for an educational purpose.

The restrictions under Section 1260 did not prevent school districts from imposing affirmative obligations on the use of disposed of property solely for a particular purpose or imposing negative covenants against using the property for certain non-educational purposes. The new legislation significantly limits the ability of school districts to use these types of affirmative and other restrictions.

In 2017, the Educational Instruction Access Act (the "Act") expanded the scope of the prohibited restrictions. The Act applies not just to school districts, but to all local government entities. The Act continues the prohibition on the use of negative deed restrictions by prohibiting a lawful public education use and continuing the prohibition on the refusal to sell, lease or rent to a party who intends to use the property for an educational purpose; then expands upon that prohibition by barring restrictions that bar educational uses expressly or by operation (i.e., have the effect of barring those uses). Although the Act provides that the governmental entity may not refuse to sell, lease or rent to an educational user, it also provides that it is not required to sell, lease or rent to the educational user. The Act also prohibits local governments from adopting an ordinance, policy or resolution which would prohibit an educational use for transferred property. Finally, the Act also provides enforcement provisions for non-compliance.

The Act was recently amended by Act 7 of 2018, which became effective on Jan. 26, 2018. Act 7 repealed Section 1260 and further expanded these prohibitions by barring the use of affirmative use deed restrictions that do not include an educational use or purpose. Act 7 also voids any affirmative or negative deed restrictions in effect on Jan. 26, 2018 that prohibit or do not permit property previously used for an educational purpose from being used for any future educational purpose.

Under the Act, as amended, a school district may now only use an affirmative deed restriction if it includes an educational purpose as one of the restricted uses. It will be interesting to see how the courts interpret the Act's provision voiding existing deed restrictions or how broadly they construe the new proscriptions on municipal actions. If you have questions regarding the impact of this legislation on prior or proposed property transfers, please feel free to contact us.

Miller Canfield PLC – James Crowley and Amanda Van Dusen

February 9, 2018

The First Circuit Joins Several Other Circuit Courts in Finding That Creditors' Committees Have an Unconditional Right to Intervene in Adversary Proceedings.

On September 22, 2017, the First Circuit Court of Appeals held that § 1109(b) of the Bankruptcy Code (the "Code") provides a creditors' committee with an "unconditional right to intervene" in an adversary proceeding.[1] In reaching this conclusion, the court reversed the District Court for the District of Puerto Rico's order denying an intervention motion and distinguished its own precedent, on which the District Court had relied. This decision further bolsters the right of creditors' committees to intervene in and to be heard on all matters within a bankruptcy case and positions the First Circuit in line with the Second and Third Circuits, which both have similarly concluded that the Code affords an unconditional right to intervene.

Continue reading.

Caplin & Drysdale, Chartered

January 23 2018

Bloomberg Brief Weekly Video - 2/15

Taylor Riggs, a contributor to Bloomberg Briefs, talks with editor Joe Mysak about this week's municipal market news.

Watch video.

Bloomberg

February 15th, 2018

After Muni-Bond Boom, Analysts Expect Distress to Be on the Rise.

- **Low rates, small yield penalties have fueled risky borrowing**
- **"Credit risk is increasing in the municipal market," says MMA**

Bankers say bad loans are made in good times, and the $3.8 trillion municipal-bond market may be no exception.

High demand from investors, a dwindling supply of new deals, and historically low yield penalties on the riskiest bonds has created an borrower's market, Municipal Market Analytics analysts Matt Fabian and Lisa Washburn wrote in a note to clients Monday. This atmosphere has produced a rise in issuance in sectors most "prone to impairment," they said.

"Over recent years the mix of defaults has become more diversified than it was previously," Washburn wrote.

Before the 2008 credit crisis, nearly all defaults were concentrated in the healthcare and housing sectors. Now that trend is expanding into utility districts and tax-based issues, typically known as safe sectors, according to the firm.

Even so, the municipal market remains among the safest in the world, with payment lapses extremely rare even after the economic and financial turmoil brought by the last recession. Although MMA doesn't forecast defaults, they expect an up-tick in the filings of so-called credit impairments — like technical defaults triggered by a drawn down of reserves — over the next few years.

Bloomberg Markets

By Danielle Moran

February 14, 2018, 12:43 PM PST

Muni Money Funds Have Revival After $100 Billion in Outflows.

- **Muni money market fund assets up by $7 billion in 2018**
- **Assets grown to $138 billion as of Feb. 7 from $131 billion**

If 2017 was the year the municipal money market funds stopped bleeding assets, 2018 is the year they've started growing again.

Tax-exempt money market fund assets have increased by almost $7 billion since the beginning of the year, seven times as much as all of last year, according to Investment Company Institute data.

"With rates rising there's just been a better bid for floating rate products," said Matt Fabian, a partner at Municipal Market Analytics. "It's a reasonable place for investors to park cash."

Yields on municipal securities that reset weekly rose to 1.71 percent at the end of December, the highest since October 2008, after the Federal Reserve raised interest rates for the third time in 2017.

Since then, yields have dropped to 0.98 percent, a sign of customer demand, Fabian said.

Tax-exempt money market funds are growing again after tepid growth in 2017 and the hemorrhaging of more than $100 billion in the first 10 months of 2016, a reaction to U.S. Securities and Exchange Commission rules aimed at reducing the risk of runs on the pools.

The rules required municipal money market funds to adopt floating net-asset values and imposed liquidity fees and redemption suspensions under certain conditions.

"You had the double whammy of zero yields and regulatory changes," said Peter Crane, president of Westborough, Massachusetts-based Crane Data LLC

Municipal money market fund assets have grown to $138.1 billion as of Feb. 7 from $131.2 billion on Dec. 27, ICI said.

Bloomberg Markets

By Martin Z Braun

February 12, 2018, 10:11 AM PST

Municipal Market Update.

Read the Update.

Stern Brothers | Feb. 13

Should America Sell Its Existing Roads to Pay for New Ones?

Trump's infrastructure plan eases requirement that investors who buy or lease public infrastructure assets must repay all their existing tax-exempt debt

When President Donald Trump unveiled his long-anticipated infrastructure plan on Monday, there was one word that caught the attention of many investors: recycling.

It isn't the garbage variety. Since early last year, infrastructure fund managers, bankers and lobbyists have been pitching the administration on the concept of infrastructure asset recycling.

Here is how many on Wall Street hope this might play out in the U.S.: The federal government would set up a pot of money to give state and local governments a bonus payment when they privatize or lease one of their existing assets to investors. To earn the bonus, governments would have to commit to using the sale proceeds to fund new bridges, roads or other infrastructure projects in need of money.

President Trump's $1.5 trillion infrastructure plan stopped short of recommending such a fund. But it eased a requirement that investors who buy or lease public infrastructure assets must repay all of their existing tax-exempt debt—an expensive proposition that makes such deals harder to finance. The plan proposes that governments could recycle deal proceeds into new projects, and if they do, the tax-exempt debt could remain outstanding.

"Getting to $1.5 trillion without a significant asset-recycling effort will be a challenge, unless states decide to implement other revenue measures such as big tax or fee increases," said Geoff Segal, senior vice president at Macquarie Capital, the investment-banking arm of Australia's Macquarie Group Ltd.

If it takes root in the U.S., asset recycling could create a pipeline of new deal flow for Macquarie, the world's largest infrastructure fund manager, and its peers. Macquarie estimates U.S. state and local governments could earn as much as $1.25 trillion from privatizing their infrastructure assets.

Australia's ambassador to the U.S., Joe Hockey, has pitched the idea to senior administration officials, including Vice President Mike Pence, National Economic Council Director Gary Cohn, Transportation Secretary Elaine Chao and DJ Gribbin, President Trump's infrastructure-policy adviser and a former Macquarie executive.

He has also met with Rep. Bill Shuster (R., Pa.), chairman of the House Transportation and

Infrastructure Committee, which will have a big say in any legislation implementing Mr. Trump's infrastructure push. A spokesman for Mr. Shuster said he believes "Australia's experience with asset recycling is something we should give serious consideration."

The idea also came up in late June, when executives from Goldman Sachs Group Inc., Morgan Stanley and a handful of other pension and infrastructure funds met with White House officials to discuss Mr. Trump's plans to jump-start investment in U.S. infrastructure. Spokeswomen for Morgan Stanley and Goldman Sachs declined to comment.

The meeting was held to broadly discuss how to level the playing field between private investors and governments, which have long enjoyed an advantage in funding U.S. infrastructure thanks to their lower cost of borrowing. One suggestion, according to two attendees, was asset recycling.

"That's how you get lots of cranes up in the air," said Mr. Hockey, who says he coined the term "asset recycling" as Australia's treasurer from 2013 to 2015.

During his tenure, Australia launched a 5 billion Australian dollar (roughly US$4 billion) asset-recycling fund to incentivize its states and territories to privatize assets and plow the proceeds into new infrastructure projects. In exchange, for doing so, they would get a bonus equal to 15% of the value of the privatized asset.

In a statement, the White House said: "The President's plan does not contain a preference for that model or really any specific revenue raiser. The plan is designed to promote innovative and creative solutions to fund infrastructure."

In the U.S., the need for other sources of revenue is paramount. Most of President Trump's $1.5 trillion infrastructure plan will not be financed by the federal government but instead by state and local governments, and private investors.

That is a difficult proposition for mayors and governors. Census data show that state and local tax revenues have been recovering from the 2007 recession at the slowest rate of any economic downturn since 1980. The administration's reduction of the state and local tax deduction, a popular tax break for residents in high-tax states, could make it even harder for those governments to raise taxes.

"He wants everybody else to spend a trillion dollars," said Martin Klepper, who until November headed lending programs at the U.S. Department of Transportation.

Not everyone likes the idea.

"'Asset recycling' sounds like a fancy term for enriching investment bankers while undermining public services," said Lee Saunders, president of the American Federation of State, County and Municipal Employees. The 1.6 million-strong public-sector union believes "infrastructure is a public good, and it should be controlled by taxpayers and built and maintained by public-service workers."

Another worry is that governments won't make the best use of privatization proceeds. In 2008, for example, Chicago agreed to lease its parking meters to Morgan Stanley's infrastructure fund for $1.16 billion and then used the money to plug budget gaps.

Mr. Hockey said it is up to the federal government to craft rules that would prevent a similar situation. But ultimately, he doesn't want to tell the U.S. what to do.

"Take it or leave it," he said.

The Wall Street Journal

By Cezary Podkul

Feb. 14, 2018

Write to Cezary Podkul at cezary.podkul@wsj.com

Broader Private Activity Bond Use in Trump Infrastructure Plan.

CHICAGO (Reuters) – An infrastructure investment blueprint unveiled by U.S. President Donald Trump on Monday would expand the use of tax-exempt private activity bonds (PABs), while lifting a cap on issuance of the debt.

Trump's proposal seeks to provide $200 billion in federal funds to spur $1.5 trillion in infrastructure investments with state, local and private partners over the next 10 years.

The PABs provision is aimed at increasing the leveraging of federal funds to allow for more efficient infrastructure improvements, according to the president's legislative outline for rebuilding infrastructure.

PABs had been targeted for extinction by House Republicans in their version last year of the federal tax bill, but the final bill signed into law by Trump in December retained the debt's federal tax exemption.

These bonds, which accounted for 27 percent of issuance in 2015, are sold for an array of projects including airports and affordable housing, as well as for nonprofit hospitals, nursing homes, and colleges.Tim Fisher, government affairs manager at the Council of Development Finance Agencies, said the proposal creates new PAB categories, while modifying others.

"It'll take some time for us to evaluate the package as a whole, but I'm very pleased by the PAB improvements outlined in the proposal," he said.

New uses for PABs would include construction of hydroelectric power generating facilities and environmental remediation for brownfield and superfund sites, as well as facilities for rural broadband, flood control, and storm water.

The current use of PABs for airports, water ports, mass transit, water and sewer and surface transportation facilities would be expanded to allow more privately financed infrastructure projects to benefit from tax-exemption.

PABs would no longer be subject to the alternative minimum tax in an effort to lower borrowing costs and increase their use, under Trump's proposal. In addition, a federal population-based, per-state annual cap on the issuance of certain types of PABs would be lifted.

Sandy MacLennan, president of the National Association of Bond Lawyers, said while the proposal appears to look good for the U.S. municipal bond market, public-private and local financings may be restricted under state laws.

"Further, while the financing options may be welcomed, the total proposed dollar investment seems small in comparison to reported needs," MacLennan said in a statement.

Reporting By Karen Pierog; Editing by Daniel Bases and Susan Thomas

FEBRUARY 12, 2018

PABs Would get Boost, but Can Trump Sell His infrastructure plan?

WASHINGTON — Less than three months after the House tried to kill tax-exempt private activity bonds, President Trump has released an infrastructure plan that proposes to expand and use them as a way to leverage financing for public-purpose infrastructure projects.

The plan calls for $6 billion to go toward tax-exempt PABs for public infrastructure. But the $6 billion would represent federal revenue losses over 10 years so the actual amount of additional of PABs issued under the plan would be much greater, sources said.

The PAB proposal is part of a major effort by the administration to place more funding responsibility on the private sector and on state and local governments, rather than the federal government.

“President Trump’s infrastructure plan is less important for the funding it may provide, but rather is significant because of its bold and sweeping proposals to move federal policy toward the involvement of the private sector in the provision of public infrastructure,” said Chris Hamel, former head of muni finance at RBC Capital Markets who now focuses on infrastructure policy.

The plan, for example, would authorize the federal divestiture of assets that it says would be better managed by state, local or private entities, including Ronald Reagan Washington National and Dulles International Airports, regional transmission systems, and the George Washington and Baltimore Washington Parkways.

Muni market groups applauded the proposed expansion of PABs.

A group of state and local officials met with the president on Monday and Columbia, S.C. Mayor Steve Benjamin, who heads the Municipal Bonds for America Coalition, thanked Trump for supporting tax-exempt PABs in the plan.

Bond Dealers of America CEO Mike Nicholas said, BDA “applauds the focus on utilizing governmental municipal bonds and private-activity bonds to upgrade our nation’s infrastructure. For over a century, bonds have been a bedrock investment tool for state and local governments to produce and maintain critical infrastructure.”

Emily Swenson Brock, director of the Government Finance Officers Association’s federal liaison center, said GFOA has been pushing for the expansion of the use of tax-exempt PABs for public infrastructure projects like airports and seaports for two decades.

Can Trump sell plan to stakeholders, lawmakers?

But many sources questioned whether Trump can sell his plan to stakeholders and lawmakers, who are already complaining it doesn’t propose enough federal spending and places too much of the funding responsibility on state and local governments.

“It is a fantasy to assume that states and local governments have the kind of available capital that the Trump plan demands they spend without federal help,” said Senate Democratic Whip Steny

Hoyer, D-Md.

Some muni market sources worry that, even if lawmakers eventually take up some sort of infrastructure legislation, it might be dangerous to put any PAB-related proposals before the House Ways and Means Committee again given their willingness to terminate them last year.

The U.S. Chamber of Commerce, the American Trucking Associations and many transportation groups want an infrastructure plan to increase federal fuels taxes to fix the ailing Highway Trust Fund, the main source of grants for highway and mass transit programs for states.

Rep. Bill Shuster, R-Pa., chair of the House Transportation and Infrastructure Committee, did not address the president's plan directly but rather talked about an infrastructure bill needing "to be bipartisan, fiscally responsible, and make real long-term investments in our Nation."

Shuster also talked about the importance of "addressing the long-term sustainability of the Highway Trust Fund." The president's plan is virtually silent on the HTF, with only one mention.

Rep. Peter DeFazio, D-Ore., the ranking minority member of the committee, on Thursday called the plan "fake" and said it would place too much reliance on funding from state and local governments and would result in higher tolls.

Rep. Ron Wyden, D-Ore., the ranking minority member of the Senate Finance Committee blasted the president's plan as "another broken promise to rebuild America's aging infrastructure" that caters to "wealthy investors who only care about wasting taxpayer dollars to fund their privatization schemes."

Wyden also complained that, "$200 billion is a drop in the bucket compared to the $1.5 trillion Republicans in Congress just spent to slash taxes for multinational corporations and the donor class."

National Association of Bond Lawyers' president Sandy MacLennan, said, "A recurrent theme throughout the administration's broad infrastructure proposal is the facilitation of private investment in public projects and also the removal of impediments in existing federal law to tax-exempt financing of these projects. While that looks good on the surface for the municipal market, particularly the expanded list of private activity bond-eligible projects and expanded remedial action for change in use, there may be state law restrictions on public-private endeavors that will need to be reviewed, as well as state restrictions on local financing."

"The total proposed dollar investment seems small in comparison to reported needs," she said.

PAB Details

The president's infrastructure plan would remove state volume caps, and the $15 billion transportation volume caps for tax-exempt PABs used for public infrastructure projects, which would be expanded to include ports and airports.

The alternative minimum tax would also be removed for PABs. Historically the AMT has led to higher interest rates on many PABs, making them more costly for state and local governments to issue.

Public-purpose infrastructure projects would have to be owned by state or local governments, with some exceptions. Projects could be owned by private parties but only under arrangements in which the rates charged for services or the use of the projects are subject to state or local regulatory or contractual control and approval.

Also the projects would have to be available for general public use or to provide services to the general public.

A project would be treated as governmentally owned if a state or local government leases it to a private business if: the term of the lease is no longer than 95% of the reasonably expected economic life of the project; the private lessee agrees not to take depreciation or the investment tax credit with respect to the project; and the private lessee has no option to purchase the project other than at fair market value.

The plan would allow longer-term leases and concession arrangements for projects financed with tax-exempt PABs.

Public infrastructure projects would include the existing tax-exempt PAB categories of: airports; docks, wharves, maritime and inland waterway ports, and waterway infrastructure, including dredging and navigation improvements; mass commuting facilities; facilities for the furnishing of water; sewage facilities; and solid waste disposal facilities.

In addition such projects would include modified or new categories of: surface transportation facilities, including roads, bridges, tunnels, passenger railroads, surface freight transfer facilities, and other facilities that are eligible for federal credit assistance under the Transportation Infrastructure Finance and Innovation Act; hydroelectric power generating facilities, including new construction; flood control and stormwater facilities; rural broadband service facilities; and environmental remediation costs on Brownfield and Superfund sites.

The plan calls for modifying so-called change-of-use tax rules to more easily preserve the tax-exempt status of governmental bonds when the bond-financed project is either used, or purchased, by one or more private parties. It would also provide change-of-use cures for private leasing of infrastructure projects to ensure preservation of the tax exemption of the bonds.

Overall plan details

Overall, the infrastructure plan proposes $200 billion in federal funding over $10 years, which could be used to leverage $1.5 trillion in new infrastructure investment, mostly through incentive grants and the enhancement of several federal loan programs.

The $200 billion would be paid for from cuts in existing programs, such as transit and Transportation Investment Generating Economic Recovery (TIGER) grant programs where “this administration thinks funds haven’t been spent that efficaciously,” a senior White House official told reporters this weekend.

Asked about an increase in federal gasoline tax, the official said, “The president has said he’s open to new sources of funding. This is the start of a negotiation to find best solution for the U.S.”

“We’re not proposing eliminating the Highway Trust Fund, or changing the state revolving funds,” he said. “So to the extent that communities are eligible for federal funds already, that eligibility remains.”

Of the $200 billion, $100 billion would be spent on incentive grants for state and local governments that identify projects and revenue streams, such as property taxes, sales taxes, or user fees, to fund them. These governments can then apply to federal agencies – the Transportation Department, the U.S. Army Corps. of Engineers, and the Environmental Protection Agency — for some percentage of matching funds to complete the financings.

An incentive grant could not exceed 20% of new revenue. An individual state could not receive more than 10% of the total amount available under the incentives grant program.

The White House official took umbrage at the notion that the president wants to reverse funding ratio so that state and local governments will now get only 20% instead of 80% of federal funds for projects.

“It’s wildly inaccurate,” he said, adding that kind of match is currently only available for federal-aid highways.

Currently the federal government only funds 14% of infrastructure costs, the official said. The remaining 86% of costs is evenly split between state and local governments and the private sector.

Many programs involve far less of a federal match than 80%, he said. Water projects, for example, on average involve a 4% federal share and a 96% state or local government share.

Additionally, a Rural Infrastructure Program would be established and provided $50 billion for capital investments in rural infrastructure investments. A portion of these funds would be set aside for Indian tribal governments and territories.

Governors would receive 80% of the funds via a formula based on rural lane miles and rural population adjusted to reflect policy objectives. The governors, in consultation with a designated federal agencies and state directors of rural development, would choose the infrastructure projects in which to invest.

Another $14 billion will be spent on the expansion of federal loan programs such as TIFIA for transportation projects, the Water Infrastructure Finance and Innovation Act (WIFIA) for water projects, and the Railroad Rehabilitation and Improvement Financing (RRIF) for rail projects.

Also $20 billion will also be used for transformative projects . “Funding under this program will be awarded on a competitive basis to projects that are likely to be commercially viable, but that possess unique technical and risk characteristic that otherwise deter private sector development,” the plan states.

The Commerce Department would chair the program and could request other federal agency employees to be temporarily assigned to it. Funding could cover eligible costs of up to: 30% for demonstration; 50% for project planning; and 80% for capital construction.

And $10 billion will be put into a capital financing fund and used for federal office building infrastructure.

Permitting

The president wants to shorten the environmental permitting process to two years by establishing a new ‘one agency/one decision’ process, the White House official said.

A federal agency with the most expertise will be designated as the lead agency and it will work with other agencies to coordinate the permitting process to reach a collective decision over a 21-month period. The agencies would all sign a “record of decision.” They will then issue permits over a three month period, he said.

“The process we have in the U.S. just takes way too long,” the official said. “It’s not really focused on the outcome in terms of making sure we build projects responsibly. It’s focused more on litigation and building up massive documents."

"We are not touching any of the fundamental requirements of the core environmental acts [but rather] the process to be used to do the analysis," the White House official said on Saturday.

The plan will also include plans to remove obstacles and disincentives for individuals to go into the trades to work on infrastructure projects, he said. For example, the administration will call for the licensing process to be more flexible so that licenses can be transferred easily from one state to another. And programs will be set up to expand apprenticeships for workers to more easily develop skills.

Administration officials have spent weeks talking about the infrastructure plan and trying to get some ideas and consensus from lawmakers on Capitol Hill and industry groups. President Trump called on Congress in his State of the Union speech to come up with an infrastructure package.

It won't be easy. White House officials noted there are five to six committees with jurisdiction in each of the House and Senate. Senate Democrats have already called for the federal government to spend $1 trillion on infrastructure, apart from any leveraging.

President Trump asked the state and local officials he met with on Monday to lobby their Senate and House members to support his plan.

The Bond Buyer

By Lynn Hume

February 12 2018

How Trump Plans to Turn $200 Billion Into $1.5 Trillion in Infrastructure Spending.

President Trump's long-awaited infrastructure plan proposes that the federal government put up $200 billion in incentives and investments over 10 years, leaving state and local governments and private industry to come up with the rest.

Here's a look at how the plan may pan out, and what the challenges will be in turning $200 billion into $1.5 trillion.

Continue reading.

THE NEW YORK TIMES

By KEITH COLLINS and PATRICIA COHEN

FEB. 12, 2018

Infrastructure Plan Falls Flat for Investors.

President Donald Trump's infrastructure plan has left investors in infrastructure firms unimpressed

Maybe it should be called "Infrastructure Weak."

In the days following the 2016 U.S. presidential election, investors took President-elect Donald Trump at his word that he would open the floodgates of federal spending and deregulation to fix America's creaking transport, energy and water systems.

A basket of 10 U.S. stocks with exposure to infrastructure spending beat the S&P 500 by nearly 13 percentage points in the eight trading sessions through November 17, 2016. In the four sessions following Monday's much-delayed release of the White House's infrastructure plan, though, the same stocks lagged behind the broader market.

Whether one calls it a $1.5 trillion plan or a $200 billion plan—the latter is the actual value of proposed new federal spending over a decade—investors clearly sense that there is less to it than meets the eye.

One reason is the assumed ratio of funding. The largest chunk, $100 billion for the so-called Incentives Program, would be awarded based largely on an at-least four-to-one the ratio of nonfederal to federal money. That gets the value of the administration's plan to $1.5 trillion. Most of the nonfederal money must come from state or local governments rather than private entities.

That ratio, though, is far above the one-to-one typical of large projects such as the recently completed new Tappan Zee Bridge in New York. A more serious problem is that the White House's budget proposal would reduce existing federal infrastructure funding elsewhere.

The recently passed tax cut also weighs on the infrastructure plan. The growing federal budget deficit and rising bond yields have made borrowing more expensive for state and local governments. A lower marginal top tax rate makes municipal bonds less attractive to wealthy individuals, their biggest buyers. And limits on deductions for state and local taxes makes it harder for governments to raise taxes.

Unless the federal government comes up with more funding for existing programs like the Highway Trust Fund, whatever gains are achieved by the infrastructure programs will be offset by cuts elsewhere.

The Highway Trust Fund, which was bailed out in 2016, will need about $100 billion in the next decade to stay solvent, based on Congressional Budget Office projections—the same amount as the proposed Incentives Program. The U.S. Chamber of Commerce, which praised the infrastructure program, also called this week for a gasoline tax increase of 25 cent per gallon to support the highway fund.

Gaudy headline numbers aside, investors are clear in their view that Mr. Trump's infrastructure plan, even if adopted, would do little to boost overall spending. New rules and incentives are nice, but more spending and the revenue to back it up are the missing ingredient.

The Wall Street Journal

By Spencer Jakab

Feb. 16, 2018 5:30 a.m. ET

Write to Spencer Jakab at spencer.jakab@wsj.com

[Blackstone, Other Private-Equity Firms May Sit Out Trump Infrastructure Push.]

Private-equity funds have raised nearly $34 billion for infrastructure investments in North America

Private-equity firms raised a record sum for infrastructure investment last year, aided by President Donald Trump's promise to pump $1 trillion into America's aging roads and bridges. That was the easy part. Spending it is another matter.

After lobbying the White House to create incentives for states and cities to accept more private money for transportation projects, buyout firms got some of what they sought in the administration's infrastructure plan released Monday.

But few firms believe Mr. Trump's infrastructure plan will open the floodgates for privatization deals, which have long been out of their reach because of cheap funding alternatives such as municipal debt and the challenges of navigating local politics.

Fund managers say they are mainly looking for assets that are already privately owned—such as renewable energy, railroads, utilities and pipelines—and not the deteriorating government-owned infrastructure like roads and bridges that helped attract the capital in the first place. To the extent they are interested in public assets, the focus is more likely to be on privatizing existing infrastructure than on new development—the heart of Mr. Trump's push.

That is the paradox of the administration's plan: It creates incentives for investment that most infrastructure funds aren't much interested in, and never really have been.

Take Blackstone Group LP. The private-equity firm plans to raise as much as $40 billion for North American infrastructure, but may devote only 10% to public assets, according to a person familiar with the matter. Other prominent infrastructure investors such as Macquarie Group have similar targets—if they target public assets at all. Macquarie, Carlyle Group LP and KKR & Co. are among the firms that have been raising infrastructure funds.

Concentrating their firepower on private assets could mean more competition, higher prices and ultimately lower returns for infrastructure funds. That has some deal makers warning of another false start for the U.S. infrastructure market after poor performance in the wake of the financial crisis.

"Most firms are probably scratching their heads, saying, 'how do I put the money to work apart from buying existing assets and paying high premiums?'" said Roger Wood, a Moelis & Co. infrastructure investment banker.

Private-equity firms raised a record $33.7 billion for North America-focused infrastructure funds last year, according to Preqin. That brought the funds' infrastructure-focused capital to roughly $70 billion, a figure that is up more than 40% since the end of 2015.

Those numbers don't include Blackstone's fund.

“The extensive discussion of infrastructure during the presidential election created a significant amount of excitement about the sector,” said Mike Parker, U.S. infrastructure advisory leader at EY. “And you’ve seen significant fundraising on the backs of that.”

U.S. infrastructure has been a tough nut for investors to crack. The U.S. market is the largest in the world for privately owned infrastructure, but it also is behind other countries when it comes to privatizing critical transportation assets such as roads and airports. Unlike other countries in which the federal government often has more control, decisions about how U.S. infrastructure projects are financed are often made at the state and local level.

The U.S. also has a larger and more liquid municipal-bond market than other countries. While voters tend to support transportation-spending ballot measures, the idea of giving Wall Street control of key highways or ports is often a hard sell.

That makes buying or leasing public infrastructure assets difficult for private investors. Deals often take years to get done and are notorious for falling apart at the last minute when an administration changes or legislatures reverse course.

Mr. Trump’s plan would streamline the permitting and approval process for new projects, but not do much to change the dynamics of leasing or selling existing assets. The 53-page plan allocates $200 billion of federal spending to new infrastructure projects over a decade. The administration hopes state and local governments and private investors will provide the remainder of the tab, subsequently raised to $1.5 trillion.

These and other provisions could change considerably—or die—as they wind their way through Congress.

Still, the anticipation of the Trump plan appears to have helped Blackstone land a commitment of up to $20 billion from Saudi Arabia’s Public Investment Fund, or PIF, last May. When the investment was announced, Yasir Al Rumayyan, PIF’s managing director, said it reflected “our positive views around the ambitious infrastructure initiatives being undertaken in the United States as announced by President Trump.”

Blackstone, whose Chief Executive Stephen Schwarzman headed Mr. Trump’s policy advisory council of executives until it disbanded in August, has said the firm’s talks with PIF began in May 2016—before Mr. Trump was elected. The firm is now in the initial phase of raising as much as $20 billion to match PIF’s money.

“[I]t’s very fudgy, historically, trying to do things with the public sector,“ Mr. Schwarzman said on an analyst conference call Feb. 1. Legislation that encourages private infrastructure investment in public projects “would be sort of a cherry on a sundae for us,” he said.

That hasn’t stopped Blackstone from making public infrastructure projects a major selling point for its fund. In a marketing document obtained by The Wall Street Journal under a public-records request, Blackstone listed $122 billion of public-investment opportunities, primarily new projects, that could be financed with private capital.

Last month, the Pennsylvania Public School Employees’ Retirement System approved a $500 million commitment to the Blackstone fund. A memo recommending the investment cited Blackstone’s $122 billion list and concluded President Trump’s infrastructure plan “could have a meaningful positive effect” on the buyout firm’s ability to invest in the projects.

A spokeswoman for the Pennsylvania fund said the memo’s intent was to illustrate “the enormous need” to upgrade U.S. infrastructure.

The Wall Street Journal

By Miriam Gottfried and Cezary Podkul

Feb. 13, 2018

Write to Miriam Gottfried at Miriam.Gottfried@wsj.com and Cezary Podkul at cezary.podkul@wsj.com

---

Trump “$1.5 Trillion” Infrastructure Plan Is a Mirage.

Administration officials claim that the President’s new infrastructure plan will support $1.5 trillion in infrastructure investment, but his 2019 budget reveals that that number’s a mirage: the President would cut annual federal support for infrastructure in the long run and shift costs to states, cities, and private individuals. As we previewed here, it likely would mean cuts to some of the areas in which new infrastructure investment is needed most — while providing a potential windfall for private investors.

At its core, the President’s approach is a bait and switch that would cut federal support for infrastructure over the long term. The centerpiece is $200 billion in “new” federal funds that the Administration claims can support at least $1.5 trillion in investment. But the budget proposes deep cuts to programs in the same agencies that would receive new grant-making authority under his infrastructure proposal.

For example, the budget (even with its “addendum” to account for the budget deal) slashes support for mass transit, ends the Transportation Department’s TIGER program (which supported some of the most innovative local infrastructure projects over the last eight years), and cuts investment for new projects at the Army Corps of Engineers. It also eliminates the Department of Housing and Urban Development’s main programs for building and renovating affordable housing, even as the Trump infrastructure initiative would not support much-needed housing infrastructure.

In addition, the President’s budget includes — buried on page 122 of the supplemental “Analytical Perspectives” document — a major cut in federal spending from the Highway Trust Fund that would reach $21 billion a year by the end of a decade. Normally trust fund projections would reflect the spending needed to maintain the current levels of investment. But the Administration proposes to spend no more in a given year than the dedicated trust fund revenues it’s currently projected to receive each year, largely through the federal gas tax. This change would move away from a bipartisan consensus in recent years to provide additional money to the fund to prevent such an outcome, effectively resulting in a cut of $122 billion in Highway Trust Fund spending over the last seven years of the budget’s ten-year timeframe. The budget reflects this lower spending without proposing anything (beyond the new infrastructure initiative) to address it. Indeed, “Analytical Perspectives” states that the “Federal Government should incentivize more States and localities to finance their own transportation needs,” showing that this lower level of support represents an explicit policy choice. Similarly, the budget justifies its other infrastructure cuts on the basis of the new infrastructure initiative, illustrating the President’s approach of giving with one hand while taking with the other.

The headline $1.5 trillion figure hides the fact that the proposal would shift costs to states,

cities, and individuals. The $1.5 trillion figure simply assumes that states, localities, and the private sector will provide $1.3 trillion of that support. The core element of the new initiative — $100 billion in grants that must account for no more than 20 percent of a project's cost — puts the burden on states and localities to fund the vast majority of any investment, while punting on the question of how they will raise the money. And that's on top of other burdens that the budget would impose on states and localities by cutting programs like Medicaid and SNAP (formerly food stamps), even as the new tax law may make it harder for them to raise revenues by limiting the state and local tax deduction.

The Administration has indicated that private investment will be a major component of its plan, with investors providing funding through public-private partnerships that achieve a financial return through collecting tolls, fees, or other revenues. But this approach could give short shrift to projects that don't lend themselves to tolls, fees, or other dedicated revenue streams — from repairing bridges to filling potholes to modernizing schools to rebuilding infrastructure in low-income communities. And it raises the likelihood that the ultimate cost of the proposal will be borne by low- and moderate-income people through new regressive taxes or fees. Meanwhile, the emphasis on private investment creates potential windfalls for investors through subsidies for projects they might have pursued anyway.

The President wants spending cuts to pay for his proposal but hasn't specified them. Administration officials explained over the weekend that while they haven't attached specific offsets to the proposal, they envisioned paying for it with cuts elsewhere in the budget — including to infrastructure. For example, the President's budget cuts the core Transportation Department budget by more than 19 percent, and White House officials say they might seek to use some of these savings, from cuts to programs like mass transit, to pay for the infrastructure initiative.

The President could also seek to use his infrastructure proposal as a cudgel to try to force Congress to pass his other proposed cuts, in programs ranging from health care to food assistance to housing, as a way to help offset the $200 billion cost. Those cuts would come in lieu of offsetting the cost by raising revenues from wealthy taxpayers or corporations that benefited the most from the recent tax bill. The result? Even beyond any measures that states and localities may need to take to fill the funding gap left by federal infrastructure cuts, the President's initiative could ultimately hurt the same low- and moderate-income families he claims to help.

Center on Budget and Policy Priorities

by Jacob Leibenluft

Feb 12, 2018

Counties Respond to President Trump's Infrastructure Plan.

The National Association of Counties (NACo) today responded to President Trump's infrastructure plan and underscored counties' role in not only connecting people and places, but also increasing our global competitiveness.

"We welcome President Trump's focus on upgrading our nation's infrastructure," said NACo Executive Director Matthew Chase. "We must work together to achieve long-overdue infrastructure improvements."

“Counties are using every tool at our disposal to deliver infrastructure projects to our residents,” Chase continued. “Despite strict constraints on our ability to generate revenue and an ever-growing list of federal and state unfunded mandates, we invest significantly in infrastructure. We also leverage innovative financing and private-sector partnerships to meet our communities’ infrastructure needs.”

Counties invest more than $122 billion in infrastructure and public works annually. Counties build and maintain the largest share of public road miles – 46 percent – and 38 percent of America’s bridges. Counties are also involved in a third of the nation’s airports and support 78 percent of all public transportation systems. Additionally, counties construct water and sewer systems, hospitals, libraries and other public facilities and public safety communications networks.

“To build upon our efforts, we need a reliable federal partner to invest in our communities and streamline processes that inhibit our efficiency,” Chase concluded. “Transformational improvements to America’s infrastructure have always been the result of a strong federal-state-local partnership. We stand ready to work with the administration and Congress – along with other public, private and nonprofit sector allies – to reinvest in our communities.”

Feb. 12, 2018

S&P: President Trump's Infrastructure Plan: A Substantive Shift To Private-Sector Funding.

After more than a year of anticipation, on Feb. 12 the Trump released the details of of its plans to fix the nation’s broken and crumbling infrastructure. President Donald Trump’s “Legislative Outline for Rebuilding Infrastructure in America” framework is aimed at shaking up the federal government’s role in infrastructure investment.

Continue Reading

Feb. 14, 2018

The President’s Infrastructure Proposal Misses the Mark: Too Much Cynicism, Too Little Leadership.

Rebuilding America was always a central part of Donald Trump’s political ambitions. His affirmative message and decades of real estate experience created a palpable sense among both the general public and the media that the President would bring a major infrastructure push to Washington. But from the very first months of his administration, it became clear the new White House team wasn’t ready with tangible ideas to match Trump’s grandiose rhetoric. With multiple missed deadlines and no official documents since the last budget release, the wait for the plan’s grand reveal stretched for months with seemingly no end in sight.

The wait is finally over—and it doesn’t feel worth it.

Rather than establishing a clear long-term vision for the country’s infrastructure that supports a more competitive and inclusive economy, the proposal is mostly a vehicle to indiscriminately boost spending. Even worse, the proposed cuts elsewhere in the FY 2019 Budget mean the administration is effectively asking everyone else – especially cities and states – to do nearly all the spending all while still claiming credit for new investments. There are certainly commendable elements within the 53 pages, but the core programs include too much cynicism and too little leadership. It's a missed opportunity.

Continue reading.

by Adie Tomer
Fellow – Metropolitan Policy Program

Feb 13, 2018

The Brookings Institutte

Trump's Infrastructure Plan is a Missed Opportunity: Podcast

Adie Tomer, a fellow in the Metropolitan Policy Program, analyzes the Trump administration's infrastructure plan. Tomer discusses who would benefit and who would be left behind by the administration's plans. He also explains the politics behind the plan and what to expect over the coming months.

Listen to the podcast.

by Adie Tomer

Thursday, February 15, 2018

The Brookings Institute

Still No Free Lunch: Infrastructure Investment Must be Carefully Evaluated.

The President's 2019 Budget gives a prominent place to infrastructure policy, proposing $100 billion of matching funds to state and local governments, as well as $50 billion in funding for rural infrastructure and $50 billion in other spending. The matching funds are intended to spur state and local investment, and would be provided to state and local governments that commit to allocating new revenues to infrastructure projects several times larger than the federal grant. The administration argues that this would leverage the federal investment, generating new state and local spending far in excess of the federal commitment.

Policymaker attention to infrastructure policy is certainly merited. A Hamilton Project blog post, "No Free Lunch: The Pros and Cons of Public-Private Partnerships for Infrastructure Financing," explored this very issue. Falling public investment at all levels of government—shown in the figure below—presents a challenge for building and maintaining American infrastructure at levels that can support robust economic growth.

Continue reading.

by Ryan Nunn

Wednesday, February 14, 2018

The Brookings Institute

Fitch: Infrastructure Plan Is Hurdle for US States and Locals.

Fitch Ratings-New York-13 February 2018: The infrastructure proposal released yesterday by the Trump administration relies primarily on funding from state and local governments. Fitch Ratings believes that providing funding from tax revenues could be challenging for some state and local governments as many have already raised revenues in recent years to fund infrastructure investments and general revenue growth has been slow. The plan includes limited additional federal funding and lacks a long-term solution for the federal highway trust fund, which serves as the primary source of existing federal infrastructure funding. Highway trust fund insolvency remains a significant long-term federal infrastructure issue.

The infrastructure proposal includes approximately $200 billion in federal funding over 10 years, largely repurposed from existing transportation programs. States and locals are asked to provide up to an 80% match for competitive grants and loans for $120 billion of this total. In contrast, most current federal funding operates on a 80% federal to 20% state and local match ratio. In the proposed plan, $50 billion will go directly to governors for rural infrastructure, while $10 billion will be for federally owned infrastructure, and $20 billion will fund expansion of existing federal loan programs and private activity bonds. The $200 billion represents limited increased federal funding over the next decade with much of it reallocated from existing transportation programs including Amtrak and the Federal Transit Administration’s Capital Investment Grants (New Starts).

Many states have implemented transportation funding increases in recent years at a time of federal inaction. This will limit their willingness to pursue the additional revenue increases required by the proposal. Since 2013, 26 states and the District of Columbia have implemented transportation funding changes according to the National Conference of State Legislatures. Often, the additional funding has been directed to specific initiatives with a heavy focus on maintenance of existing facilities. Fitch anticipates these states in particular will be challenged to meet the proposed 80% match requirements for new projects.

The new cap on the SALT deduction implemented with the December 2017 Tax Cuts & Jobs Act (H.R. 1) further limits state and local governments’ flexibility to generate the funding called for in the administration’s plan. Taxpayers in 19 states and the District of Columbia had average SALT deductions exceeding the $10,000 cap imposed by H.R. 1, according to the Government Finance Officers Association (GFOA). The average deduction exceeded $9,000 in another 12 states in the GFOA analysis, which was based on 2015 Internal Revenue Service data. Tepid growth in state tax collections, which makes meeting operating spending demands for education and health care an ongoing challenge, further complicates states’ ability to dedicate funding to a new federal transportation program. Using U.S. Census Bureau data, Fitch estimates real year-over-year growth in state tax collections was less than 1% in third-quarter 2017.

Highway trust fund insolvency remains a critical long-term federal infrastructure issue in Fitch’s view, and the administration’s proposal lacks any measures to address it. The highway trust fund provides roughly $40 billion in highway spending and $10 billion in transit spending to states annually. The Federal Highway Administration reports that since fiscal year 2008, trust fund spending has outpaced revenues, requiring approximately $140 billion in congressional transfers from other funds, mainly the treasury's general fund. The Congressional Budget Office estimates the highway trust fund will become insolvent under current law by 2020, threatening a primary source of existing federal support for infrastructure.

The administration's infrastructure proposal, part of its fiscal year 2019 budget request, faces an uncertain path through Congress.

Contact:

Eric Kim
Director, U.S. Public Finance
+1 212 908-0241
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Robert Rowan
Senior Analyst, Fitch Wire
+1 212 908-9159

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com

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

---

GASB Requests Public Input on Revenue and Expense Recognition.

News Release.

Invitation to Comment.

How Are Cities Paying Their Bills? With Fees on Trash, Parking, Sewers and 911 Calls.

From Chicago to Danville, Ill., why residents are paying higher fees for mundane services

Scranton, Pa. is turning to an unlikely source for fiscal strength: garbage.

The distressed city in northeastern Pennsylvania began charging residents a $300 annual fee in 2014 to collect their trash, up from $178. That 68% increase has since raised millions for Scranton, one of the many steps being taken to restore the former coal-mining hub to solid financial footing after decades of decline.

Cash-strapped American cities are increasingly asking their residents to pay higher amounts for mundane services as they struggle to pay for mounting pension obligations, cover costly infrastructure improvements and replace revenue depleted by the last recession. Bills are rising for everything from parking tickets and 911 calls to sewer service and trash pickup.

In 73 U.S. cities, fees and fines increased by a collective $182 million in 2017, according to financial reports analyzed by Merritt Research Services. That annual tally is up 11% since the last financial crisis in 2008.

Fees are expected to go even higher because of recent changes at the state and federal levels. New tax legislation passed last year by Congress caps the amount of local property and income taxes Americans can deduct from their federal tax bills, making local tax increases more costly for residents and thus politically difficult for elected officials.

Thirty four states have also placed separate limits on local government tax or spending increases, according to the National League of Cities. In California, tax increases by local governments must be approved by a vote of residents.

“What’s left? Basically what’s left are charges,” said Andrew Reschovsky, a professor emeritus of public affairs and applied economics at the University of Wisconsin-Madison. “I think the future probably holds more fee increases.”

Cities began turning to more fees and fines following the 2008 financial crisis, which eroded property and sales tax revenues due to pullbacks in housing values, employment and consumer spending. Revenue from property taxes, sales taxes and income taxes moved higher in recent years as the economy rebounded but the total collected from those categories in 2017 was still below 2008 levels, according to data from the National League of Cities.

Revenue from fees, on the other hand, was 14% higher in 2015 than in 2009, according to a study of 150 cities conducted by the Lincoln Institute of Land Policy. In 2017, 42% of city CFOs said their towns had raised fees, more than the 27% who said they had raised property tax rates and 8% who reported sales tax increases.

In California, more than a dozen city fire departments are now charging hundreds of dollars for ambulance calls and more for ambulance rides. Long Beach, Calif. began imposing a $250 fee for service calls in 2016 on top of the existing $1,300 to $1,900 for a ride. The ambulance call fee brought in $1.6 million that year and $2.2 million in 2017, the finance director said.

One small Midwestern town, Danville, Ill., is raising its fees for a specific purpose: to chip away at more than $100 million in liabilities owed to police and fire department retirees. The city of about 30,000 first attached a $2 a month “public safety pension fee” to residents’ sewer bills in 2014 and in December pushed that charge to $22.25 for those in single-family homes.

Danville Mayor Scott Eisenhauer said the city took this step because it no longer had enough to make its required pension payments without devoting less to firefighting, police, parks, street repairs and code enforcement. “That’s what we could no longer afford to do—diminish our services because the pension obligation had increased so dramatically,” he added.

Those who pay the higher fees aren’t always pleased with the new demands. In Scranton, a property owner filed lawsuits over the $300 trash-collection fee and a fee for landlords, arguing the fees were higher than needed to pay for the services. The plaintiff alleges that Scranton has collected roughly $5 million more in garbage fees the past two years than it needs to run its Bureau of Refuse.

Scranton Mayor William Courtright said the fees are meant to cover the cost of collecting trash and supervising rental properties, not to generate revenue for other purposes. “Public safety and sanitation are the two most expensive endeavors of municipal government,” he said in an email.

In Chicago, a city also struggling with massive pension liabilities as well as a mountain of bond debt, officials increased penalties for parking in a disabled zone and other violations between 2012 and 2014 and increased the fee for removing a car boot in 2016. The city also increased property and water-sewer taxes as part of a larger plan to improve its finances.

A city spokeswoman said Chicago reduced its “structural budget gap” by 66% in the last four years “without raising a single parking ticket fine amount.” She added: “While revenue is an outcome of parking enforcement, it is not the driver of our enforcement actions.”

Some public policy experts say the Chicago increases are causing hardship for certain residents. One resident, Vincent Heard, said in court documents he had accumulated about $11,000 in debt tied to parking tickets, speeding tickets and red-light violations when he filed for chapter 13 bankruptcy in September 2015.

Mr. Heard now makes monthly payments of $225 as part of his bankruptcy repayment plan. That, he said, is a challenge given his earnings of about $600 to $700 a week as a taxi driver.

“It’s like I’m just working to pay tickets,” Mr. Heard said.

The Wall Street Journal

By Heather Gillers and Sarah Chaney

Feb. 6, 2018 5:30 a.m. ET

Write to Heather Gillers at heather.gillers@wsj.com and Sarah Chaney at sarah.chaney@wsj.com

---

Fitch: Puerto Rico Ruling Could Have Wide-Ranging Impact on Municipal Debt.

Fitch Ratings-New York-06 February 2018: A ruling last week by district court judge Laura Taylor Swain that dismissed claims regarding payment of Puerto Rico Highways and Transportation Authority debt has raised broad concerns about the protections provided in Chapter 9 of the U.S. bankruptcy code to holders of bonds secured by pledged special revenues, according to Fitch Ratings. Credit ratings that could be negatively affected if the ruling is upheld on appeal include bonds secured by utility, transportation and tax revenues that are currently rated above the municipality’s Issuer Default Rating (IDR).

Through a series of provisions, Chapter 9 protections have resulted in special revenue obligations receiving current payments from available net pledged revenues during the pendency of every municipal bankruptcy since enacted in 1988. These provisions protect special revenue obligations by continuing the lien on post-petition revenues (outlined in section 928(a)) and relieving bondholders from the constraints of the automatic stay provisions of the code (section 922(d)). This allows enforcement of the lien for the purpose of applying net pledged revenues to payment of the special obligation debt payment due.

Section 928(b) specifies that “necessary operating expenses” will be paid prior to debt service where special revenues are derived from a project or system. This alleviates the concern that bondholder payments might be placed above the health and safety of the municipality and its residents when resources are scarce.

The court's opinion appears to introduce a new gloss on the purpose and application of section 922(d). It states that 922(d) was included in the code only as permission for a municipality to continue paying special revenue obligations if it chooses to do so during bankruptcy. This is inconsistent with Fitch's prior understanding of the purpose of 922(d) for two reasons. First, the municipality already has the right to pay obligations of its choice during the proceeding as a general principle. This right is embedded in section 904, which places the municipal debtor in command of its assets and liabilities throughout the process without court intervention. A specific provision authorizing payment of special revenue-backed debt is unnecessary, redundant and not in keeping with Congressional intent. Examples of payments to unsecured creditors during the pendency of a bankruptcy include Central Falls' opting to continue debt service payments on its GO debt and the continuation of required pension contributions by Detroit and Stockton.

The second reason we were surprised by the court's interpretation of 922(d) is that the automatic stay provisions in section 362 act as a constraint on actions by creditors — not debtors — to enforce liens following the filing of a bankruptcy proceeding. The provisions of 922(d) are an explicit exception to this constraint which was clearly intended to allow creditors with a special revenue obligation lien to enforce any currently due debt service payments while the bankruptcy case proceeds. It is correct that the provisions of 922(d) do not create an automatic obligation of the debtor to make the payment — that obligation exists in the underlying bond documentation. 922(d) simply removes a constraint on enforcement by bondholders of rights to receive payments of debt service due.

One of the plaintiffs in the case has already appealed the court's decision, and it will be reviewed by the first circuit court of appeals. Pending the outcome of that appeal Fitch will continue to treat special revenue obligations as separated from the related IDR.

A final court ruling that payment of special revenue obligations during a bankruptcy is optional would create uncertainty about full and timely payment of special revenue obligations, potentially removing the basis for rating special revenue obligations above a municipality's IDR. For example, airport revenue bonds and water and sewer bonds issued by the city of Chicago might be capped at the city's 'BBB-'/Stable IDR. Chicago's sales tax securitization corporation's 'AAA' revenue bond rating would not be affected, as the corporation is a separate entity that would not be affected by a bankruptcy of the city.

We do not believe notching above the IDR to reflect perceived recovery prospects of special revenue debt would be warranted given that there would be new uncertainty around the level of recovery in a future bankruptcy. Existing Fitch criteria allow us to reflect potential recovery in post-bankruptcy security ratings to the extent prospects for recovery become apparent.

Contact:

Amy Laskey
Managing Director
+1-212-908-0568
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Thomas McCormick
Managing Director
+1-212-908-0385

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com

Additional information is available on www.fitchratings.com

Lower U.S. Taxes May Dent Insurers' Demand for Municipal Bonds.

- **'There's really not going to be that much interest.'**
- **Property, casualty insurers hold about 10 percent of munis**

Put on the Taylor Swift and pull out the Ben & Jerry's ice cream: The municipal-bond market's long relationship with property and casualty insurance companies may be breaking up.

That's because last year's tax overhaul slashed corporate rates to 21 percent, making tax-exempt debt less attractive to a segment of the insurance industry that has $342 billion in municipals, accounting for one-third of its debt investments, according to Federal Reserve data. That's threatening to pose another potential drag on the $3.8 trillion market, where prices have been sliding amid concern the Federal Reserve will increase interest rates more aggressively to slow the economy.

"There's really not going to be that much interest from insurance companies anymore," said Rich Sega, chief investment officer of Conning, which manages investments on behalf of insurers and oversees more than $9 billion in municipal bonds. "On average, it just raises the cost of municipal financing."

Too Late to Say Goodbye

Munis will be less attractive to property and casualty insurers due to lower corporate taxes

Property and casualty insurance companies are already looking to the exits. Citigroup Inc. analyst Vikram Rai said weaker demand from property and casualty insurers was one factor behind the recent downturn in the municipal market, which has already lost 1.3 percent so far this year.

Don McDonald, the chief executive officer of Prime Advisors, which oversees about $17 billion, is working with "many" companies on whether they should sell municipal bonds and shift into other asset classes.

Property and casualty insurers are likely to be "net sellers" in the first quarter, he said, forecasting that the companies' allocations to municipals will drop by 2 to 4 percentage points during the quarter.

"New purchases would have less value," McDonald said. "That's the bottom line – there's no question."

Property and casualty companies have been "cautious" about buying more state and local debt since the tax bill was enacted in December and are likely waiting for interest rates to rise enough to make it worth while, said Matt Caggiano, who helps oversee more than $9 billion of insurers' municipal holdings at Deutsche Asset Management.

Companies will be more attracted if municipals cheapen relative to U.S. Treasuries, he said, speculating that the entry point would be when yields on 30-year municipals rise above 100 percent of Treasuries. That gauge stood at about 96 percent on Wednesday.

Don't Grab Tissues Yet

The portfolios that Caggiano helps oversee for property and casualty insurance companies have allocations to municipals ranging from about 30 to 50 percent, he said. While he anticipates they could cut the amount they allocate over the next year or two, he said it's unlikely that they would reduce their overall muni holdings below 20 percent, given that the securities are among those least prone to default.

"You might see property and casualty insurers decide that's the lowest they want to go," he said.

Payden & Rygel Investment Management, which oversees $3 billion in tax-exempt and taxable municipals for clients including insurers, estimates that even with the lowered tax rates, AA and A rated municipals maturing in 20 and 30 years offer the same or higher after-tax yields than similar corporate bonds. That wasn't the case with AAA and BBB rated municipals, according to an analysis of bonds maturing from two to 30 years.

But Ksenia Koban, a vice president at the firm, said the companies won't exit the market completely. "Portfolios are still going to contain a good number" of the securities, she said.

Life insurers may also help make up for the drop-off in demand. Under the new tax law, those companies will pay taxes on just 30 percent of what they receive from tax-exempt municipal bonds, eliminating a previous uncertainty about how they would be taxed that gave them a disincentive to buy state and local debt.

Property and casualty insurance companies might be less interested in the tax-exempt municipal market, but they will likely still be big buyers of taxable municipals, a much smaller segment of the market that accounted for about $34 billion of sales last year.

Prime Advisors has added to its exposure to taxable municipals over the last two years, McDonald said. "Taxable municipals are a great alternative," he said.

Bloomberg Politics

By Amanda Albright

February 9, 2018, 6:23 AM MST

[Bloomberg Brief Weekly Video - 2/8]

Taylor Riggs, a contributor to Bloomberg Briefs, talks with editor Joe Mysak about this week's municipal market news.

Watch video.

Bloomberg

February 8th, 2018

What the Budget Deal Means for States and Localities.

Congress agreed on a two-year bipartisan spending deal just before dawn on Friday, after a brief shutdown of the federal government, which was the second shutdown in as many months.

The agreement, which President Trump has indicated that he will sign, increases spending by $300 billion over the next two years. Slightly less than half of that increase is slated for domestic programs.

John Hicks, executive director of the National Association of State Budget Officers, called the deal "the first salvo of federal budget certainty" that state and local governments have enjoyed in the Trump era.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | FEBRUARY 9, 2018

Credit FAQ: An Overview Of S&P Global Ratings' Updated Methodology For Rating U.S. Solid Waste System Financings.

On Jan. 29, 2018, S&P Global Ratings published its updated criteria for rating solid waste systems in the U.S. The update is part of our regular criteria review process, and its goal is to provide additional transparency and comparability to help market participants better understand our approach…

Continue Reading

Jan. 29, 2018

S&P RFC Process Summary: Solid Waste System Financings

On Aug. 21, 2017, S&P Global Ratings published a request for comment (RFC) on its proposed criteria, "Solid Waste System Financings". As more fully described in the RFC, the proposed criteria provide additional transparency and comparability to help market participants better understand our approach…

Continue Reading

Jan. 29, 2018

Criteria FAQ: S&P Global Ratings' Approach To Rating U.S. Local Government Bonds Secured By Dedicated Limited Ad Valorem Tax Pledges.

On Jan. 22, 2018, S&P Global Ratings published its methodology "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" (Ratings Linked). These criteria include debt backed by an obligor's limited ad valorem property tax pledge, even if that pledge is dedicated for debt service.

Continue Reading

Feb. 5, 2018

S&P: Puerto Rico Court Ruling Supports Our View That Credit Fundamentals Remain Key To Ratings

NEW YORK (S&P Global Ratings) Feb. 5, 2018—S&P Global Ratings today said that the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) bankruptcy judge's recent decisions to dismiss bondholders' claim that their secured status entitles them to full and timely payment…

Continue Reading

Feb. 5, 2018

Neighborly Insights: Pension Obfuscation Bonds, Contemplating Tolls in the Bay Area, UT and MN, Marijuana in VT.

Read the Neighborly Insights.

Posted 02/05/2018 by George Friedlander

Neighborly Insights

Neighborly Issuer Brief: A Volatile Stock and Bond Market Makes for a Difficult Space for Munis and Issuers.

Read the Neighborly Issuer Brief.

Posted 02/09/2018 by George Friedlander

Trendy Green Bonds Offer Little Beyond Feel-Good Vibes For Issuers, Investors

Although green bonds are growing in popularity in the municipal market, the largely unregulated structure may not amount to much more than a marketing tool to drive interest in an issuance.

Municipal green bond issuance totaled $11 billion in 2017, a record high and a 55% increase above 2016, according to the Climate Bonds Initiative (CBI). CBI expects that number to grow to $20 billion in 2018.

Green bonds rarely offer any distinction from traditional muni debt, financing the same projects and often without oversight to ensure the projects are green. While some issuers seek approval from CBI or Sustainalytics, there's no formal regulatory process to ensure the market avoids greenwashing, or applying the green label to projects that may not serve truly sustainable purposes.

As a result, the green label is not always limited to projects that make eco-friendly improvements. For example, a water system financing new pipes but not improving business practices to make them green, or a parking structure that offers battery chargers for electric cars are examples of projects not delivering on green benefits, an underwriter and portfolio manager told Debtwire.

But no investment is more fundamentally focused on improving people's lives than the municipal bonds. The explicit purpose of the $3.8 trillion municipal market is to function for the public good, with most issuances financing investment in our nation's infrastructure: building schools, hospitals, roads, public transportation, and utilities, including public power, water and sewer systems.

So why do municipal issuers bother with the green bond label? Ultimately, it's a marketing technique, used to generate interest in a new issuance and to attract interest from millennials or other investors searching for green and sustainable investments, according to market sources— an underwriter, portfolio manager and issuer—specializing in green bonds. More demand should, in theory, drive the cost of borrowing down, resulting in cost savings for the issuer. However, significant cost benefits as a result of issuing green bonds have not materialized, these sources said.

New York's Metropolitan Transportation Authority (MTA) is one issuer that's revised their strategy to favor green bonds. MTA began issuing green bonds in 2016, and in an interview with Debtwire, disclosed that they've determined that going forward, the majority of its debt will be issued as green bonds, in line with its function as a mass transit operator. Unlike some green bond issuers, MTA does pursue third-party certification for its issuances, verifying their "green-ness."

But the security structure—what pays off the debt—is no different than when MTA comes to market with traditional revenue bonds, supported by a pledge of transportation revenue, or sales tax-backed bonds, and that's the same for any issuer that decides to embrace a green strategy.

Savvy green bond investors should do their homework and learn about what they're purchasing to make sure there is something beyond the label.

Forbes

By Maria Amante

Feb 9, 2018

Maria Amante is a reporter for Debtwire covering stressed credits in New York, California, Alaska, *higher education and continuing care retirement community sectors. She can be reached at Maria.Amante@acuris.com.*

Opinions expressed by Forbes Contributors are their own.

Multiple Factors Drive Upswing of Bankruptcies, Closures Among Rural Hospitals.

LOS ANGELES — The number of Chapter 9 bankruptcies by rural hospitals has climbed over the past five years as populations shrink and federal reimbursements decline.

In the last five years, not including this year's first filing, 13 hospitals have filed for Chapter 9, said Matt Fabian, a principal with Municipal Market Analytics.

With the distress in the sector trending up, Fabian said, it was no surprise that the first Chapter 9 bankruptcy filing of the year is a rural healthcare district.

Surprise Valley Health Care District, a 26-bed hospital in Cedarville, a small northern California town near the Nevada border, filed for Chapter 9 bankruptcy protection on Jan. 4.

The hospital district's board declared a state of fiscal emergency ahead of the filing, saying area residents' "health, safety and well-being" would be put at risk without the bankruptcy protection because it would be unable to meet its financial obligations within 60 days, according to bankruptcy documents.

The hospital, which has no bond debt, has asked the Eastern District U.S. Bankruptcy Court in Sacramento to authorize a $1.5 million debtor-in-possession loan from CadiraMD, a Denver-based medical testing company with which it plans to partner. The loan is contingent on a number of factors including the sale of the hospital.

Surprise Valley HCD is the second rural California hospital to file Chapter 9 bankruptcy in recent months.

In the Central Valley, Tulare Local Health Care District, with $84.1 million in general obligation debt and $13.6 million of outstanding revenue bonds, filed for bankruptcy in early October. Its Tulare Regional Medical Center closed Oct. 29 and a hearing on a motion for summary judgment in the bankruptcy is slated for March 21.

"Bankruptcy is unlikely to impair the district's GO bond payments, though risk is elevated given the challenges facing the district," Moody's Investors Service said in a report Thursday. "Payments on the $84.1 million in GO debt should not be affected given legal and structural features of the district's GO bonds, which shield bondholders from hospital operations.

Tulare missed a principal payment of its revenue bonds in November. "Revenue bondholders will remain at greater risk for additional defaults during the bankruptcy process," according to Moody's (MCO).

Last year, Atoka County Medical Center in Oklahoma, the Gainesville Hospital District in Texas and the Kennewick Public Hospital District in Washington also filed for Chapter 9 bankruptcy protection.

Since 2010, 83 rural hospitals – or eight to ten a year – have closed, said Mark Holmes, the director of the North Carolina Rural Health Research and Policy Analysis Center.

Though iVantage Health Analytics puts the number of rural hospitals at risk of closing around 600, Holmes said he believes the number is much smaller.

The financial distress index that the North Carolina rural health policy center developed in 2015 estimates that 6% of the country's 2,264 rural hospitals are at risk of closure, Holmes said.

Financial indicators such as operating margin, benchmark performance and retained earnings are the strongest indicators of financial distress, but hospital size and market poverty rates are also influential, Holmes said.

The North Carolina rural health policy center also looks at the size of the community, how far the hospital is from competitors, market share and the area's unemployment rate, he said.

Fabian ticked off a list of challenges for rural hospitals that can make them a risky investment: They are small. They skew more toward reliance on reimbursement from the federal government and insurance, so they struggle with reimbursement rates. It's harder to keep them fully staffed. The patient numbers are more inconsistent. And the long-term demographics show Americans are moving out of rural areas.

Rural hospitals in states that expanded Medicare under the Affordable Care Act like California are considered at less risk because they qualify for a higher rate of federal reimbursements for poor and elderly patients, but that is only one factor of many that are impacting small town hospitals, said Todd Sisson, a Wells Fargo (WFC) senior portfolio analyst for healthcare.

"I have been cautious about hospital investments in non-expansion states, and California is the poster child for expansion policies, but small hospitals just have a hard time," Sisson said.

The Obama administration established a policy in which states that did not create ACA programs would not receive supplemental funding while states that did expand the number of poor and elderly served under their Medicaid programs do receive such funding.

The closures have been more heavily concentrated in southern states, but many factors that predate the ACA are pressuring those hospitals, Holmes said.

For more than 20 years, hospitals in the south have been less profitable than other areas of the country," Holmes said. "They tend to have smaller market sizes. Medicaid tends to pay less, and cover few people, in those states and reimbursements from private insurers are less."

In rural areas all over the country, population shifts have resulted in shrinking numbers and a high concentration of senior citizens.

Though older residents tend to use hospital services more, they make hospitals more dependent on reimbursement from the federal government, because many pay hospital bills with Medicare, Holmes said.

Holmes has taken note of the rural hospital bankruptcies in California, but his policy center has not studied what risk factors are specific to the state.

Technological changes are a factor pressuring rural hospitals everywhere. Medicare payments have shifted from a prospective system of fixed payments for a treatment to value-based payments tied to efficiencies and performance, Sisson said.

"You need more sophisticated technology systems to track metrics to qualify for value-based care and smaller hospitals don't have the balance sheet to pay for that," Sisson said. "That is why you are seeing a lot of hospitals trying to merge with larger providers that have more supportive IT systems."

That doesn't always work for all small rural hospitals, because often larger systems, interested in adding hospitals, want them to act as satellites focusing on outpatient care, he said.

ACA also has resulted in more private practice physicians migrating to larger hospital systems, because the billing and insurance is more complicated under the system, Sisson said.

"We have seen a ramp up in merger activity and we expect it to continue, because reimbursements are going to continue to be stressed," he said.

Changes in healthcare resulting in less time spent in hospitals and more treatments handled through out-patient procedures can also mean that rural hospitals have more beds than they need, Holmes said.

"My research indicates that the original purpose of healthcare districts was to encourage hospital facilities and healthcare in rural areas and allow them to borrow money through public finance and tax people," said Ron Winters, a managing director for Healthcare Management Partners, a consulting company that specializes in turnarounds.

That idea might not be as relevant as when it originated in the early 20th century, Winters said.

"When the financings were originally done, it was a different environment, rural hospitals could be expected to earn a certain amount of money and pay off the debt," Winters said. "Now, the life of the hospital could be shortened, so it doesn't match the lifespan of the debt."

As a municipal bond investor, Sisson said Wells Fargo (WFC) is more comfortable with larger, multi-state systems.

"We have high-yield funds, but we are cautious of rural hospitals in non-expansion states," Sisson said.

It's not just rural hospitals for which Municipal Market Analytics would throw down a caution flag, Fabian said, but also the cities that are served by the hospitals where they can be major employers and affect the local economy.

"Cities that are reliant on the rural healthcare provider should be seen as high risk," he said.

By Keeley Webster

BY SOURCEMEDIA | MUNICIPAL | 02/08/18 07:04 PM EST

The Economy Is Full of Crypto (And Collective Delusion).

We have talked a few times around here about a socialist republic that has been hit hard by sanctions imposed by the U.S. government and that, in response, is planning to issue its own cryptocurrency to raise money. I mean Venezuela. Venezuela's government is the one that is planning to issue a cryptocurrency to replace money that it has lost due to the policies of the U.S. federal government. In other news:

> The City of Berkeley, one of the epicenters of liberal California, is considering a turn to cryptocurrency to reduce its reliance on federal funding in the Trump administration.
>
> Berkeley would become the first city in the US to hold an initial coin offering (ICO) — a type of crowdfunding campaign that's become popular in the past year. The city would raise funds by selling digital assets called "tokens" that are backed by municipal bonds, a type of security issued by the local government.

Continue reading.

Bloomberg View

By Matt Levine

February 11, 2018, 7:00 AM MST

Berkeley, Calif., Plans for First Muni Bond Issued on Blockchain.

Elected officials in the city are working with a startup and university faculty to try to revamp the municipal bond issuance process.

That slow-moving stalwart of investing, the old municipal bond, is about to meet the trendiest tech in the country right now: blockchain.

The mayor and one councilmember in Berkeley, Calif., announced this week that they are partnering with the startup Neighborly and the Blockchain Lab at the University of California, Berkeley to attempt the first-ever tokenized municipal bond. They hope to make the process faster, cheaper, more transparent and more accessible to community members.

Basically, they want to sell city debt the same way cities always have — to fund projects that the regular budget can't or won't cover — but they want to digitize the process and record it on the blockchain. That means recording it digitally in a public ledger constructed with mathematical proof backing up every transaction. The people behind the initiative want to open the bond to investors using both U.S. dollars and some as-of-yet-unspecified cryptocurrency.

Continue reading.

GOVTECH.COM

BY BEN MILLER / FEBRUARY 9, 2018

Berkeley to Use Blockchain Technology to Combat Homelessness.

The city of Berkeley may soon launch an "initial community offering" as part of an effort to use blockchain technology to combat homelessness and housing issues. This would make Berkeley the first city in the United States to sell digital "tokens" as part of a crowdfunding campaign, according to a Tuesday press release.

In the press release, Mayor Jesse Arreguín and City Councilmember Ben Bartlett announced the founding of the Berkeley Blockchain Initiative, through which the tokenized municipal offering will be hosted. The initial community offering is similar to an initial coin offering, which is a cryptocurrency fundraising system. However, the tokens distributed by the initial community offering will represent real security for a specific purpose instead of potential future values, according to Kiran Jain, chief operating officer and general counsel of Neighborly.

Neighborly, a technology firm aiming to modernize municipal finance, and UC Berkeley Sutardja Center's Blockchain Lab will collaborate with the city on the initiative.

"We are always looking at new technology, trying to figure out how we can apply them in new ways to benefit our city," Bartlett said.

City Council began exploring blockchain technology about a year ago as part of the city's efforts to explore alternative methods of funding in anticipation of a possible decrease in federal funding from the Trump administration, according to Bartlett.

According to Jain, the project still has to receive official approval from City Council, along with other necessary approvals, which will likely happen about mid-May.

Jain said the process for conducting the initial community offering itself "is similar to what you'd see for a municipal bond" in terms of how the funds are raised. The official term for the process is a "tokenized municipal offering," and it is akin to an initial coin offering, except it is "fully compliant with all U.S. regulations and for low-cost tax-exempt debt rather than equity or utility token."

The initiative's leaders intend to direct the proceeds toward affordable housing projects in Berkeley.

The money raised from the community offering "can be directed towards whatever the community wants to fund," according to Bartlett. Buyers will purchase tokens backed by municipal bonds, and the proceeds can support housing projects and homelessness services.

Berkeley has a long history of combating housing issues through innovative measures, such as researching tiny homes as a possible response to the city's housing crisis.

"Cities must look towards innovative funding mechanisms to solve our most intractable problems, especially in the face of diminished federal support," Arreguín said in the press release. "Berkeley is proud to once again be leading the way."

THE DAILY CALIFORNIAN

BY LUKE KOPETSKY | STAFF

LAST UPDATED FEBRUARY 8, 2018

Contact Luke Kopetsky at lkopetsky@dailycal.org and follow him on Twitter at @LukeKopetsky.

[City of Berkeley Looks to Cryptocurrency to Raise Funds.]

- **California city is mulling applying blockchain to public debt**
- **Investors could buy either a digital coin or municipal bond**

In what might be a first for the $3.8 trillion municipal bond market, Berkeley, California is mulling a proposal to apply blockchain technology to public finance as a way to raise funds for community projects.

Under the initiative, the city would go to market with a public initial coin offering, allowing investors a chance to purchase either monetized digital tokens or municipal bonds issued in U.S. dollars. Coupon payments would be the same for those buying the bonds as those investors who want the digital currency instead.

The city is still working out the details, such as figuring out if voter approval would be needed to borrow the money and what kind of projects should be financed. City councilman Ben Bartlett said funds could be used to help pay for affordable housing, a critical issue for the expensive San Francisco region.

"We thought we'd get creative and figure out a way to finance our needs to take care of our people," Bartlett said in a telephone interview.

The municipal-bond market isn't often associated with cutting edge technology. With a vast number of issuers and no central exchange, it has long been considered opaque in comparison to more easily traded investments like corporate debt and equities.

Lower Costs

Berkeley is working with Neighborly Corp., an online startup that says it raises money for civic projects though municipal bonds, as well as the UC Berkeley Blockchain Lab, a research center for cryptocurrency technology.

Applying blockchain — a platform that uses so-called distributed ledgers to allow digital assets to be traded securely — could lower costs for municipal borrowers, as well as make it cheaper and easier for local residents to invest, said John Crossman, principal at Neighborly Securities, the San Francisco-based company's underwriting arm.

For investors, they can buy the Berkeley coin directly and with less risk of mark-ups from middle-men, he said. For municipalities, savings could come from needing less from lawyers and advisers and achieving standardized documents, he said.

Since the securities would be issued and paid out in U.S. dollars, volatility in cryptocurrencies would have little impact on them, and network fees would be minimal as well, he said.

"If we can deliver on our mission, this will be a very attractive alternative for other cities and states and counties," Crossman said.

The Municipal Securities Rulemaking Board, which oversees the muni market, would have a role making sure regulations are followed in such offerings that involve market professionals such as financial advisers and underwriters, said executive director Lynnette Kelly by telephone.

“It’s certainly novel, innovative and creative,” she said of the initiative.

Bloomberg Technology

By Romy Varghese

February 8, 2018

[Airports Call for Infrastructure Investment and Regulatory Relief.]

Airports Council International – North America (ACI-NA) on Feb. 12, called on the Trump Administration and Congress to identify a clear funding mechanism to address the significant infrastructure needs of America’s airports following the unveiling of the Rebuilding Infrastructure in America proposal by President Donald J. Trump.

“The infrastructure proposal put forward by President Trump addresses a number of regulatory burdens long identified by the airport industry as barriers to infrastructure development,” said ACI-NA President and CEO Kevin M. Burke. “Airports will continue to pursue legislation that will not only provide meaningful regulatory relief but also a clear investment mechanism to meet the $100 billion in well-documented airport infrastructure needs across the country.”

ACI-NA also released its own set of airport infrastructure principles that should be addressed by any infrastructure plan. By acting on these principles, Congress can provide airports with greater flexibility and local control to better serve their passengers and benefit their local communities now and into the future.

Modernize the Passenger Facility Charge Program

The Passenger Facility Charge (PFC) is a local user fee airports can use to upgrade their facilities, improving the passenger experience and spurring airline competition. Congress should give airports the locally controlled self-help they need to finance critical infrastructure projects by eliminating the outdated federal cap on the user fee and streamline the cumbersome application and approval process to reduce construction costs. Congress also has the opportunity to enhance airport security by expanding PFC eligibility to include all security projects that airports are responsible for funding.

Enhance the Airport Improvement Program

The Airport Improvement Program (AIP) – supported entirely by users of the aviation system with no general fund revenues used for AIP grants – finances crucial safety, security, and capacity projects at airports of all sizes. In order to continue to be a viable funding mechanism for airports, AIP needs to be updated by Congress. Needed updates to the program include an increase in the amount of money contributed annually to AIP and the creation of an airport terminal development grant program.

Relieve Costly Land-Use Regulatory Burdens on Airports

Reducing the regulatory burden on airports would empower them to act in a business-like manner that accelerates innovation, construction, and job growth. To reduce the unnecessary federal red tape that can slow airport-development projects, Congress should eliminate the requirement for FAA approval for airports to dispose, use, or lease non-airfield property purchased without federal funding. Congress should also eliminate the requirement that FAA approve non-aeronautical improvements.

Help Airports Finance Critical Infrastructure Projects with Bonds

Airports often turn to the bond market to help finance their infrastructure projects. To help lower airport borrowing costs, Congress should maintain the tax-exempt status of public purpose municipal bonds and private activity bonds to ensure that airports can continue to finance critical infrastructure projects. In addition, Congress should exclude interest earned on airport private activity bonds from the alternative minimum tax and Allow advance refundings on all municipal bonds.

Establish an Airport Security Grant Program

In accordance with an Aviation Security Advisory Committee recommendation, Congress should establish an airport security-focused grant program at TSA to support the deployment of perimeter, access control, automated screening lanes, and other security technology at airports. Airport operators have limited funding available that must be prioritized across a multitude of safety, security, and operational projects. While DHS's existing grant programs have dispensed billions of dollars for systems and technology to bolster state, tribal, and local security, very little, if any, has been allocated to airports.

aviationpros.com

As White House Prepares To Unveil Infrastructure Proposal, Nation's Mayors Outline Priorities To Get America Moving With A Cities-First Agenda.

USCM President Mayor Mitch Landrieu: "No credible plan can ignore America's cities."

Washington, DC— As the White House releases its infrastructure plan, it will begin a national debate on the improvements needed to shore up the foundation of the nation's economy and ensure the future growth and opportunity in cities and other communities. The bipartisan U.S. Conference of Mayors (USCM) today released its plan for what are essential components of a strategy to rebuild and modernize the nation's critical infrastructure. Mayors set forth priorities last June in the Mayors' Agenda for the Future with its updated infrastructure recommendations in January, proposals that can inform and support Congress and the Administration as they craft new infrastructure policy and investments.

"Leadership at all levels of government requires presenting bold ideas that are informed by the experts on the ground – in this case, the nation's mayors," said **Mayor Mitch Landrieu of New Orleans, President of the U.S. Conference of Mayors**. "Cities remain the country's economic engine, and as such mayors of both parties are looking for a plan that benefits all Americans where they live and takes full advantage of any additional infrastructure investments to build more equity in our economy, create a more inclusive workforce, and support financially distressed communities. No credible plan can ignore America's cities."

The U.S. Conference of Mayors' priorities include:

- Local government is the most trusted authority to appropriately allocate funding to meet needs:

place cities first by going directly to where the jobs are and provide direct funding to local government as the most efficient investment strategy.
- A proven way to accomplish this outcome is to deliver resources directly to cities and counties through the CDBG (Community Development Block Grants) program and funds to local areas for surface transportation needs through the State and Local Block Grant Program.
- Increase funding to the State Revolving Fund to support additional no-interest, low-interest loans, loan forgiveness, and technical assistance grants to local governments and fully fund the Water Infrastructure Finance and Innovation Act (WIFIA).
- Enable a stronger partnership between federal and local governments to speed the transition to renewable, job-creating energy systems like wind and solar.
- Modernize our ailing waterways.By increasing investment in the Army Corps of Engineers and unlocking $9 billion dollars in the Harbor Maintenance Trust Fund, we can improve the way goods and people move around.
- Thirty million Americans lack access to broadband. Give local communities the power to own and operate public broadband networks.

"The number of Americans living in cities and towns is increasing every year and the optimal plan will make sure all of America benefits. We look forward to reviewing the White House's plan and engaging in productive, bipartisan conversations around legislation and funding priorities that cities can support with leaders in Washington."

At the 86th Annual USCM Winter Meeting last month in Washington, D.C., mayors of both parties participated in a thorough discussion with DJ Gribbin, Special Assistant to the President for Infrastructure Policy on the Council of Economic Advisors, on how the Administration's policies will affect local communities.

Trump Infrastructure Plan Wants to Stop 'Overreliance' on Federal Money.

The president's long-awaited infrastructure plan pushes state and local governments to spend more, but offers them a smoother path to getting federal regulatory approval.

State and local officials who have clamored for years for the federal government to increase spending on infrastructure projects like highways, transit and water systems won't get much new money under President Donald Trump's infrastructure package. But they could get help building those projects more quickly.

There are few surprises in the broad outline of Trump's long-awaited infrastructure plan, as described by a senior White House official this weekend and set for release Monday. That could be disappointing news for many state and local leaders who have been skeptical of the effort.

The administration wants state and local governments to pay more for infrastructure, and it wants the federal government to speed up its approval processes for those projects.

Continue reading.

GOVERNING.COM

BY DANIEL C. VOCK | FEBRUARY 11, 2018

Rep. John Katko Proposes $1 billion to Upgrade Water Infrastructure Systems.

A bill introduced by U.S. Rep. John Katko would provide $1 billion over five years for water infrastructure projects and streamline the application process to help states seeking funding for system upgrades.

The main objective of Katko's bill is to advance projects receiving funding through the State Revolving Fund. He also wants to preserve the Water Infrastructure Financing and Innovation Act, which has supported local water system improvements across the country.

The legislation sponsored by Katko, R-Camillus, would provide $200 million annually over a five-year period to support state revolving fund projects. It would waive a $100,000 application fee for states if projects are bundled.

Another change proposed in the bill is streamlining the federal approval process by allowing projects to receive funding without the Environmental Protection Agency needing to process more loan applications.

There are significant water infrastructure issues in Katko's district. The presence of harmful algal blooms in Owasco Lake, which provides drinking water to the city of Auburn and towns in Cayuga County, has spurred a multi-million dollar response to ensure the drinking water remains safe for residents.

Algal blooms have also been found in Cayuga and Skaneateles lakes, both of which are at least partly in Katko's district.

"In Central New York and communities nationwide, we need to focus on updating our water infrastructure systems to ensure safe, reliable drinking water is available," Katko said in a statement Friday.

Central New York elected officials backed Katko's effort. Oswego Mayor Billy Barlow said if the bill passes, it would provide a significant boost to his city's water infrastructure.

Onondaga County Executive Joanie Mahoney echoed that sentiment.

"(Katko's bill) will provide the additional funding needed to ensure that we can continue investing in our water systems for every resident and business," Mahoney said.

The legislation introduced by Katko is cosponsored by U.S. Rep. Earl Bluemenauer, an Oregon Democrat. The Senate version of the bill has bipartisan support, too. It was introduced by Republican U.S. Sens. John Boozman and James Inhofe and Democratic U.S. Sens. Cory Booker and Dianne Feinstein.

auburnpub.com

Robert Harding
robert.harding@lee.net

Feb 3, 2018

House Dems Call for 5 Times More Infrastructure Spending Than What's Expected in Trump's Plan.

WASHINGTON — Democrats in the U.S. House on Thursday called for $1 trillion of federal infrastructure spending on public assets such as roads, railways, high-speed internet and schools.

A group of Democratic lawmakers made their pitch in advance of Monday's slated White House release of "principles" for President Trump's long-anticipated infrastructure proposal. Administration officials have indicated that the Trump plan will call for about $200 billion of direct federal spending over a decade.

"The president talks a big act, but then he proposes a small bill," House Minority Leader Nancy Pelosi, of California, said at a press conference. She described the president's approach to infrastructure as a "disappointment" and said it would shift burdens onto city and state budgets.

Continue reading.

Route Fifty

By Bill Lucia,
Senior Reporter

February 8, 2018

Tunnel Shows Risks of Trump Public Works Plan.

President Donald Trump's war with his hometown over one of the nation's priciest transportation projects shows the challenges ahead for his plan to upgrade crumbling public works by having locals pay more of the bill.

The $30 billion Gateway proposal, which includes a new rail tunnel under the Hudson River between New York City and New Jersey, has bogged down in an acrimonious fight with the states as Trump prepares to roll out his infrastructure plan on Monday.

Democratic senators from New Jersey and New York are blocking Trump's transportation nominees until he commits federal funds to Gateway. The administration rejected an earlier deal to split the cost, saying it's a local project — even though the tunnel would help bind the entire Northeast corridor to the New York area.

The president's infrastructure plan is expected to propose spending at least $200 billion over the next decade, largely to spur states, localities and the private sector to provide the balance of at least $1.5 trillion.

State and local officials — loath to raise taxes or levy tolls — want more help. While Gateway is unique for its scope and gritty politics, standoffs with Washington could play out across the nation if Trump's plan to shift the burden of financing improvement projects to states and local governments succeeds.

"What they're going to be hearing from governors and mayors and people all over the country is, ‘We don’t have the money,’ particularly for projects of national significance, which the Gateway project is,” said Ray LaHood, a Republican and former transportation secretary under President Barack Obama.

Weakest link

The administration expects to release the president’s plan on Monday, the same day he submits his fiscal 2019 budget blueprint to Congress. Half of the new federal money would go toward incentives to spur non-federal entities that own most U.S. infrastructure to raise and spend their own funds, rather than for specific projects.

The needs are great, with the American Society of Civil Engineers estimating an additional $2 trillion is required by 2025 just to restore public works to a “B” grade level. But the Hudson tunnel dispute shows how hard it might be to conjure money for even the most crucial and high-profile projects.

Hurricane damage

The Gateway project includes a new $13 billion tunnel with two tracks that would supplement a decaying, century-old tunnel that’s failing because of its age and saltwater flooding from Hurricane Sandy in 2012. That tunnel provides the only direct train link between New Jersey and Manhattan for New Jersey Transit and Amtrak.

The Obama administration described the tunnel as the nation’s most urgent rail infrastructure need. It is critical to the Northeast corridor, which carries more than 750,000 passengers daily and serves a region that produces about 20 percent of the gross domestic product, according to Amtrak. A 2016 Amtrak report found that implementation of the full Gateway project could generate $3.87 worth of economic benefits for every $1 spent.

Mixed signals

After New Jersey Gov. Chris Christie killed an earlier tunnel plan in 2010, saying taxpayers would be on the hook, the project appeared to revive. The cost-sharing agreement with the Obama administration was announced in November 2015 by Christie, New Jersey Sen. Cory Booker, New York Gov. Andrew Cuomo and New York Sen. Charles Schumer.

The Trump administration has sent mixed signals about Gateway since the president took office. After Transportation Secretary Elaine Chao called Gateway “an absolute priority” in testimony before the Senate Environment and Public Works Committee last May, the department withdrew from the board overseeing the project, Democrats said.

Schumer and Senate colleagues from New York and New Jersey then began holding up the confirmation of Transportation Department nominees. Schumer cited “the lack of focus on infrastructure investment by the current administration, and the continued roadblocks the administration has erected in front of the Gateway project” in a Nov. 13 statement opposing Derek Kan as undersecretary of transportation.

On Dec. 29, the Federal Transit Administration sent a letter to New York state’s budget director saying “there is no such agreement” to finance half the cost of Gateway. Deputy Administrator K. Jane Williams also questioned “the responsibility for funding a local project where nine out of 10 passengers are local transit riders.”

Senate slow-walk

“You get the feeling the feds just don’t have any real funds for infrastructure, so they want to knock down this expensive project,” said Tom Wright, president of the Regional Plan Association, a New York urban policy group.

The nominations and the Gateway project should be considered on their own merits, said Jeffrey Rosen, deputy Transportation secretary. He said it was particularly important to seat Ronald Batory to lead the Federal Railroad Administration after recent fatal derailments.

“From our vantage point, the nominations and those New York and New Jersey transit projects are totally separate issues, and we think they should have been kept separate,” Rosen said in a telephone interview.

Democratic support

Wright said the administration needs Democratic support to pass an infrastructure bill, and Gateway could be a major negotiating chip. Williams’ letter to New York pointed out that “Congress is poised to begin discussing infrastructure legislation in the coming weeks.”

Democratic Sen. Kirsten Gillibrand of New York raised Gateway funding in “a pretty heated discussion” during a Jan. 9 meeting with Trump administration officials about their infrastructure proposal, according to Sen. Tom Carper of Delaware, the top Democrat on the Senate Environment and Public Works Committee.

Gillibrand became angry when Chao said there would be no funding because Democrats are holding up nominations, according to a source familiar with the meeting who requested anonymity to discuss a private gathering.

LaHood said that the Gateway battle could be seen as both a political struggle between two New Yorkers, Trump and Schumer, and a striking example of the philosophical change the administration is trying to establish over the role of the federal government.

There are many large projects across the U.S. for which states and cities just don’t have the resources to build without federal help, LaHood said. It will be up to Congress, which will write and pass any infrastructure legislation, to decide whether Washington continues to play the role it has.

“The $64 billion question is, is Congress willing to change the philosophy on that?” he said.

The Associated Press

February 8, 2018

Trump’s Infrastructure Plan May Ignore Climate Change. It Could Be Costly.

WASHINGTON — President Trump is expected to unveil on Monday a plan that would fulfill one of his signature campaign promises: a $1.5 trillion, once-in-a-generation proposal to rebuild, restore and modernize the nation’s aging infrastructure.

“We will build gleaming new roads, bridges, highways, railways and waterways all across our land,” Mr. Trump said in his State of the Union address.

But while the proposal represents one of the administration’s main legislative ambitions, it could directly clash with one of its defining regulatory principles, which is to question the risk from global warming and roll back regulations addressing climate change.

Continue reading.

THE NEW YORK TIMES

By CORAL DAVENPORT

FEB. 10, 2018

Next Crisis in Finance May Be Public Pensions, $1.2 Trillion Asset Manager Says.

- **Municipalities, states are pressured by funding shortfalls**
- **Head of asset manager also sees equity markets being reshaped**

What's on the list of concerns for a man who runs a $1.2 trillion asset manager? Swelling shortfalls in U.S. public pensions, according to PGIM Chief Executive Officer David Hunt.

"If you were going to look for what's the possible real crack in the financial architecture for the next crisis, rather than looking in the rearview mirror, pension funds would be on our list," Hunt said Friday in an interview. Pressure on municipalities and states will intensify in a downturn when local tax revenues decline and unemployment worsens, he said. "So we're worried about those pension obligations."

Lawmakers from New Jersey to Illinois to California are struggling to fill shortfalls. U.S. public pensions had 71.8 percent of assets required to meet obligations to retirees as of the fiscal year ended June 2016, according to a report by the Center for Retirement Research at Boston College.

PGIM, owned by Newark, New Jersey-based Prudential Financial Inc., counts 147 of the 300 largest global pension funds among its clients. Hunt said that corporate funds generally do a better job than their public counterparts.

Hunt acknowledged that it's harder in the public pension space where lawmakers set the benefits and the fund managers are tasked with generating enough return to cover those promises. Still, he said he has advised public-pension clients to stop looking for the highest-return hedge fund and "start doing what the corporate folks have long been doing, which is to find ways to minimize the deficit and to take risk gradually off the table."

Hunt joined Prudential in 2011 from McKinsey & Co. He's doubled assets under management, renamed the business PGIM and bought a Deutsche Bank AG unit to expand in India.

In the interview, Hunt also said he's seeing a shift in equities markets as more firms pursue private funding and initial public offerings "remain remarkably muted." The number of publicly traded U.S. companies shrank from more than 8,000 in 1996 to about 4,300 in 2016, according to Ernst & Young.

"More than any other period in our history we're going to have companies that are owned by private equity rather than the public equity markets," Hunt said. "The dynamism and growth of the economy is now more and more being captured privately and by institutions rather than actually available for you to own in your 401(k) account or for other public markets."

Hunt said he doesn't expect a wave of combinations among asset managers, even as some have predicted that fee pressure could provoke more tie-ups such as the merger of Janus Capital Group Inc. and Henderson Group Plc. Even as the equity business suffers, it hasn't gotten bad enough to spur more mergers and acquisitions, he said.

"If you're a modestly scaled equity business right now you're having a hard time, but you're not losing money yet," he said. "You're more likely to have what I've kind of called the field of zombies. You have these firms, they don't disappear. They stop growing and maybe they're even shrinking, but they carry on."

Bloomberg Markets

By Katherine Chiglinsky

February 12, 2018, 2:00 AM PST

— With assistance by Amanda Albright, and Alex Barinka

Recent U.S. State Pension Reform: Balancing Long-Term Strategy And Budget Reality.

Lethargic economic recovery, weak investment returns, and assumption changes have weighed heavily on states' required pension contributions, in S&P Global Ratings' view. For the weakest pension funds, relatively high pension burdens stem from years of underfunding or deferring payments through back-loaded amortization methods and poor assumptions, combined with…

Continue Reading

Feb. 9, 2018

Could Oil Firms be Forced to Pay for Climate Change? California Cities Hope So.

The Bay Area city of Richmond recently made an unlikely move that got the attention of its largest employer and taxpayer, Chevron.

It followed other municipalities and counties across California that have filed lawsuits against oil companies, alleging that the energy giants knowingly contributed to climate change and should begin paying for it. Literally.

Employing the legal strategy that brought states major payouts from tobacco companies decades ago, the plaintiffs are demanding that oil interests begin writing checks to protect Californians against rising seas, crippling drought and harmful air.

The legal viability of the lawsuits is unclear; the cases are in early stages. But if any succeed, the implications are profound: The state is already spending hundreds of millions of dollars to shore up coastlines, protect infrastructure and retrofit roads and bridges in response to rising seas. And if companies are persuaded to drill and refine less oil, California has a much better chance of reducing greenhouse-gas emissions on the schedule it has set.

Besides Richmond, plaintiffs include the cities of Imperial Beach, Oakland, Santa Cruz and San Francisco and the counties of Marin, San Mateo and Santa Cruz. The Los Angeles City Council is considering its own suit.

The state has not joined in, something environmental groups say is a failure of leadership.

"Accountability is critical," said Kassie Siegel, director of the Climate Law Institute at the Center for Biological Diversity. "The state of California can and should file a case seeking money damages and also an injunction against ongoing activities."

The California Department of Justice has sued the Trump administration two dozen times over policies that include several related to the environment. Asked whether the state would join the cities and counties or consider filing its own suit against the oil companies, the Justice Department declined to comment about potential future action.

The city-county suits began six months ago when Imperial Beach, in southern San Diego County, sued a handful of oil companies. Richmond, surrounded on three sides by water and imperiled by rising seas, joined the fight Jan. 22. Its city council voted unanimously to sue 29 oil producers, even if it meant taking on Chevron, whose tax payments—$45 million in 2016—account for 25 percent of the city's general fund.

"They are a pretty important corporate citizen," said Richmond Mayor Tom Butt.

However, "we are a waterfront city—Richmond has 32 miles of shoreline on the Bay. Part of our city is vulnerable to sea-level rise: our transportation systems, neighborhoods and commercial areas and thousands of acres of waterfront park."

Among those vulnerable venues is Chevron's refinery, which sits at the edge of San Francisco Bay. Completed in 1902, this refinery, the state's largest, was immediately dubbed "the colossus." The facility today employs more than 3,400 people.

Leah Casey, the spokeswoman for Chevron's Richmond refinery, said in a statement that lawsuits like the local ones "will do nothing to address the serious issue of climate change. Reducing greenhouse-gas emissions is a global issue that requires global engagement."

Butt said the city sued "out of frustration, because I know that these fossil fuel companies are aware of the long-term costs and damage of the widespread consumption of fossil fuel." He said Richmond was already planning for the sea's rise but had not yet calculated mitigation costs.

The suits are filed in state court under California's public-nuisance law, which allows legal actions against activities that are "injurious to health."

New York City filed a similar claim against five of the world's largest oil companies in federal court, asking that the cost of mitigating damage done by the companies as a result of their contribution to climate change be charged to them.

The legal challenges also assert that the oil industry has known for decades that burning fossil fuels accelerates climate change. The Richmond complaint states, "The industry has known for decades that business-as-usual combustion of their products could be 'severe' or even 'catastrophic.'

"Companies were so certain of the threat that some even took steps to protect their own assets from rising seas and more extreme storms," the complaint goes on, "and they developed new technologies to profit from drilling in a soon-to-be-ice-free Arctic. Yet instead of taking steps to reduce the threat to others, the industry actually increased production while spending billions on public relations, lobbying, and campaign contributions to hide the truth."

The slow unraveling of the decades-long industry cover-up of the medical harm from cigarettes turned the tide in the tobacco cases, according to Ann Carlson, an environmental law professor at the Emmett Institute on Climate Change and the Environment at the University of California, Los Angeles, School of Law.

Carlson, who is advising some of the plaintiffs' lawyers, said that courts will take into account the oil-industry-funded campaign to discredit climate science.

"That matters in California," she said. "If you can show evidence that a defendant engaged in a campaign to obfuscate, it's more than just a nice detail. Evidence helps."

With much at stake, oil companies are pushing back hard. ExxonMobil has responded with a demand to depose lawyers representing the California cities and counties.

The company says it is a victim of a conspiracy and cities and counties are being disingenuous: When they issue municipal bonds, they portray risk from climate change as unpredictable, not the fault of oil firms, as the lawsuits claim.

The companies have also filed motions to move the cases to federal courts, where they believe there are precedents more favorable to them.

The number of the legal claims intended to monetize the consequences of a warming planet is growing. Carlson said greater scientific certainty about attributing climate change impacts to specific industries and companies has created a legal opening.

"The courts were uncomfortable that they couldn't trace the harm," she said.

California is the epicenter of so-called climate-attribution science, said Peter Frumhoff, director of science and policy for the Union of Concerned Scientists.

"There's really a quite robust ability to characterize the extent to which climate change impacts have worsened," he said.

Further, by collating data taken from oil companies' annual accounting and national and international energy agencies' reports, "one can then connect the dots and assign a cost. That tees up the question, 'Who is responsible and who should pay?' " Frumhoff said.

"This is where the science is taking us, with increasing specificity and confidence."

calmatters.org

By Julie Cart | Feb. 5, 2018 | ENVIRONMENT

Group Urges SEC Probe of California, Cites Climate Hypocrisy.

California officials are downplaying the risks of climate change to bond investors while citing those same risks as the basis for a lawsuit against oil companies, according to a conservative think tank that has asked securities regulators to investigate.

The Washington-based Competitive Enterprise Institute sent a letter to the Securities and Exchange Commission, urging it to investigate a group of cities and counties in California for making contradictory claims about climate risks.

"In these lawsuits the plaintiff cities and counties apparently describe these climate risks in ways that are far different than how they described them in their own bond offerings," says the letter, dated Feb. 1. "In our view, this inconsistency raises serious questions of municipal bond fraud."

The accusations by CEI mark the latest twist in a legal fight that began last July, when a group of city and county governments in California filed a lawsuit against 37 oil companies for their role in global warming. The suit claimed that the companies, which include Chevron Corp. and Exxon Mobil Corp., contributed to sea-level rise, and so should be forced to pay part of the cost of protecting coastal California communities against the problem.

Last month, Exxon launched a suit of its own, arguing that those same cities and counties had failed to disclose climate risks when it sold municipal bonds to investors.

CEI's letter cites San Francisco, which said in the lawsuit against Exxon and other oil companies that it expects "0.3 to as much as 0.8 feet of additional sea level rise by 2030." But when San Francisco sold $173 million in bonds in January 2017, it told investors that it was "unable to predict whether sea-level rise or other impacts of climate change or flooding from a major storm will occur, when they may occur."

"Either the City can predict such sea-level rise, as it tells the court, or it cannot, as it tells investors," CEI wrote to the SEC.

A spokesman for the San Francisco city attorney's office, John Cote, called the letter "deceptive," adding that the city "has been disclosing climate change as a risk factor since at least 2014."

He cited an October, 2017 issuance that noted "substantial increases in sea level rise are projected due to climate change over the coming century" and could put critical infrastructure at risk.

"The assertion that the city does not disclose this risk factor to investors is false," he said in an email.

Sam Kazman, general counsel for CEI and one of the letter's authors, said in an interview that his organization is "quite skeptical" about cities' claims that they face a threat from climate change. "I think they're quite overblown," he said of those warnings.

Still, Kazman said, the SEC ought to investigate the "very clear inconsistency between what these entities are saying in their bond offerings and in their court filings."

The odds of legal sanctions are slim, according to Michael Gerrard, director of the Sabin Center for Climate Change Law at Columbia University.

Even under President Barack Obama, the SEC took no enforcement action against cities or companies for failing to disclose climate risk, Gerrard said Monday. He said that's unlikely to change under President Donald Trump, who has disputed the science of climate change.

An SEC spokesman, Ryan White, declined to comment.

But that doesn't mean the letter won't have any effect. Barbara VanScoy, head of Alpha Impact Investors, said she expects that the letter will encourage cities and investors to take climate risks more seriously. She added that cities' financial officers also need to talk more to the staff who work on resilience. "If offices remain siloed, nothing will change," she said by email.

Shalini Vajjhala, a former Obama official who now advises cities on adapting to climate risks, said the charges leveled by CEI could spur those conversations across different parts of local government.

"It might create some uncomfortable conversations between the CFOs office and the offices that are focused on generating the suits against big oil companies," Vajjhala said. "I think this is a smart move that will cause some thinking and introspection within some cities."

Insurance Journal

By Christopher Flavelle | February 7, 2018

Climate Change is Either Upon Us or it Isn't. California Cities Want it Both Ways.

If you live in Oakland, brace yourself. In the city's lawsuit with six other California municipalities and counties against petroleum companies, Oakland states that man-made global warming is an ongoing threat that will culminate in 66 inches of sea level rise by century's end, threatening the local economy with as much as $38 billion in property damage.

But if you are an investor looking to buy Oakland's municipal bonds, the outlook is sunnier. Oakland's municipal bond offering tells prospective investors the city cannot predict when "sea rise or other impacts of climate change or flooding from a major storm, could occur, when they may occur, and, if any such events occur, whether they will have a material adverse effect on the business operations or financial condition of the city or the local economy."

San Mateo County is another plaintiff seeking compensation from petroleum companies in advance of storms to come. San Mateo tells us to expect a precise "93 percent chance that the county experiences a devastating three-foot flood before the year 2050, and a 50 percent chance that such a flood occurs before 2030."

But if you're an investor interested in San Mateo's bonds, relax. The county is "unable to predict whether sea-level rise or other impacts of climate change or flooding from a major storm will occur," and if they do, whether they will impact the local economy.

San Francisco's lawsuit says that the city faces "an imminent threat of catastrophic storm surge flooding," requiring long-term upgrades of up to $5 billion, while assuring investors that the city is unable to predict if such events will happen at all, or what they would cost, if anything.

From the filings of several jurisdictions, including Santa Cruz city and county, the story is much the same. They've joined together to sue "Big Oil" for projected injuries caused by global warming, while calming investors by assuring them such occurrences might not happen.

With no apparent sense of unease, officials who signed off on the lawsuits are often the same ones who signed off on the statements to investors.

When I served as attorney general of California, one of my duties was to assure the accuracy of representations about state bonds. I took this job seriously because it was my signature that affirmed the truthfulness of the claims being put before investors. To obtain my signature, a bond had to meet the budget guidelines of the California Constitution, and have a plan to be paid off within the specified term.

I also made sure claims did not contradict other claims being made by a state agency. I did this because the language in a bond offering amounts to a financial disclosure.

The factual disparities made by these California cities and counties are as wide as the Golden Gate. These contradictory statements open these jurisdictions to lawsuits from investors who can now credibly claim diminution of their investment.

Lawsuits against these municipalities could lead to judgments that impact local budgets, raising taxes or cutting services to their citizens. Furthermore, local officials who sign off on these lawsuits and the bond offerings presumably do so under penalty of perjury.

Whatever your beliefs about climate change, you don't have to dismiss the idea of human-induced global warming to see the cities' lawsuit approach as misguided. The intent of these suits is to portray petroleum companies as the new Big Tobacco. I oversaw California's tobacco litigation. I can tell you these lawsuits are nothing like those against tobacco. There exists no viable substitute today that could completely and easily replace the central role played by hydrocarbons.

Worse, the lawsuits are an attempt to mount fishing expeditions for internal documents from scientists who held robust arguments about the possibility of global warming in decades past. The goal, of course, is to selectively take statements out of context that would liken oil companies to tobacco companies.

This is just another example of activists trying to replace the power of the people and their elected representatives with the decision-making of the courts in an area in which judges have no particular expertise.

Whatever their intentions, these cities demonstrate a true legal risk – to their own city budgets and their citizens, rather than to oil companies.

Climate change is either upon us or it isn't. California cities want it both ways

The Sacramento Bee

by Dan Lungren

February 07, 2018 04:00 AM

Understanding Costs and Benefits: Leases

Read the GASB article.

Record $11Bn In Green Munis In 2017 Across U.S.; MTA In The Lead

Record $11bn in Green Municipal Bonds in 2017 across US; New York beats California as top issue; $20bn investment forecast for 2018

London 31/01/2018 15:00 GMT: Annual US green municipal bond issuance reached a new record in 2017, passing the symbolic $10bn mark with New York retaking the lead from California and becoming the US state with the highest 2017 issuance of municipal green bonds and the highest cumulative issuance.

Climate Bonds Initiative is forecasting $20bn of green municipal issuance in 2018 as US cities and states ramp up climate action.

The latest Climate Bonds Initiative analysis of US municipal green bond market finds the December 31st 2017 total stood at an annual record of $11.05bn, up from $7.11bn in 2016. New York reached a total of $4.59bn, followed by California's $4.32bn for the year.

Continue reading.

ValueWalk

by VW Staff

January 31, 2017

GASB Request for Comment: Revenue and Expense Recognition.

GASB is looking for public feedback on its **Invitation to Comment, Revenue and Expense Recognition**, which involves the development of a comprehensive revenue and expense recognition model for state and local governments.

Additional information is available in the following press links.

- News Release
- Invitation to Comment

Climate Change Could Swamp Your Muni-Bond Portfolio.

California localities warn of disaster when suing oil companies. So how come they don't tell investors?

By the end of this century Oakland, Calif., will be experiencing a "100-year flood" every week. At least that's what the Oakland city government argued last year, when it filed a lawsuit against several oil companies for contributing to climate change. The city forecasts that rising water levels in the San Francisco Bay will threaten the sewer system and other property "with a total replacement cost of between $22 billion and $38 billion."

Suppose you hold some of Oakland's municipal bonds. This climate apocalypse sounds like a serious risk, right? Yet a recent prospectus for Oakland's general-obligation bonds shrugs off the threat. "The City is unable to predict when seismic events, fires or other natural events, such as sea rise or other impacts of climate change or flooding from a major storm, could occur," the prospectus states. And even if such events occur, the city can't be sure "whether they will have a material adverse effect on the business operations or financial condition of the City or the local economy."

Other California localities have told courts one thing and investors another regarding climate change. In a similar lawsuit, San Francisco claims it faces "imminent risk of catastrophic storm surge flooding." But in a bond offering last year, the city said it is "unable to predict whether sea-level rise or other impacts of climate change or flooding . . . will occur." San Mateo County claims in another suit that there is a 50% chance that a "devastating three-foot flood . . . occurs before 2030." The county uses boilerplate similar to San Francisco's to play down such risks in its communications to bondholders.

These jarring inconsistencies have led Exxon Mobil , a target of the lawsuits, to seek judicial relief. In a petition to a Texas court, the company states: "The disconnect . . . indicates that the plaintiff municipal governments do not actually believe the allegations in their complaints and that the allegations were not made in good faith." Exxon is also asking for permission to depose the lead plaintiff's lawyer, along with 15 California officials involved in filing the lawsuits.

It is possible the California officials were truthful in their attestations about their forecasts. But that means they seriously misled their investors, hoping they could ding deep-pocketed oil companies while continuing to borrow cheaply in the municipal bond markets.

This is not an uncommon practice. As a longtime investor in sovereign bonds, I can attest to the "flexibility" politicians demonstrate when approving prospectuses and agreeing to bond covenants. Reneging on contracts and explaining away misrepresentations are standard operating procedure for the political class in localities, states, countries and territories such as Puerto Rico.

Investors are relatively powerless in the face of such government dissembling. Besides selling their bonds, their only recourse is the courts. And because politicians readily spend taxpayer money to draw out the legal process, this option is generally too lengthy and unpredictable to be worthwhile.

But this case may be different thanks to the astonishing presence of contemporaneous, and directly contradictory, legally binding statements. This could prompt the Securities and Exchange Commission to abandon its hands-off approach and require state and local governments to disclose to investors risks arising from climate change, rather than allowing them to equivocate.

States and municipalities facing climate-change-associated risks would suffer a significant blow to their credit ratings, according to a Moody's Investors Service report issued in November 2017. Municipalities that sought big paydays from major oil companies may end up with a bitter second prize—more disclosure and higher borrowing costs.

Plaintiffs' lawyers probably never intended that their war on the fossil-fuel industry would end up shining a light on the perilous state of local public finances. But wars have a funny way of creating unintended consequences. If the unqualified statements made in court about the impact of climate change are even half true—regardless of the cause—the finances of many of California’s coastal cities could soon be underwater.

The Wall Street Journal

By Jay Newman

Feb. 2, 2018

Mr. Newman is a former hedge-fund manager who specialized in sovereign debt.

Fitch: US States' Economic Growth Diverges from Revenue Growth.

Fitch Ratings-New York-29 January 2018: The contrast of broad U.S. economic growth versus tepid state revenue growth and uncertain budget outlooks highlights a rising risk to some states’ long-term credit profiles says Fitch Ratings. Weak revenue growth already took a toll on some states’ fiscal results. We expect this trend to continue in the coming fiscal years.

The Bureau of Economic Analysis reported last week that quarterly real state GDP grew in every state in 3Q17 for the first time since it began reporting the data in 2005. State tax collections grew slower and less consistently through 3Q17, according to the US Census Bureau.

The budget issues are indicative of long-term credit challenges posed by revenue growth that lags economic growth. States have typically used growing revenue in economic expansions to restore structural budget balance, fund new priorities and build up reserves. A permanent decoupling of this link could gradually pressure the typically robust state revenue frameworks. A state’s revenue framework is one of four key factors driving Fitch’s credit analysis – the strongest frameworks show growth potential above national GDP and reflect revenue systems best positioned to capture economic growth. Despite widespread economic growth, the National Association of State Budget Officers (NASBO) reported that 22 states made mid-year budget cuts in fiscal 2017 and mid-year budget reports and executive budget proposals released to date indicate some will report deficits for the current and upcoming fiscal years.

Real GDP growth in 3Q17 (annualized) varied from a low of 0.5% for South Dakota to a high of 5.7% in Delaware, and the median across all states was 3.0%. Similarly, real national GDP growth also accelerated in recent years reaching 3.2% in 3Q17. Fitch estimates full-year US GDP growth to be 2.3% in 2017 and forecasts 2.5% in 2018 and 2.2% in 2019.

Real yoy growth in state tax collections was just 0.4% in 3Q17 and lagged real yoy national GDP growth since 2016. Previously, state tax collections and national real GDP growth were more correlated with state tax collections typically growing or shrinking more aggressively. Individuals and corporations that anticipated federal tax reductions may have played a role in the more recent decoupling. Policy adjustments by individual states may skew results from year to year.

State fiscal results and plans indicate the toll the trend has had on budgets. The 22 states NASBO reported on made mid-year cuts in fiscal 2017. This was the highest number since fiscal 2010 when nearly all states were managing the Great Recession’s repercussions – the $3.5 billion of cumulative deficits in fiscal 2017 was much lower than the roughly $20 billion in fiscal 2010, indicating less severe but widespread fiscal challenges. Declines in states’ fiscal 2017 year-end total balances reflect this revenue weakness as 31 states reported lower balances to NASBO than the prior year.

Total balances were $72 billion at the end of fiscal 2017, or 9% of spending, down from $81 billion, or 10% of spending, in 2016. The 2017 levels were also below the pre-recession peak of 12% of spending.

Revenue uncertainty and budget tension will continue in the current and future budget years. Some states have reported modest current year deficits. Rhode Island's $60 million shortfall, just 2% of the budget, is one. However, projected budget holes for upcoming years appear more significant. Kentucky's roughly $2 billion gap for the upcoming biennium, to address a ramp up in pension funding, would be 10% of the budget. Federal tax changes and related shifts in taxpayer behavior will also cloud the revenue picture for states.

Municipal Bonds Head to Worst Rout Since Trump's Win.

- **State, local government debt tumbled along with Treasuries**
- **'We could still see a slow and steady grind up in yields.'**

U.S. state and local government bonds headed toward their biggest weekly drop since President Donald Trump's election, joining a selloff in the Treasury market amid speculation that a pickup in hiring may cause the Federal Reserve to raise interest rates more aggressively.

The yield on top-rated 30-year debt climbed 5 basis points Friday to 3.03 percent, the highest since May, after the Labor Department reported that payrolls grew in January at a faster-than-expected pace. Those yields have risen about 18 basis points this week, marking the steepest rise since Trump's victory raised concerns that inflation would accelerate.

The rout for municipals was driven by the global bond selloff, said Dawn Daggy-Mangerson, a managing director at McDonnell Investment Management, which has been selling shorter-term debt and buying bonds maturing in 10 to 15 years. The rise in yields was in line with the jump in those on Treasuries this week.

Municipals are "not going to be able to withstand this big of a move," said Daggy-Mangerson, whose firm holds about $7.5 billion of state and local debt.

While analysts have predicted that municipal bonds would benefit from a drop off in supply this year, the market's slide since January has upended some short-term forecasts. Jonathan Law, vice president and portfolio manager for Advisors Asset Management, which oversees about $325 million in municipals in separately managed accounts, said he thinks the decline may not be over.

"You have to wait for things to play out," he said. "I think we could still see a slow and steady grind up in yields."

Bloomberg Markets

By Amanda Albright

February 2, 2018, 12:15 PM PST

Municipal Bond Sales Hit Seven-Year Low.

- **Issuance fell to $16 billion, down 50 percent year-on-year**
- **Municipal market delivers negative return of about 1.1 percent**

Municipal-bond analysts' forecasts for January were half right.

Widespread predictions that sales of new debt would tumble were prescient, with issuance sliding to about $16 billion, half what it was a year earlier. But they were wrong that the slowdown — coupled with a surge of cash looking to be reinvested — would deliver solid returns. Pulled down by the Treasury market's selloff, state and local government bonds are poised for their first January loss since 2011 and the biggest for the month since at least 1981, according to the Bloomberg Barclays index.

It "took a lot of people by surprise, including me," said Gary Pollack, the head of fixed income trading and research at Deutsche Bank AG's private wealth division, who was among investors who snapped up bonds in December, anticipating that they'd fare well because provisions in the federal tax overhaul promised to reduce tax-exempt debt sales.

"I think this could continue, and that is my fear," he said. "It wouldn't be pretty, it would be a continuation of ugly performance."

The selloff in the Treasury market turned a usually winning month into a losing one, with the municipal market delivering negative returns of about 1.1 percent. January returns have typically been driven by a drop in new issues just as investors receive interest and principal payments.

This year, the slowdown was exaggerated by a record-setting wave of bond deals last month, as state and local governments rushed to borrow before the federal tax overhaul blocked them from selling tax-exempt debt for advance refundings, a key type of refinancing. January's issuance was the slowest start to a new year since 2011, when long-term issuance was $13.6 billion.

Citigroup Inc. analyst Vikram Rai said the expectations for strong monthly performance were upset by speculation about rising interest rates, diminished buying by banks and insurance companies and concern among some buyers about the consequences that the federal tax changes would have on high-tax states.

"We are bullish on munis — it just takes time for these factors to take effect," he said. "There's cash on the sidelines but they're holding back because of current fears. But once those fears dissipate, they will invest again."

Bank of America Corp. was the top underwriter in January, managing more than 27 percent of the volume so far this year. RBC was the runner up, at 12.6 percent, according to Bloomberg LEAG tables.

School districts topped general obligation bond sales, comprising 21.5 percent of new issuance, led by a $219.6 million sale by Fairfax County, Virginia. Topping the revenue bond sector were gas contract bonds, with deals by Main Street Natural Gas in Georgia and Kentucky Public Energy. The two deals alone accounted for 10 percent of all new offerings.

The competitive market accounted for about 32 percent of issuance volume. By comparison, the competitive sales made up about 23.6 percent of the long-term municipal market in all of 2017.

Empire State Dominates

New York issuers lead 2018 issuance helped by MTA and Port Authority Sales

Analysts broadly anticipate that bond issuance will fall this year, though it's possible that provisions of President Donald Trump's infrastructure plan may seek to spur borrowing by states and cities. Given December's borrowing binge, though, analysts previously forecast that new muni-debt sales could fall by more than a third this year.

"The muni market is a market that runs on supply," said Pollack. "The supply factor is an important one for the muni market and supply was actually stronger in January than I thought."

Bloomberg Markets

By Danielle Moran and Zachary Hansen

January 31, 2018, 5:25 AM PST

Bloomberg Brief Weekly Video - 2/1

Taylor Riggs, a contributor to Bloomberg Briefs, talks with editor Joe Mysak about this week's municipal market news.

Watch video.

Bloomberg

February 1st, 2018

The Week in Public Finance: Nassar Scandal Could Prompt MSU Downgrade, Tax Reform in the States and Green Bond Growth.

A roundup of money (and other) news governments can use.

GOVERNING.COM

BY LIZ FARMER | FEBRUARY 2, 2018

Credit FAQ: S&P Global Ratings Clarifies Its Rating Action And Display Of Ratings Following Various Credit Enhancement Rating Withdrawals.

Recently, S&P Global Ratings withdrew various credit enhancement program ratings. In this report, we address frequently asked questions we have received from market participants to provide greater clarity on how we proceeded with the withdrawals.

Continue Reading

Jan. 29, 2018

Trump’s Faux-Populist Infrastructure Plan.

President Trump campaigned on — and continues to promise — a populist agenda, most recently in his State of the Union address, in which he called on Congress to pass a trillion-dollar infrastructure package. But if his rubbing shoulders with Davos elite last week weren’t enough to dispel any hopes of him delivering on his populist posturing, the emerging details of that infrastructure plan surely is.

Mr. Trump’s budget proposal and infrastructure “principles” released last May, and an outline of the plan leaked last month, point to a pro-privatization approach that his pals in Davos would celebrate but would endanger basic services, enrich the private sector and force everyday people to foot the bill. The leaked plan would be a bonanza for giant corporations, prioritizing projects that raised revenue (toll roads, higher water rates) and giving very little weight to a project’s social benefit.

In his address Tuesday, Mr. Trump called for $1.5 trillion for infrastructure, yet his top adviser on the project, DJ Gribbin, has maintained that the plan wouldn’t include any new federal revenue. That means funds will come from elsewhere, like existing transportation budgets. Because revenue, not need, would be prioritized, cities could be forced to turn to so-called public-private partnerships — a less politically charged rebranding of privatization — that has often led to higher user fees. And that focus makes sense, since this administration is full of with champions of privatization, including Mr. Gribbin, Vice President Mike Pence and Gary Cohn, the National Economic Council director.

Infrastructure privatization raises costs for basic services, undermines transparency and is frequently used to keep government costs “off the books.” Disastrous examples in the United States include a deal by the water company Suez and the private equity firm Kohlberg Kravis Roberts to privatize the water system in Bayonne, N.J., which has left some residents in danger of losing their homes after skyrocketing water rates.

Although business executives, national officials and other global financiers and deal-makers may disagree with Mr. Trump on trade, they are with his administration on infrastructure privatization. The World Bank, to take a prominent example, has a long history of pushing the privatization of people’s most basic infrastructure need — water. Perhaps the best-known example is Cochabamba, Bolivia, where popular opposition to the privatization of the water system forced a return to a publicly run system in 2000. In another failed privatization, this time branded as a public-private partnership, residents of Manila face unreliable access, infrastructure neglect and rates that are unaffordable for many.

While the World Bank claims to have no preference between public and private infrastructure, promoting public-private partnerships remains its bread and butter. At a 2016 training event, bank staff learned “how to promote water P.P.P. projects” and convince government officials “of the interest of the P.P.P. approach.” What’s more, bank leadership is now evangelizing what it calls the “Cascade” approach, which prescribes the bank to “first consider private investment for projects; then public-private partnerships; and if the first two are not available then, only then, consider public finance.”

The budget of the World Bank’s International Development Association, which advances the bank’s development priorities in the lowest-income countries, recently added $2.5 billion to provide corporations with risk insurance, guarantees, loans and equity investments.

The Trump administration and World Bank leadership clearly have shared interests, despite Mr. Trump's threat of deep cuts to development funding. The bank's president, Jim Yong Kim, has raised eyebrows by offering bank staff members to advise Mr. Trump on infrastructure policy. At a World Bank conference last October, Treasury Secretary Steven Mnuchin praised what he called the Cascade approach's key pillar: that the World Bank "will not provide financing if the private sector is able to do so." Perhaps this shared pro-corporate vision is why Mr. Trump has proposed funding the World Bank at levels close to the Obama-era budget last year.

As Puerto Rico's dire situation proves, the United States, like much of the rest of the world, has critical infrastructure problems to fix. But the privatization solution promoted by the Trump administration and popular among global elite is not the answer. Already, the toll that privatization takes has provoked resistance from Pittsburgh to Lagos.

Lawmakers at every level must take a stand by refusing a privatization agenda, whether from the Trump administration or the World Bank, and calling for renewed and expanded public funding. We need a plan that increases public investment, especially federal funding, not one that yields control to profit-maximizing and unaccountable corporations.

THE NEW YORK TIMES

By KELLE LOUAILLIER

FEB. 2, 2018

Who pays for Trump's $1.5T public works plan?

President Donald Trump wants $1.5 trillion for infrastructure. All he needs is a way to pay for it.

Lawmakers from both parties and industry representatives say they're still waiting for key details months after Trump promised a plan to restore the nation's roads and bridges. They're also skeptical about prospects for legislation that doesn't include robust federal contributions for projects and specific financing sources.

Trump urged Congress in his State of the Union speech Tuesday night to put forward a $1.5 trillion bipartisan infrastructure bill that envisions greater reliance on local and private-sector money. His request left even some Republicans searching for more details.

While leveraging public dollars is a good start, "the question is, how are you going to pay for it?" John Cornyn of Texas, the No. 2 Senate Republican, said after the speech.

In a speech to lawmakers last year, the president mentioned a $1 trillion infrastructure figure. That was increased to $1.5 trillion after his team met with state and local officials who showed enthusiasm for the plan and its incentives, a White House official said. The administration has proposed contributing at least $200 billion in federal funds over 10 years to spur spending by states, localities and the private sector.

A fact sheet released along with the State of the Union address said half of the funds would go toward generating state and local investments in infrastructure. That would be achieved by offering grants with preference given to applicants that generate their own revenue for projects, administration officials have said.

The White House said Wednesday it plans to send detailed principles to Congress in the coming weeks, after the legislative calendar and a government shutdown caused a delay in the public rollout of the plan.

Republican lawmakers will be discussing infrastructure at their policy retreat Thursday in West Virginia, said Rep. Cathy McMorris Rodgers of Washington, the chairwoman of the House Republican Conference. Trump is spoke to the group Thursday, and Transportation Secretary Elaine Chao and National Economic Council Director Gary Cohn will participate to discuss the administration's proposal, McMorris Rodgers said.

"If we could find a way to pay for it, I believe that the Republicans and the Democrats would love to be able to move forward and deliver a major infrastructure package for the country," McMorris Rodgers said a news conference. "The question is, how do we pay for it?"

Republican Charlie Dent of Pennsylvania, a retiring member of the House Appropriations Committee, also said that financing is the big question. "We're going to need a recurring source of revenue on infrastructure," he said after Trump's speech.

The administration has pointed to unspecified budget savings to account for the $200 billion federal contribution, saying it's open to conversations about other funding sources or a larger figure, but wants to negotiate those details with lawmakers.

"Without real federal funding to address the huge backlog of desperately needed improvements to the nation's roads, bridges, public transit, airports, water systems, and other critical assets, it's an empty promise," Dave Raymond, president and chief executive of the American Council of Engineering Companies, said in a statement.

Congressional hurdles

Key Congressional Democrats Trump needs to pass a bill have already said $200 billion from the federal government isn't enough. They doubt Republican leaders will approve more spending in a mid-term election year after passing the $1.5 trillion tax overhaul, which didn't allocate money for infrastructure.

"The only way there will be funding for infrastructure will be by a very strong push for it by the White House," said Rep. Peter DeFazio of Oregon, the top Democrat on the House Transportation and Infrastructure Committee.

Some governors and mayors also say they're already doing their fair share, and that they need a more reliable federal partner. Twenty-six states have raised or adjusted their motor-fuel tax rates and other fees during the past five years, and voters in 20 states approved $4.25 billion in new and continued financing for infrastructure in Nov. 7 ballot issues alone, according to the American Road & Transportation Builders Association.

"The cities are doing most of it now in terms of the existing infrastructure that we've got," Little Rock Mayor Mark Stodola, president of the National League of Cities, said at an event in Washington on Jan. 18.

Industry groups are focused on stabilizing the Highway Trust Fund, which uses federal fuel taxes to pay for transportation and transit projects. Congress has kept the fund solvent with transfers from other sources, and it is projected to become insolvent by 2021 without additional money, according to the Congressional Budget Office.

Organizations including the U.S. Chamber of Commerce are calling for an increase in the gas tax — which hasn't been raised since 1993 — as the most efficient way to raise more money, though the idea still faces Republican opposition in Congress.

Rep. Bill Shuster of Pennsylvania, chairman of the House Transportation and Infrastructure Committee, told reporters he brought up the gas tax at the Republican policy retreat and the response was mixed.

"Nobody wants to raise any taxes, but this is something that's understandable and efficient," Shuster said. "If you did 15 cents — that's a cup of coffee a week or two bottles of water."

Shuster said one concept being explored is asset recycling, which involves selling or leasing airports and other public facilities to the private sector to raise money for projects, a concept Democrats generally oppose. Australia had such a program, and officials from that country have pitched the idea in the U.S.

The American Trucking Associations has proposed a 20-cent-per-gallon fee on all transportation fuels at the wholesale level over four years to generate as much as $340 billion in highway funding over 10 years. A funding source will be needed to get a bill through Congress, said Chris Spear, the group's president and chief executive officer.

"It really comes down to, do you want to make a statement, or do you want to win?" Spear said "To win, you have to put real money on the table."

Bloomberg News

February 1, 2018

Vermont's Push to Match Local Bond Investors with Local Projects.

The Vermont Municipal Bond Bank wants retail investors to play an integral role in tackling some of the state's infrastructure needs.

The agency announced Thursday the approval of six new loans totaling around $7.8 million for capital projects across Vermont that will be funded through its first-ever offering of local investment bonds. Executive Director Michael Gaughan said the local investment bond designation allows the bank to expand its reach with individuals able to purchase the bonds in smaller increments as low as $1,000.

"Our local investment bonds are definitely part of a growing effort by many issuers to get more people to invest locally," said Gaughan, a former public finance director at PNC Capital Markets (PNC), who began his role with the Vermont Bond Bank on Jan. 2.

The Vermont Bond Bank is planning to sell $8.2 million of the series 1 bonds during the week of Feb. 12 in a deal underwritten by lead managers Morgan Stanley (MS) and Citi. The transaction is rated AA-plus by S&P Global Ratings and Aa1 by Moody's Investors Service.

Vermont's local investment bond sale comes nearly a year after the City of Cambridge, Mass. offered its first minibond issuance featuring $2 million of general obligation bonds to finance local infrastructure projects such as school renovations and street repairs.

Gaughan said the new offering was inspired by the State of Vermont's citizen bonds, which are available only to Vermont residents also in $1,000 denominations.

"The difference with our bonds is that we also wanted to recognize the high impact of the loans we fund through our pooled program," said Gaughan. "Many of our borrowers are small towns and villages where an infrastructure upgrade can have a relatively out-sized impact versus a major metropolitan area."

The local investment bond designation is aimed at highlighting the community impact from the transaction targeting improvements to the municipalities of Swanton, Enosburg Falls, Grand Isle, Williston and St. Albans, along with Green Mountain Union High School. Gaughan said planned outcomes from the transaction such as producing 47,000 megawatt hours of renewable energy annually and nearly 12,000 linear feet of streetscape improvements are highlighted in the offer sheet in hopes of attracting investors interested in "impact investing."

By Andrew Coen

BY SOURCEMEDIA | MUNICIPAL | 02/02/18 07:11 PM EST

Webcast Replay: S&P 2018 U.S. Not-for-Profit Charter School Outlook

Jan. 31, 2018 | New York

S&P Global Ratings U.S. Public Finance held an interactive, live webcast on Wednesday, January 31, 2018 at 2:00 p.m. Eastern Time for a discussion on the U.S. Not-for-Profit Charter School sector outlook.

View The Webcast Replay

Webcast Replay: S&P 2018 U.S. Infrastructure Outlook

Jan. 30, 2018 | New York

S&P Global Ratings U.S. Public Finance held an interactive, live webcast on Tuesday, January 30, 2018 at 2:00 p.m. Eastern Time for a discussion on the U.S. Public Power, Transportation and Water and Wastewater sector outlooks.

View The Webcast Replay

Webcast Replay: S&P 2018 U.S. Not-for-Profit Higher Education Outlook

Jan. 25, 2018 | New York, NY

S&P Global Ratings U.S. Public Finance held a live, interactive webcast on Thursday, January 25, 2018 at 2:00 p.m. Eastern Time for a discussion on the U.S. Not-for-Profit Higher Education sector outlook.

View The Webcast Replay

Webcast Replay: S&P 2018 U.S. State and Local Government Outlooks

Jan. 22, 2018 | New York

S&P Global Ratings U.S. Public Finance held a live, interactive webcast on Monday, January 22, 2018 at 2:00 p.m. Eastern Time for a discussion on the U.S. State and Local Government Credit sector outlooks.

View The Webcast Replay

Webcast Replay: S&P 2018 U.S. Not-for-Profit Health Care Outlook

Jan. 17, 2018 | New York

S&P Global Ratings' U.S. Public Finance held an interactive, live webcast on Wednesday, January 17, 2018 at 2:00 p.m. Eastern Time for a discussion on the U.S. Not-for-Profit Health Care sector outlook.

View The Webcast Replay

S&P Criteria: Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness.

These criteria apply to issue credit ratings of debt issued by U.S. Public Finance (USPF) obligors, where debt service is paid from a limited tax general operating pledge, the entity's legally available operating revenues and/or where debt service is subject to appropriation or abatement risk, and represents an annual contingent obligation.

Continue Reading

Jan. 22, 2018

S&P Credit FAQ: An Overview Of S&P Global Ratings' Updated Methodology For Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness.

On Jan. 22, 2018, S&P Global Ratings published its revised criteria for Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness. Here, we address some of the questions we think investors and other market participants might have about our revised criteria.

Continue Reading

Jan. 22, 2018

S&P U.S. Municipal Housing Sector 2018 Outlook: Stable Overall Despite Tax Changes And Funding Questions.

S&P Global Ratings' 2018 outlook for the U.S. public finance housing sector in 2018 is stable, with some limited exceptions. The industry begins 2018 breathing a sigh of relief that the final version of the federal Tax Cuts and Jobs Act of 2017 maintained tax-exempt private activity bonds, the lifeblood of the sector, and taking a moment to recover from one of the busiest Decembers on record.

Continue Reading

Jan. 25, 2018

S&P U.S. Charter Schools Sector 2018 Outlook: Ratings Likely To Remain Stable As Volatility Wanes Among Rated Entities.

S&P Global Ratings' outlook for the charter school sector in 2018 is stable. While individual charter schools can be highly variable in their performance and success, we believe the sector overall will exhibit a relative degree of rating stability in 2018.

Continue Reading

Jan. 24, 2018

S&P U.S. Higher Education Sector 2018 Outlook: Additional Credit Pressures Spell A Negative Outlook For Institutions.

While the U.S. not-for-profit higher education sector continues to face many of the same challenges that have plagued it for the past few years, S&P Global Ratings believes additional pressures at the state and federal level combined with decreased opportunities in the capital markets will result in a negative operating and credit environment in 2018.

Continue Reading

Jan. 23, 2018

[Advisors To Face Tsunami Of Cash Bond Redemptions, Money Manager Says.]

Now that state and local taxes are no longer deductible from federal tax returns, many high-ne--worth individuals are looking to shelter more income in municipal bonds, such as private activity bonds, one money manager said.

"We've seen demand increasing for bonds issued in high-tax states like California, New Jersey, Minnesota, Connecticut and New York," said Adam Weigold, vice president of Eaton Vance Management and senior portfolio manager on Eaton Vance's municipal bond team. "High-net-worth individuals may have thought they were getting a tax cut, but when they consider SALT reform, many in these high tax states will see an increase."

Private activity bonds (PABs) may appear particularly attractive because they tend to be higher yielding, especially now that their tax exempt status has been preserved by President Trump's new tax law.

"We've seen the issuance of municipal bonds overall creep up on an annual basis for quite some time as the economy has grown and the needs of city, states and municipalities to finance themselves has grown," said Weigold.

For example, 2017 saw about $436 billion in muni bond issuance.

Originally, the tax legislation did not include exempting the tax status of new private activity bonds, which had caused an issuing and buying frenzy due to the perceived scarcity value of private activity bonds.

"Much of the issuance of private activity bonds that was going to happen in the first quarter of 2018 got pulled in December," Weigold said. "As a result, we're going to see limited supply of these types of bonds."

The issuance of PABs has since normalized. Generally, PABs make up about 30 percent of the municipal bond market. "If the PAB portion of legislation had passed, there's a whole crop of issuers who would have to find an entirely new market to finance their infrastructure operations for hospitals, stadiums, roadways and schools," said Weigold.

President Trump's proposed $1 trillion infrastructure reform makes 2018 an exciting year for PABs overall. "Potentially, PABs would be used to finance infrastructure, which is how they are largely used right now," Weigold said. "The Trump administration may be interested in enhancing the ability to issue private activity bonds if they want an infrastructure bill to be successful."

Due to the sheer number of bonds that were issued in 2008, financial advisors can expect a windfall, he said. "In July 2018, we'll see the largest month of maturities the municipal market has ever seen in any one month," said Weigold. "If a client has a portfolio of bonds, there's a good chance that something's going to be called or mature this year and that cash will need to be put to work in a market where issuance is likely going to be much lower than it was last year."

Some 10 percent of the municipal bond market has consisted of advance refunding, but this is no longer permitted under the new law. The upside of the elimination is that it could lead to innovative bond structures.

"Issuers may start to issue 30-year bonds with shorter calls or maturities, like five-year calls or 10-year bonds with five-year calls or just five-year bonds, because they want the option to refinance at some point," Weigold said.

Advance refunding is a tool issuers have been using to refinance their debt before the bonds are callable or before they mature, which allows them to refinance before the 10-year call on a bond.

"The disallowance of advance refunding is going to reduce supply in the market because issuers will no longer be permitted to refinance old bonds and issue new bonds," said Weigold.

FINANCIAL ADVISOR

JANUARY 23, 2018 • JULIETTE FAIRLEY

Spurred by Tax Reform, Municipalities Raced to Issue New Debt in December.

"A great deal of the end-of-year surge in municipal identifier requests was driven by the crush of issuers racing to raise capital ahead of tax reform, " said Gerard Faulkner, Director of Operations for CUSIP Global Services." Now that we see that the final version of the bill preserves the tax exemption on private activity bonds, we expect muni request volumes to move back into a more normalized range."

READ PRESS RELEASE

CUSIP GLOBAL SERVICES

JANUARY 22, 2018

Fitch: US Energy States Are Recovering; Resiliency Weakened.

Fitch Ratings-New York-25 January 2018: The rising price of oil and crude oil production increases are improving the economic and financial stability in most oil-producing states, Fitch Ratings says. However, the natural resource (NR) states' revenue growth prospects remain constrained and, for many, financial resiliency has become weaker.

The US oil industry's rise has benefitted Alaska, Louisiana, New Mexico, North Dakota, Oklahoma and Texas (natural resource states). Economic growth and tax revenues tied to higher prices and production have risen. However, financial operations for many could remain tight as the fallout from successive one-time actions, including substantial reserve use, applied in recent budgets in response to the multi-year price and production downturn continue to challenge them. Fitch also expects the recent oil bust could temper these states' expectations of a long-term turnaround in the industry.

The US oil industry's recovery is underpinned by strong production growth. It grew by 11% in 2017 on the expansion of shale companies' production after organization retrenchments necessitated by the late-2014 price plunge that bottomed at $26.21/barrel (bbl; West Texas Intermediate [WTI]) in February 2016.

Prices have been rising as well. An OPEC/Russia agreement to limit production and growing global demand have pushed oil prices up beginning in 2017 from $52.33/bbl to $59.64/bbl by year's end. The 2017 acceleration boosted US rig counts to 930 at the end of the year; up 36% from January

2017, but still far below the 1,904 rigs in service in September 2014.

Fitch and the US Energy Information Administration (EIA) forecast a 1 million bbl/day increase in US oil production in 2018 from 2017. The EIA expects a 2018 average of 10.3 million bbl/day in production, rising to 10.8 million bbl/day in 2019. Growth regions identified by the EIA include the Permian region in Texas and New Mexico and the federal Gulf of Mexico. Production in Alaska is expected to remain flat in both 2018 and 2019. Fitch's forecast for the WTI price is $50.00/bbl for 2018 and $52.50/bbl for 2019; the long-term forecast is a subdued $55.00/bbl, reflecting the high level of market uncertainty and lower global production costs that are unlikely to result in a sustained period of materially higher prices.

Many factors could have an impact on these expectations, including deteriorating compliance within the OPEC/Russia production cuts and US producers' response to recent price increases.

Contact:

Marcy Block
Senior Director, U.S. Public Finance
+1 212 908-0239
Fitch Ratings, Inc.
33 Whitehall Street, New York, NY

Robert Rowan
Senior Analyst, Fitch Wire
+1 212 908-9159

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

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

---

Bloomberg Brief Weekly Video - 1/25

Taylor Riggs, a contributor to Bloomberg Briefs, talks with reporter Amanda Albright about this week's municipal market news.

Watch video.

Bloomberg

January 25th, 2018

Illinois Ponders Pension-Fund Moonshot: a $107 Billion Bond Sale.

- **Retiree association floats idea for an unprecedented borrowing**
- **"If it makes sense, we'll do it," one state lawmaker says**

Lawmakers in Illinois are so desperate to shore up the state's massively underfunded retirement system that they're willing to entertain an eye-popping wager: Borrowing $107 billion and letting it ride in the financial markets.

The legislature's personnel and pensions committee plans to meet on Jan. 30 to hear more about a proposal advanced by the State Universities Annuitants Association, according to Representative Robert Martwick. The group wants Illinois to issue the bonds this year to get its retirement system nearly fully funded, assuming that the state can make more on its investments than it will pay in interest.

It would be by far the biggest debt sale in the history of the municipal market, and in one fell swoop would be more than Puerto Rico amassed in the run up to its record-setting bankruptcy.

"We're in a situation in Illinois where our pension debt is just crushing," Martwick, a Democrat who chairs the committee, said in a telephone interview. "When you have the largest pension debt in the world, you probably ought to be thinking big."

Illinois owes $129 billion to its five retirement systems after years of failing to make adequate annual contributions. Because the state's constitution bans any reduction in worker retirement benefits, the government's pension costs will continue to rise as it faces pressure to pay down that debt, a squeeze that has pushed Illinois's bond rating to the precipice of junk.

Many American governments have sold bonds for their pensions, albeit on a much smaller scale. Illinois did so in 2003, when it issued a record $10 billion of them. New Jersey also tried it, only to see its pension shortfall soar again after the state failed to make adequate payments into the system for years. Detroit's pension-fund borrowing in 2005 and 2006 helped push it into bankruptcy.

On the whole, the track record has been mixed, according to a study by the Center for Retirement Research at Boston College. Much hinges on timing the stock market: While most pension bonds have been profitable because of equity gains since the recession, those sold after the late 1990s rally or before the 2008 crash lost money, the study found. The S&P 500 Index climbed 19 percent last year and has continued to hit new highs.

The association, which represents members of the universities' retirement system, says the plan will save the state $103 billion by 2045. That's because Illinois's current debt to its pensions grows at the rate that the retirement system expects to earn on its investments. That's usually much higher than the interest rates governments pay to issue municipal bonds.

Martwick, who has no position on the proposal, said he wants to provide transparency and hearings for any ideas that could save the state money. While the proposal to issue the bonds is being drafted into a bill, it will only move forward if committee members back it, he said.

"if it makes sense, we'll do it, and if it doesn't we won't," Martwick said.

Municipal-bond investors would likely frown upon such a massive sale, to say the least.

"Those types of deals are not typically positively received by the rating agencies or investors," said Eric Friedland, director of municipal research in Jersey City, New Jersey, for Lord Abbett, which holds about $20 billion of municipal debt, including Illinois's. "That type of issuance could definitely be a credit negative."

This kind of issuance contemplated by the association would significantly increase the state's debt burden. Illinois had $26.3 billion of general-obligation bonds as of July, according to Moody's

Investors Service, and the state sold $750 million of bonds in November to pay down unpaid bills that had accumulated during its two-year budget impasse. The state still has $8 billion of unpaid bills even after that issuance, according to the comptroller's office.

This kind of issuance "will not go over well in the bond market,'' said Richard Ciccarone, Chicago-based president of Merritt Research Services LLC, which analysts municipal finance. "It absolutely increases default risk. There's no cushion."

Bloomberg Markets

By Elizabeth Campbell

January 26, 2018, 11:56 AM PST

— With assistance by Zachary Hansen

[The Week in Public Finance: Cities in the Red, Puerto Rico Lowers Expectations and Second-Guessing Tax Reform Windfalls.]

A [roundup] of money (and other) news governments can use.

GOVERNING.COM

BY LIZ FARMER | JANUARY 26, 2017

[What Kind Of Credit Package Will The Second Amazon Headquarters Deliver To The Winning Community?]

The long-term credit effects of Amazon's new headquarters for the selected community are likely to be positive on balance due to the direct and indirect effects on economic characteristics and local revenues.

[Continue Reading]

Jan. 25, 2018

[Market Commentary: Muni Trading is Thin, Volatile and Weak, Struggling to Find the "Right" Levels.]

The municipal bond market continued to struggle this week, falling significantly behind Treasuries, which were basically unchanged. 10-year triple-A yields were up 7 basis points over the past week, and 30-year yields were up 6 basis points, while 10-30-year Treasury yields were up or down a single basis point. 10-year yields as a percentage of Treasuries moved from 81.2% on 1/18 to 84.4% on 1/25. On 30-year paper, the ratio moved from 96.2% to 98.2%.

[Continue reading.](#)

Posted 01/26/2018 by George Friedlander

Neighborly Insights

[Tax Cuts Curbed Muni Sales. Trump's Latest Plan Would Boost Them.](#)

- **Private activity bonds expanded in draft infrastructure plan**
- **Proposal would allow advance refundings on the bonds**

Last month, Congress rolled back the ability of state and local governments to issue municipal bonds as a way to cover the cost of corporate tax cuts. Now, President Donald Trump is seeking to boost such borrowing to rebuild America's infrastructure.

A draft outline of Trump's proposal leaked to the press Monday calls for expanding the use of tax-exempt bonds to finance roads, sewers, airports and other public works built by businesses. It would lift state volume caps on issuance of such private activity bonds, eliminate restrictions on their use for transportation and encourage their sale by ports. It also would expand the ability to advance refinance the securities, creating potential savings that could be used for reinvestment.

The plan, if kept intact by Congress, could increase sales of state and local debt, which had been expected to decline sharply this year after governments rushed to borrow in 2017 before Congress enacted tax legislation that pulled the tax breaks from certain types of debt refinancing. Some estimates predict issuance would dip as much as 30 percent this year.

"It would certainly help the supply picture," said Adam Buchanan, senior vice president of municipal sales and trading at Ziegler Capital Markets Group in Chicago.

Trump has said he will introduce a $1 trillion proposal to upgrade roads, bridges, airports and other public infrastructure. The White House plan calls for allocating at least $200 billion in federal funds over 10 years to spur at least $800 billion in spending by states, localities and the private sector.

Barely Dry

The tax law approved by Congress and signed by Trump last month eliminated advance refundings, a frequently used refinancing technique that accounted for about a third of the municipal securities sold in 2016, and the initial House legislation proposed abolishing PABs. The president's plan, if not amended, would expand those refinancings as well as the PAB program formerly targeted by lawmakers in the House.

"If the leak proves accurate, tax reform is barely dry and already we are seeing advanced refundings come back?" said Robert Amodeo, head of municipals at Western Asset, which manages $22 billion in municipal bonds. "Every state and local government, frankly, all muni debt issuers, will request eligibility for advanced refundings."

The draft of Trump's plan also indicates he may allow state's to toll interstate highway travel to raise revenue that could back bonds and would hand states federal grants to cover a portion of a project's costs.

"This is encouraging because they're talking about expanding a part of the municipal market that we know works well," said Patrick Luby, municipal strategist CreditSights Inc.

Analysts said it's impossible to say precisely how the Trump plan would affect issuance, given that much of it will depend on how the provisions of the law are written. While there's no official figure for how many PABs are issued each year, Moody's Investors Service estimates that they accounted for about 25 percent to 35 percent of the $459 billion in municipal bonds sold in 2016.

The House's push to rescind the tax exemption for newly issued PABs prompted an outcry from state and local government officials, who said it would increase the cost of public works and put the tax-cut legislation at odds with Trump's stated goal of increasing spending on infrastructure.

The White House won't comment on the contents of a leaked document but says it looks "forward to presenting our plan in the near future," spokeswoman Lindsay Walters said. The details of the plan were reported earlier by Axios and Politico.

Bloomberg Markets

By Martin Z Braun

January 23, 2018, 4:00 AM PST

— With assistance by Zachary Hansen, and Elizabeth Campbell

Leaked Trump Infrastructure Plan Would Put Onus on States.

At a time when many state transportation officials are clamoring for more financial help from Washington, an outline of the president's infrastructure plan depends heavily on an influx of state and private funds.

The Trump administration has hinted for months that its long-awaited infrastructure plan would lean heavily on new spending by states, local governments and the private sector. On Monday, a leaked outline of that plan seems to confirm that the federal government would take a back seat in funding its own infrastructure initiative.

But the outline also proposes a number of controversial changes, such as allowing states to toll existing highways, subsidizing improvements for passenger rail and encouraging states to "commercialize" interstate rest areas.

The outline does not indicate how much money the Trump administration will seek toward its infrastructure plan — prior reports suggest Trump wants $200 billion in new federal spending to attract another $800 billion of outside investments — but it does lay out how the administration would like to divide any new money that does materialize.

Continue reading.

GOVERNING.COM

BY DANIEL C. VOCK | JANUARY 22, 2018

Don't Expect Trump's Infrastructure Plan to Propose New Revenue.

White House adviser DJ Gribbin also told mayors the plan would not propose cuts to existing, “formula” funding programs, like the Highway Trust Fund.

WASHINGTON — President Trump’s infrastructure plan will not identify new revenues to help pay for spending and will also not call for cuts to certain mainstay programs now used to fund public works around the U.S., a White House official told mayors here on Thursday.

DJ Gribbin, a special adviser to Trump on infrastructure, also said the White House would submit a “relatively detailed” set of principles for the proposal to Congress one or two weeks after the president delivers his State of the Union address, which is scheduled for next Tuesday.

“Our infrastructure proposal, when we introduce it, will not include new revenue,” Gribbin said during a panel at the U.S. Conference of Mayors winter meeting.

He noted that the administration does not support, or oppose, an increase to the federal gas tax, and that the White House believes decisions about direct federal funding for the plan need to be made collectively with the House and the Senate.

Gribbin said Trump’s plan would not propose slashing so-called “formula” funding programs that the federal government now has in place to distribute infrastructure dollars to states.

“We’re not reducing current programs, we’re not eliminating the Highway Trust Fund, we’re not eliminating state revolving funds to pay for the incentive funds and other things we want to do,” he said. State revolving funds include federal-state partnership programs used to help finance water and sewer projects.

“The vision, in essence, is we keep for the most part existing programs in place,” Gribbin added.

He did point out, however, the budget proposal for fiscal year 2018 that Trump sent to Congress last spring included a variety of cuts, including reductions to programs involving transit and Amtrak. “We will propose repurposing those dollars,” Gribbin said.

But he added: “The major delivery mechanisms for funding for infrastructure will remain in place.”

Congressional appropriators, in many instances, have not shown a willingness to adopt the sharp cuts the president’s budget proposed.

Denver Mayor Michael Hancock said during Thursday’s panel he was “pretty skeptical of the administration’s plan. Because of the concern about where the dollars are coming from.”

While he acknowledged mayors were generally supportive of the idea of an infrastructure package, he also raised worries about what federal spending could get cut to pay for it. “As cities, we don’t want to see opportunities to have more federal money come in but yet, on the back end, we’re having to backfill,” Hancock added.

“We’re very sensitive to that,” Gribbin said in his response. “At the end of the day, this isn’t supposed to be a net loss for cities.”

Despite Gribbin’s assurances, Hancock, a Democrat, told Route Fifty after the meeting that he was still uneasy about the prospect of new infrastructure spending siphoning funds from existing federal programs. “There are a lot of questions we need to ask,” he said.

Two overarching principles guiding the White House’s infrastructure plan, Gribbin explained, are increasing investment by $1 trillion and shortening the federal permitting process for projects to two years.

“We are very open to ideas of how to accomplish those goals,” he said. “We imagine this will be an iterative process.”

The plan, Gribbin also said, would call for at least $200 billion of direct federal funding. The thinking is that amount will spur state, local and private investment to reach the $1 trillion target.

ROUTE FIFTY

By Bill Lucia,
Senior Reporter

Jan 25, 2018

Muni Market Participants Applaud PABs in Purported Infrastructure Plan.

Muni market participants are pleased that the latest purported version of the Trump administration’s infrastructure plan would expand and ease restrictions on private activity bonds so that they could play a major role in helping to finance infrastructure projects.

The six-page plan was circulated on Monday by lobbyists and publications such as Axios. It makes no mention of the Trump administration and is not dated.

Sources had mixed views on its veracity.

“It’s clearly an early draft put together before tax reform, so I would caution against reading too much into it,” said Matt Fabian, managing director at Municipal Market Analytics.

Bud Wright, executive director of the American Association of State Highway and Transportation Officials said he is taking the document “with a grain of salt” because it “could be an earlier document that has been modified since that time.”

But Jeff Davis, a senior fellow at Eno Transportation Center, said the document “is a faithful summary of the full 60-some page summary that the National Council of Economics has been toiling to produce for at least six months.”

Several sources said they saw this plan before the tax reform debates on Capitol Hill and were shocked back then at the House tax bill’s proposal to eliminate PABs in light of this plan.

The six-page plan sets forth PAB recommendations in a section called “Funding Principles.”

The plan says the tax law should be amended to allow broader categories of public-purpose infrastructure, including reconstruction projects, to take advantage of PABs and encourage more private investments in projects to benefit the public.

The plan would eliminate the alternative minimum tax as well as the prohibition on advance refundings for PABs used for infrastructure. Additionally, It would remove the state volume cap on these PABs. It would also remove the transportation volume cap and expand eligibility in this category to ports and airports.

This is a reference to the $15 billion cap created for highway and surface freight transfer facilities under the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) that was enacted in August 2005.

Congress or regulators would provide change-in-use provisions governing the change of use of tax-exempt bond-financed facilities to preserve the tax-exempt status of governmental bonds, according to the plan. “Change-of-use cures” would be provided for private leasing of projects to ensure the preservation of the tax exemption for core infrastructure bonds.

Joseph Krist is a Partner at Court Street Group Research, said that overall he sees the plan as positive for the muni market.

“We see lots of references to private activity bonds. The ability to advance refund private activity bonds,” he said. “This document clearly sees the municipal bond market as really, in our view, central to what they want to get accomplished.”

Brett Bolton, Bond Dealers of America’s vice president for federal legislative and regulatory policy, said BDA is encouraged by the administration’s infrastructure proposal.

“The protections for outstanding governmental tax-exempt bonds and the substantial expansion of the ability to issue tax-exempt private-activity bonds will bolster issuers and other infrastructure industry participants nationwide,” Bolton said. “Restoring the ability to advance refund PABs will save the American taxpayer money and improve our nation’s infrastructure but should be coupled with the ability to advance refund governmental bonds as well.”

Emily Brock, director of the Government Finance Officers Association’s Federal Liaison Center, said, “Some of the details of the ‘leaked’ plan in some ways are not surprising because we have heard these general themes on infrastructure from the White House for the past six months – including rural infrastructure, transformative plans and grant funding.”

“Other parts are a bit more specific and surprising,” she said. “For example, the outline seems to suggest the White House will push a significant expansion of private activity bonds, which is a big swing away from some of the discussions with House leaders during the development of H.R.1” – the tax reform legislation.

“It shows that in their preliminary plans that they realize the policy objectives of the tool – advanced refunding creates savings which free up capital for future infrastructure investment,” said Brock. “We look forward to working with the administration to expand that exemption to municipal bonds as they continue to develop this infrastructure plan.”

The plan also makes no mention of the level of federal funding that is to be made available for infrastructure.

Most sources assume that the administration is still planning to provide $200 billion to leverage up to $1 trillion or $1 8 trillion of investment in infrastructure over a 10-year period. The $200 billion figure was included in the administration’s budget proposal for fiscal 2018 and is expected to be in the next budget request for fiscal 2019, which typically would be released the first Monday in February.

“It’s hard to assume that a bill of this type will be funded enough, in particular in the early years, to make a meaningful difference in issuer behavior,” said Fabian. “It may help extend some projects and may possibly pull a few projects forward on the calendar, but because of the state-by-state limits, it’s unlikely to have a large permanent net effect on total issuance. This is less about stimulating infrastructure investment, more about giving Washington more influence over what state and local projects are built.”

The “Funding Principles” section of the document says 50% of the total appropriated amount would be for incentive grants, with the federal share to be up to 20%. A federal agency would administer the grants and would solicit applications every six months. The agency would define eligible costs and conduct audits to ensure funds are used appropriately. Grant awards can’t exceed 20% of total project cost. No one state could receive more than 10% of the amount available.

“The question is, Can state and local governments combine this federal money with federal funding from other programs?” asked Davis.

Another 10% of appropriations would be for transformative projects and the Commerce Department would administer this program.

An additional 25% of appropriations would be for rural infrastructure projects and states would be responsible for projects funded under this program. About 80% of funds made available would be provided to the governors based on a formula.

About 7.05% of appropriations would be for federal credit programs under under the Transportation Infrastructure Finance and Innovation Act and the Water Infrastructure Finance and Innovation Act as well as Railroad Rehabilitation and Improvement Financing programs and U.S. Department of Agriculture Rural Utilities Lending Programs.

Another 5% would be used for a Federal Capital Financing Fund that would allow appropriations committees in Congress to finance General Services Administration real estate deals over 15 years with repayment spread out over the those years.

Under a section called “Principles for Infrastructure Improvements,” the plan would give states the flexibility to toll on interstates and reinvest toll revenues in infrastructure.

The plan also would expand qualified credit assistance and other capabilities for state infrastructure banks.

The Clean Water State Revolving Fund would be authorized for privately owned public purpose treatment works, under the plan. And WIFIA would eliminate the requirement for borrowers to be community water systems. WIFIA also could be used for flood mitigation, navigation and water supply.

The plan includes a few proposals for streamlining specific environmental regulations. It makes no specific mention of public-private partnerships, but often refers to private investment.

Wright said the document “doesn’t deal much with regulatory reform” but added that “we’re hopeful” of seeing regulatory reform.

“Probably our biggest concern with what we see here is that this document does not address the solvency of the Highway Trust Fund for long-term sustainable funding and funding predictability for transportation investment,” he said.

Wright said, “We will continue to say two things. One, there’s no replacement for direct federal funding even though private sector investment is important. Secondly, we need to fix the Highway Trust Fund. That’s going to continue to be out top priority.”

Asked about the plan, Sen. John Barrasso, R-Wyo., chair of the Senate Committee on Environment and Public Works, said, “President Trump has been a champion of upgrading America’s aging roads, bridges, dams, and ports. This infrastructure is critical to the country’s success. I agree that this is a priority.”

Barrasso added,” Any infrastructure plan should include streamlining so that projects get started and finished faster. I will continue to work with the president, the members of our committee, and the House of Representatives as we continue this important process.”

BY SOURCEMEDIA | MUNICIPAL | 01/22/18 07:10 PM EST

Chicago Sales Tax Bonds Fetch Wider Spreads in Second Sale.

CHICAGO, Jan 23 (Reuters) – Weaker demand resulted in wider spreads on Tuesday for the sale of highly rated bonds Chicago pulled from the U.S. municipal market last week in order to restructure the deal.

The pricing of nearly $376.3 million of the city’s Sales Tax Securitization Corporation tax-exempt bonds resulted in spreads of 53 to 60 basis points over Municipal Market Data’s (MMD) benchmark triple-A yield scale.

Spreads over the MMD scale for $174 million of tax-exempt bonds the corporation sold in its first-ever deal in December ranged from 23 to 38 basis points, although the bonds are trading at wider spreads in the secondary market.

“The original deal came at a time when every primary issue was being snapped up. Certainly not the same type of demand this time around,” said MMD analyst Greg Saulnier.

The city, which postponed an $898 million tax-exempt bond issue by the corporation scheduled to price last week, downsized and restructured the deal to include about $300 million of taxable bonds.

There was no immediate comment from Chicago regarding Tuesday’s bond pricing and the status of the taxable bonds.

Chicago created the sales tax securitization corporation last year to refinance up to $3 billion of its sales tax revenue and GO bonds, and produce an initial $94 million in savings for the city’s fiscal 2018 budget.

A chronic structural budget deficit, as well as a huge unfunded pension liability that totaled $35.76 billion at the end of 2016, have led to low credit ratings and increased borrowing costs for the nation’s third-largest city.

The corporation is pledging Chicago’s state-collected sales tax revenue to pay off the new bonds. Investors will get a statutory lien shielding the debt from municipal bankruptcy, which is not allowed under Illinois law.

The bonds are rated AAA by Fitch Ratings and AA by S&P Global Ratings, both of which are several notches higher than the city's GO ratings of BBB-minus by Fitch and BBB-plus by S&P.

BY REUTERS | MUNICIPAL | 01/23/18 05:11 PM EST

(Reporting by Karen Pierog; Editing by Matthew Lewis)

Fintech Startup Wants to Help Advisers Find and Sell Muni Bonds.

It's like Zillow, but for bonds.

That's the idea behind Bond Navigator, a cloud-based digital marketplace for advisers to find and evaluate municipal bonds, that launched Tuesday from startup 280 CapMarkets.

Gurinder Ahluwalia, the co-founder and chief executive of 280 CapMarkets, said large institutions strongly influence bond prices and hold trading insights on their proprietary systems, making it challenging for independent advisers to access the bond market. Bond Navigator addresses this by aggregating data from multiple sources, which Mr. Ahluwalia said provides greater transparency into pricing and "levels the playing field for independent advisers."

Bond issuers are displayed on a map to help advisers identify investment opportunities by geographic location, and advisers can filter bond issuers to find the most relevant products for clients.

Ron Speaker, the CEO and founder of Equus Wealth Management, has been using Bond Navigator for three months during its test phase. He was impressed with 280 CapMarket's technology, particularly the map of bond issuers.

"Investing in munis is a study of geography," Mr. Speaker said. "Not ever municipal bond name describes where it's from, and [280 CapMarkets] did a fantastic job with that."

Mr. Speaker, who deals exclusively in bonds of California and Colorado, said there are more than 6,000 bonds available in California at any given time. By using the map to identify areas relevant to his clients and then applying a few preferences, he said he can cut it down to a handful in a matter of clicks.

"What these guys did was put a lot of key features all into one package," Mr. Speaker said. "They've got the best sorting, screening and mapping."

The technology is supported by a team of fixed-income professionals, who Mr. Ahluwalia said work across adviser liaison, institutional sales and institutional trading desks to ensure competitive pricing for every bond order.

He said that while technology has made it easier for advisers over the last decade to go independent, the trend has not reached fixed income.

"When you look at the fixed-income offerings today, the independent advisers, once they walk away from the firm they were with, they lose their trading desk and are on their own," said Mr. Ahluwalia, who served as president and CEO of Genworth Financial Wealth Management before it was acquired by private equity. "They are left to the mercy of their custodian or digital exchange."

Joel Bruckenstein, president of Technology Tools for Today, said there is a need for more transparency around bonds, and that a limited supply at custodians and broker-dealers probably keeps some advisers away from them. But he's skeptical how much traction Bond Navigator will ultimately have.

"My sense is that only a minority of advisers purchase individual bonds for clients," Mr. Bruckenstein said. "I'm not certain that it will encourage more advisers to trade individual bonds, but it will make it easier for those that do to improve their service to clients, and it may encourage some sitting on the fence to take another look at providing such a service."

Prescott Nasser, 280 CapMarkets' chief technology officer, said this is why the company is not charging a separate fee for Bond Navigator, but rather charging a commission on the bonds purchased on the platform. The hope is that advisers will see how much easier it is to access bonds and feel more compelled to use bonds as a tool for asset preservation.

Investment News

By Ryan W. Neal

Jan 23, 2018

[Where Amazon and Municipal Bond Finance Collide.]

Amazon.com, Inc is looking for a new headquarters, but the biggest cities vying for the privilege are drowning in debt, and having a new HQ in a high debt city won't be good for Amazon going forward.

On January 18, the company released its short list of the top 20 candidates that remain in the running to land the retail giant's second home base. Many cities across the US made bold pitches to Amazon to lure the behemoth to their respective cities. The details of each city's proposal remain closely guarded secrets, with lucrative tax incentives and infrastructure components offered to hopefully convince the company to bring a reported potential $5 billion additional investment and 50,000 new jobs to the lucky winner.

When deciding on a final location, Amazon is not just looking at what incentives they can get out of the deal. They are also looking at the financial standing of the cities vying for the coveted deal. 19 U.S. cities and Toronto, Ontario are all in the hunt. We imagine the retailer is taking into account many attributes, including local workforce capability, transportation, zoning and municipal government health. We think that there are many municipalities with qualified labor forces and good infrastructure but not all municipalities are well run from a debt management perspective.

Budgetary Debt and Unfunded Pensions Weigh on the Decision

Local infrastructure is an important factor Amazon is certainly taking into consideration when choosing a location for their new headquarters. Infrastructure such as roads, airports, and modern public transportation are vital to the eCommerce giant attracting the high-quality talent they seek to employ. Amazon has reported that they are looking to hire up to 50,000 high-paid employees at their second headquarters location, so cites surrounded by quality institutions of higher learning will certainly stand out. Cities under consideration for the new headquarters with aging infrastructure will have to upgrade their systems to stay in the fight. In most cases this would mean adding debt on top of already shaky financial conditions.

Why would Amazon be concerned with the financial condition of the city it chooses for its second headquarters? One big reason would be accounting for future tax liabilities. If a municipality grants tax breaks to Amazon today, and the city's credit profile deteriorates in the future then the city may be forced to increase certain taxes levied on local companies, including Amazon, to help fund those shortfalls.

According to Bloomberg, 8 of the 20 finalists have high debt and pension fund liabilities that could hurt their chances of success. These legacy costs incurred over the last few decades could make them less attractive to the internet giant.

Interestingly, it is some of the largest cities on the short list that are experiencing financial difficulty. The cities of Atlanta, Austin, Chicago, Dallas, Indianapolis, Los Angeles, Philadelphia and Pittsburgh each have more than 250,000 residents and spend the greatest share of their annual budgets on debt, pensions, and retiree medical benefits.

In contrast, smaller metropolises like Columbus and Denver were among the finalists that have relatively low debt service requirements and pension burdens relative to their population base.

The mounting liabilities faced by the eight larger cities could make them less attractive to Amazon when compared to smaller city options.

If Jeff Bezos does go central USA?

We imagine that he would chose Nashville over Chicago.

Let's take a look at these two final US cities. They are strategic from a national logistical perspective, as they are both centrally located. Being centrally located will allow Amazon to interface seamlessly with both the east and west coasts. Both cities also have a diverse demographics and therefore an equally diverse work force for Amazon to tap into. Finally, both cities are within close proximity of numerous local, well ranked universities, all of whom can provide talented new Amazon hires for years to come.

When compared on location, demographics, infrastructure, and size, Chicago and Nashville stack up fairly evenly. It is when you look into their public finances that Nashville begins to shine as a stronger candidate.

Chicago suffers from deeply troubled municipal finances, many of which are also reflected at the state level. The Chicago Public School System (CPS) is on life support at the mercy of the municipal bond market to finance their perpetual deficits. Chicago's recent financings have not been used for improvements and new construction but rather to roll-over short term borrowing with significantly higher cost long term bonds.

The Windy City currently is rated below investment grade by Moody's Ratings, which is considered to be junk bond status, as is its public-school system. Chicago Board of Education bonds are a large holding of the Van Eck Vectors High-Yield Municipal ETF (NYSEARCA: HYD), which yields over 4.25%, more than double the yield on the higher quality iShares National Muni Bond ETF (NYSEARCA: MUB)

Contrast Chicago's woes to well-run Nashville. Nashville has a stable AA2/AA investment grade bond rating, and is currently home to a number of large companies. Tens of thousands of Tennesseans are employed by companies such as Vanderbilt University Med Center, HCA Healthcare Inc (NYSE: HCA), Kroger (NYSE:KR) and Nissan. The city according to Moody's possesses strong management and as the state capital possesses a regional tax base that will continue to grow and provide the necessary revenues to support ongoing governmental operations.

Our Guess

When you dig deeper into the municipal finances of the 20 finalists, many once strong candidates begin to fall apart. We see it and we are sure the folks at Amazon do, too. We don't know Amazon's future HQ2 location. With all of our quantitative skills and higher education, we may have a 1 in 20 chance of being right. With all of the conjecture, we imagine that it could be an east coast city that wins out, supporting that thesis is a fair amount of media buzz about Atlanta, Raleigh, Washington DC, and Boston.

Disclosure: NatAlliance Securities LLC may hold a position in all bonds referenced, and in the future may be a buyer or a seller of the securities. This is not a recommendation to buy, sell, or hold the securities. Las Olas Wealth Management is a wealth management group within NatAlliance Securities LLC.: I, Dean Myerow, wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it. I have no business relationship with any company whose stock or bond is mentioned in this article.

Market Exclusive

by Bydean Myerow -January 24, 2018

The Outlook For Municipal Bonds.

The next decades will bring a level of municipal bond defaults unlike anything seen since the 1930s. Those who are interested in preserving their wealth or retirement prospects should give serious consideration to holding insured bonds.

Municipal bonds have become more attractive than ever after the recent tax reform, which left people with high income and wealth even fewer options for preserving what they already have. Given the meager returns offered by the taxable bond market, one might even wonder why municipal yields aren't lower than they are. But before you pile further into this market, let's look at the long-term outlook. It isn't all that rosy.

Government at all levels has been splurging on debt for decades with the last ten years being among the worst. This because 2008 shook investor confidence in anything without a solid guaranty behind it, and what is more solid than government that can't go out of business. Our federal government was the worst offender, doubling the national debt to $20 trillion in just eight years. They can do this and more because they tax income and can print money. State and municipal governments are not as fortunate since they tax mainly wealth through property taxes. Their ability to tax income is limited and results in a loss of population, at least of population with income and assets.

A short reminder on the nature of debt. It is a way of robbing future revenues to satisfy current priorities and needs. When this borrowing from the future is in order to maintain the general public's well being and grow the economy, it is a positive economically and improves the quality of life for the tax payers burdened with servicing that debt. Bonds for such purposes as public works, infrastructure and housing come quickly to mind as having such positive effects. Bonds issued for budget shortfalls, pension plans, social programs and non-governmental facilities, not so much.

Today, government at all levels face a crisis that will play itself out over the next decade. This crisis is due to trillions of dollars of unfunded mandates for pension and health care obligations as the baby boomer generation retires and draws on government funds rather than being contributors. That's right, government has not only robbed the future through excessive borrowings, it has also failed to fund its promises to public workers and citizens. Promises that were gambled away, future cash flow for debt service that produced little meaningful benefit. The crisis that is coming is when government, facing a cash crunch, has to sit down with its workers, retirees and bondholders and ask them to share the pain. While bondholders may feel that the promises to them are legal and binding, be sure the other parties feel the same way and they have the media and public opinion on their side. Be assured, bondholders will suffer the most.

We have precedent for the outcome we can expect for bondholders: Going back to the 1980s when the Washington Public Power and Supply System defaulted on $2.25 billion in bonds. The Washington Supreme Court ruled the authority had to pay because of the wording of the state fraud statutes. However, media attention demonized bondholders as robber barons and the state legislature retroactively changed the fraud statutes to hold governmental entities to a less severe fraud standard.

We see in the current Puerto Rico debacle–where the stakes are much higher–more than $73 billion for bondholders and $40 billion or more of unfunded pension obligations. The hurricane damage there has given impetus to U.S. Senator Elizabeth Warren calling for a total debt forgiveness.

What is likely to happen over the next few years is governments at all levels issuing bonds for unfunded mandates. In realty, such bond issues solve nothing economically. However, issuing such bonds means that when the financing crisis hits, i.e. when there is not enough cash to meet current expenses, there will be more people sitting at the table to share the pain. If the past is any indication, bondholders will not be holding the strongest hand, it will be current employees and pensioners.

Many bondholders may think their best option is to invest in munis via a mutual fund. The thinking is that such funds have the expertise in bond selection and offer greater diversification of risk. But their strategic priority is always to attract the next investor dollar, not to retain what they already have, so risk is generally rising to keep overall returns competitive.

Apparently bondholders are catching on since there has been a net exodus from such funds over the last two years. This is not surprising since it was these mutual funds that bought many of the Puerto Rico along with Florida Community Development Districts, pension plan funding and tobacco bonds.

The better solution is for bondholders to buy only bonds insured by a mono-line bond insurer. These are companies that insure both the principal and interest payments on a bond issue. Their advantage over the expertise of bond funds and credit rating agencies is that when they are wrong, they, not you, suffer the loss. This is why some of the Puerto Rico bonds today still trade at par.

While Puerto Rico is the focus of default today, in fact there are currently more than 70 bond issuers totaling $1.3 billion that are being serviced by a guarantor. Historically, since 1980 more than 300 bond defaults of insured bonds totaling $4.6 billion have been settled at full value. Most of the bond insurers have disappeared since 2008 because they strayed into insuring corporate bonds and derivatives. But even then, they were absorbed by the surviving insurers who assumed the outstanding contracts. While insured bonds may provide a fractionally smaller yield than the equivalent issue that relies exclusively on the promise of government, long-time observers know that we live in a different time politically and that in most things today, politics trump promises (no pun intended).

Forbes

Richard Lehmann, Contributor

Jan 24, 2018

Richard Lehmann is editor of Forbes/Lehmann Income Securities Investor.

Chicago Sales Tax Bonds Fetch Wider Spreads in Second Sale.

CHICAGO, Jan 23 (Reuters) – Weaker demand resulted in wider spreads on Tuesday for the sale of highly rated bonds Chicago pulled from the U.S. municipal market last week in order to restructure the deal.

The pricing of nearly $376.3 million of the city’s Sales Tax Securitization Corporation tax-exempt bonds resulted in spreads of 53 to 60 basis points over Municipal Market Data’s (MMD) benchmark triple-A yield scale.

Spreads over the MMD scale for $174 million of tax-exempt bonds the corporation sold in its first-ever deal in December ranged from 23 to 38 basis points, although the bonds are trading at wider spreads in the secondary market.

“The original deal came at a time when every primary issue was being snapped up. Certainly not the same type of demand this time around,” said MMD analyst Greg Saulnier.

The city, which postponed an $898 million tax-exempt bond issue by the corporation scheduled to price last week, downsized and restructured the deal to include about $300 million of taxable bonds.

There was no immediate comment from Chicago regarding Tuesday’s bond pricing and the status of the taxable bonds.

Chicago created the sales tax securitization corporation last year to refinance up to $3 billion of its sales tax revenue and GO bonds, and produce an initial $94 million in savings for the city’s fiscal 2018 budget.

A chronic structural budget deficit, as well as a huge unfunded pension liability that totaled $35.76 billion at the end of 2016, have led to low credit ratings and increased borrowing costs for the nation’s third-largest city.

The corporation is pledging Chicago’s state-collected sales tax revenue to pay off the new bonds. Investors will get a statutory lien shielding the debt from municipal bankruptcy, which is not allowed under Illinois law.

The bonds are rated AAA by Fitch Ratings and AA by S&P Global Ratings, both of which are several notches higher than the city’s GO ratings of BBB-minus by Fitch and BBB-plus by S&P.

Reuters Staff

(Reporting by Karen Pierog; Editing by Matthew Lewis)

JANUARY 23, 2018

[S&P U.S. Public Power and Electric Cooperative Sector 2018 Outlook: Stability Amid An Evolving Regulatory Landscape And Operational Challenges.]

Public power and electric cooperative utilities continue to face evolving regulatory and operational exposures. First off, electric utilities are grappling with numerous state and federal rules governing their power plants' operations and emissions.

Continue Reading

Jan. 16, 2018

When Proposed Public and Private Projects Collide: Nossaman LLP

Infrastructure projects take years to develop: the environmental review, funding, design, procurement, and construction of a public project is time consuming in any state, but even more so in California given the strict regulations and oversight any public agency must comply with. During that lengthy process, private properties situated in the proposed project alignment remain in a state of flux. When those impacted properties are slated for development, what are the parties to do?

According to an article in the Morgan Hill Times, Council OKs new housing in one of two bullet-train paths, this situation is currently playing out in Morgan Hill, where a residential home builder is proposing to construct a subdivision which lies in the path of one of the proposed alignments for a public transit project. Despite the potential future conflict, the City approved the developer's subdivision entitlements so building the residential units can commence. Is this the right choice, or is there a better alternative?

On the one hand, there is no guarantee the public project will come to fruition, and the final alignment has not even been selected. So it makes sense to allow the private development to go forward. On the other hand, if the public project does proceed on this alignment, instead of acquiring vacant land the agency will now have to acquire a number of new residences and relocate impacted families at a much higher price.

Under California law, the City's decision to allow the residential development to proceed is likely the correct approach. If the City refused to allow the owner to secure entitlements due to a potential conflict with the train alignment, the City would potentially be held liable for inverse condemnation. We've recently seen this play out in the Jefferson Street Ventures case. Such a situation may create liability before the public project's alignment is determined, or before project funding is even available.

However, what if, in order to minimize costs and impacts, the public agency decided to acquire the potentially impacted property now, before it was developed? Unfortunately, this raises another host of issues, as the agency could eventually risk a challenge to its environmental approvals with someone claiming that the agency's purchase of the impacted property influenced the ultimate selection of the preferred project alternative. Similarly, acquiring property before securing environmental approvals of the public project could jeopardize funding for the project from federal agencies.

In situations like these, there typically is not a great solution. However, one potential opportunity that has been utilized more frequently, and that is allowed by a number of federal oversight agencies, is securing approvals to acquire potentially impacted property under a "protective acquisition" exception. Such an approach allows a public agency to acquire impacted property before environmental approvals where the acquisition is necessary to prevent the imminent development of a parcel that is likely to be needed for the proposed public project. If the agency can document that the developer has taken concrete steps to develop the property, and imminent development would conflict with the public project, such an early acquisition may be permissible.

In order to avoid tainting the environmental process and the consideration of project alternatives, protective acquisitions are only allowed under a limited number of circumstances, and the agency must comply with the Uniform Relocation Act and all other laws and regulations. But it is definitely an approach that both public and private parties should consider exploring, and may even be one that creates a win-win solution. Perhaps it could even benefit the situation currently taking place in Morgan Hill.

Article by Bradford B. Kuhn

Last Updated: January 11 2018

Nossaman LLP

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

Interest Rate Increase Coming For Many Tax-Exempt Borrowers: Holland & Knight

Many states, local governments and conduit borrowers (e.g., 501(c)(3) not-for-profit corporations) have directly placed tax-exempt loans (secured by the issuance of notes or bonds) with lenders, such as banks and their non-bank affiliates, instead of going to the public markets. Many of these direct placement loans have so called "gross-up" provisions for changes in the marginal corporate tax rates. The gross-up provisions were intended to protect banks' investment return, because as marginal corporate tax rates decrease, the tax-exemption becomes worth less to the lender. Therefore, as corporate tax rates decrease, the gross-up provisions preserve a lender's net rate of return by increasing the interest rate on the loan or bonds. Consequently, as a result of the recent reduction in the marginal corporate tax rate from 35 percent to 21 percent, many borrowers with direct placement tax-exempt loans containing gross-up provisions may see their interest rates increase.

Not all gross-up provisions are written equally, and borrowers, as well as lenders, will need to carefully review the applicable provisions in loan documents. In most instances, the provisions are written as an objective adjustment in which the interest rate is multiplied by a fraction, the numerator of which is equal to 1 minus the Maximum Federal Corporate Tax Rate on the date of calculation and the denominator of which is 0.65. The current factor of 1 (i.e., 1 – 0.35 / 0.65) is increased to a factor of approximately 1.215385 (i.e. 1 – 0.21 / 0.65)1. As demonstrated, this will result in an increase of the interest rate by more than 21 percent.

Considerations for Borrowers and Lenders

The increased interest rate will have a budgetary impact for states, local governments and conduit borrowers. Moreover, additional challenges can arise for borrowers who have entered into variable-to-fixed interest rate swaps, as a basis differential can arise from a change in the rate on the loan without a change in the interest component on the underlying swap. For these borrowers, the variable rate interest rate under the loan will be increased as a result of the "gross up" but the receipt of swap payments received from the swap counterparties will not change. Therefore, a borrower will be paying a higher variable interest rate under the loan than it is receiving from the counterparty under the swap. Consequently, the swap will no longer be perfectly hedged.

Due to the quick implementation of these changes, many lenders are still reviewing their loan documents to determine which of their loans have gross-up provisions, as well as the extent to which they must be implemented. Thus, it may be several months before lenders notify borrowers of the change in rates. In many cases, however, the implementation of the rate increase is automatic, whether or not notice is given, and will become effective as of Jan. 1, 2018. Thus, governmental entities should quickly review their budgets to account for the potential rate increases.

Depending on the way the documents are written, the implementation of these changes may not be automatic and may not be equally applied across a bank's portfolio of loans. For some lenders, the documents provide that the rate "will" be grossed up (i.e., "the rate shall be increased"), but for other loans the provisions give the lender the option of whether or not to increase (i.e., "the rate may be increased at the option of the lender"). In those cases where the rate change under the loan documents is automatic, careful consideration needs to be given by bond counsel if the lender offers to waive the gross-up provision, because the failure to fully implement such a provision – or a delay in implementing its effective date – could cause a reissuance for federal income tax purposes and thus could cause the loan to become taxable. Lenders should consult with counsel prior to formalizing any waivers to ensure that the tax-exempt status is not unknowingly jeopardized.

Footnotes

1 A similar common adjustment factor is reflected as the product of 1 minus the Maximum Federal Corporate Tax Rate on the date of calculation multiplied by 1.53846.

Article by Michael L. Wiener, Richard B. Stephens and Edward J. Rojas

Last Updated: January 11 2018

Holland & Knight

Michael Wiener and Richard Stephens Jr. are Partners in Holland & Knight's Lakeland office and Edward Rojas is an attorney in Holland & Knight's New York office

---

[S&P U.S. Transportation Sector 2018 Outlook: Credit Quality Will Largely Be Stable, But Will Infrastructure Finally Take The Spotlight?]()

S&P Global Ratings' 2018 outlook for business conditions and credit quality across the public transportation sector is stable across most transportation subsectors (airports, ports, federal grant-secured and parking), and positive for the toll road and bridge sector.

[Continue Reading](#)

Jan. 17, 2018

[Climate Lawsuits Backfire.](#)

Environmental activists and plaintiffs' attorneys have convinced local governments in California and New York that there is a pot of gold waiting for them in a new set of lawsuits against energy companies. The theory is that the companies raised global temperatures and thus forced cities and counties to spend billions of dollars to protect residents against rising seas.

The claim is farfetched, to begin with, and federal courts have tossed out similar arguments in the past. But now, the lawsuits are backfiring – and local governments themselves are in the crosshairs.

Here's the problem for the governments: They claim that energy companies will cause massive environmental damage, costing their cities and counties billions of dollars. But, if that claim is true, then the governments failed to reveal the risk to purchasers of their own bonds. As a result, the cities are opening themselves up to lawsuits directed at *them*.

[Continue reading.](#)

The Huffington Post

John Burnett, Contributor

Businessman | Business & Political Commentator | Professor | Urban Financial Freedom Fighter | Republican Strategist

01/16/2018 12:33 pm ET

[Local Government Investment in Water and Sewer, 2000-2015.](#)

What investments will be needed to rebuild our national water and sewer infrastructure andprovide services to a growing and shifting population and an expanding economy?

Introduction

Will a new national infrastructure policy help or hurt city water and sewer services?
What is the role of the Federal Government in helping cities provide safe, adequate and affordable water and sewer in a national infrastructure policy?

Answers to these questions require knowledge of current public water and sewer economics and recent trends to help evaluate policy implications; this paper summarizes local and federal investment trends.

Congressional framers of the Clean Water and the Safe Drinking Water Acts promised local governments a technical and financial partnership to achieve national water goals. Those promises are long forgotten. Congress and the Executive branch have steadily retreated from responsibility for local water and sewer services, although they continue to stack up expensive regulatory mandates that trigger affordability burdens for low- and middle-income households. Current discussions of boosting infrastructure investments initiated by the Executive branch are long overdue; and the stated expectation that cities and states need to step up with more of their own money before they ask for federal financial assistance rings hollow in the case of local water and sewer where local government provides roughly 98 percent of the annual investments. Any major improvement in water and sewer infrastructure will rely on a new configuration of bonds, grants, loans and rate increases. A new infrastructure policy can get it right, if the new framers of the policy consider both achievements and systemic problems that have accrued over the last 40 years.

The case is well established that the federal financial partnership with cities died when Congress eliminated the construction grants program in favor of providing capitalization grants to states to disburse to local government as loans with capital and interest payments. Elimination of earmark grants for water and sewer construction soon followed, and local government picked up all the responsibility for providing local services and achieving national health and environmental goals, (Figure 1).

Continue reading.

The United States Conference of Mayors

By Richard F. Anderson, Ph.D.

Using Dollars with Sense: Ideas for Better Infrastructure Choices.

With infrastructure policy set for the spotlight in 2018, the Urban Institute is hosting this series to look beyond funding and into the way we choose which infrastructure projects are built and which are not.

On this page, you will find short essays about what criteria policymakers should keep in mind to make effective choices and what levers they can use to do so. Visiting fellow Shoshana Lew argues for one such tool in her new brief, calling attention to asset management plans.

Our authors hold various views and roles in our infrastructure system, and while they may not all agree, we hope their collective output will be a resource for infrastructure leaders to draw on as they make decisions that will reverberate in places and people’s lives for decades.

We look forward to a thought-provoking and useful discussion.

Continue reading.

The Urban Institute

Fitch U.S. Not-For-Profit Hospitals and Health Systems Criteria Revision.

Fitch Ratings finalized its new criteria for U.S. not-for profit hospitals and health 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 15% of the portfolio, with a roughly equal mix of upgrades and downgrades. Upgrades are likely for issuers with enhanced revenue defensibility characteristics or less volatility in Fitch's through-the-cycle analysis, while downgrades are likely for issuers with elevated operating risk and leverage, which expose them to greater volatility in a through-the-cycle analysis.

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. not-for-profit hospital and healthcare 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 operating cost flexibility assessment and the asset allocation of its unrestricted liquidity.

Bloomberg Brief Weekly Video - 1/18

Taylor Riggs, a contributor to Bloomberg Briefs, talks with editor Joe Mysak about this week's municipal market news.

Watch video.

Bloomberg

January 18th, 2018

House Panel Backs Bill to Scrap Floating Prices for Money Funds.

- Post-crisis rule raised municipal borrowing costs, critics say
- Key industry group opposes change, says markets have adjusted

The House Financial Services Committee has advanced a bill that would eliminate some of the strictures placed on the $2.8 trillion money market mutual fund industry in the wake of the financial crisis.

The legislation, which was opposed by Fidelity Investments, Vanguard Group., BlackRock Inc. and other major asset managers, would repeal a 2014 requirement that the riskiest funds allow their share prices to float, rather than maintain a stable $1 value. The panel's action clears the way for a House vote on the measure.

Representative Keith Rothfus, a Pennsylvania Republican who sponsored the legislation, said it aims to fix a "misguided Securities and Exchange Commission rule" that has disrupted markets and also caused municipal borrowing costs to rise. He said more than 60 lawmakers, both Democrats and Republicans, were co-sponsors of the bill.

While the prospects for passage in the Senate are dim, the 34-21 committee vote is a victory for Federated Investors Inc., which has a large money fund business and has been fighting the SEC regulation for years. The Pittsburgh-based firm joined with state treasurers, pension funds and other businesses to form the Coalition for Investor Choice to lobby for the bill.

Interest Rates

Other fund companies disputed the group's contention that the SEC rule was responsible for increased borrowing costs for cities and towns. In a paper distributed on Capitol Hill, Vanguard attributed the rise to the Federal Reserve's decision to boost interest rates.

"The coincidental timing of these increases and of money market reform has led to misidentification of the true causation of higher municipal yields," Vanguard wrote.

Mutual fund firms and their trade association, the Investment Company Institute, had mostly opposed the SEC's move to require the floating share price, but they told lawmakers changing the rule would be expensive and potentially troubling to the markets.

"The new regulatory regime involved substantial and costly operational changes implemented on a very aggressive timetable, but money market funds and the money markets have adjusted," ICI President Paul Schott Stevens wrote in a Jan. 12 letter to committee members. "The consensus of our member leadership is that reopening these reforms is not appropriate or desirable."

Clayton Warning

SEC Chairman Jay Clayton, in a letter last year to Representative Carolyn Maloney, also urged caution, noting that the agency's rule had only been fully put in place in October 2016. "I am concerned that making major changes at this time could be disruptive to the short-term funding markets," Clayton wrote.

The SEC's reforms came in response to a September 2008 run on the Reserve Primary Fund after its share price dropped below $1, causing investors to withdraw money at other funds and helping freeze credit markets. The Treasury Department was ultimately forced to stem the panic by temporarily guaranteeing shareholders against losses.

Among the lawmakers voting against the legislation were Representatives Bill Huizenga, the Michigan Republican who leads the Financial Services capital markets subcommittee, and New York's Maloney, the panel's top Democrat.

"I oppose this bill because I think it rolls back one of the most important post-crisis reforms we made," Maloney said.

Bloomberg Markets

By Robert Schmidt

January 18, 2018, 9:50 AM PST

S&P Credit FAQ: Understanding Climate Change Risk and U.S. Municipal Ratings.

The U.S. municipal market has always faced credit exposure to hurricanes, floods, drought, fires, tornados, earthquakes, and other catastrophes. In addition to episodic event risk from natural disasters, S&P Global Ratings believes it is important to consider the current long-term credit…

Continue Reading

Oct. 17, 2017

Moody's: Climate Change Adaption and Mitigation Could Affect Cities' Bond Ratings.

In December, Moody's Investors Service issued a report encouraging cities to invest in climate adaptation and mitigation. Cities will be evaluated in the future at least in part on how they prepare for both short-term climate "shocks" and longer-term trends associated with climate change.

Moody's is the largest credit rating agency to date to publicly outline how it evaluates climate change risk and integrates it into its credit rating assessments.

In the report, the United States is broken into seven "climate regions," identified by both geography and the type of mostly common regional impacts—for example, drought, extreme heat, and wildfires in the Southwest; rising sea level and its impact on coastal development in the Northeast; and flooding and other impacts on agriculture in the Midwest. The report stresses, "If federal, state, and local governments do not adapt, these risks are forecast to become more frequent and severe over time."

Cities that are already taking proactive steps to address climate change mitigation and resilience may welcome this additional level of scrutiny. A municipal credit rating based in part on climate change preparation could lead to a virtuous circle—cities that invest in climate preparedness would see a higher bond rating, allowing them to attract more low-interest capital to invest in a broader range of strategies to prepare for the short- and long-term impacts of climate change.

For cities that have not developed a climate action plan, or begun investing in climate change preparedness, Moody's report could be a wake-up call—if credit becomes harder to come by, these cities could be at a credit disadvantage to their peers, and find it hard to find the financing to catch up.

In the report, Moody's encourages cities to develop local adaptation and mitigation programs specific to their most likely short-term climate "shocks" and longer-term climate trends. In the Midwest, the report recognizes that "impacts on agriculture are forecast to be among the most significant economic effects of climate change." In the Southwest, the report recognizes that the region will become even more vulnerable to extreme heat, drought, rising sea levels, and wildfires. Rising sea levels and their effect on coastal infrastructure are the biggest projected long-term impact on the Northeast.

As Moody's recognizes climate change as a threat to municipal bond ratings, other debt markets have already begun integrating energy efficiency and climate change mitigation into their evaluation process. Fannie Mae is issuing green mortgage–backed securities for assets with a third-party green building certification or major energy efficiency improvements, and providing green financing loans to help drive these energy efficiency improvements. Earlier this year, a study by the U.S. Department of Energy and Lawrence Berkeley National Laboratory found that energy-efficient commercial buildings are less likely to default on their mortgages than their more energy-inefficient peers, further strengthening the case that commercial debt markets should incorporate energy efficiency into their underwriting process as well.

Urban Land

By Billy Grayson

January 17, 2018

Market Commentary: Munis Get Slammed in a Volatile Week.

Read the report.

Court Street Group's Perspective

by George Friedlander

Posted 01/16/2018

Market Commentary: Munis Outperform Treasuries as 10-Year UST Tops 2.60%

This Market Commentary is part of Court Street Group's Weekly Perspective.

This past week saw several milestones in broader markets with the Dow Jones Industrial Average crossing the 26,000 point mark for the first time and the U.S. Treasury 10-year yield topping 2.60% for the first time in nearly 4 years.

Pressure from sustained Treasury losses year to date and the crossing of the technical boundary of 2.60% did eventually put pressure on municipals but overall the theme of the week was outperformance.

Continue reading.

Neighborly Insights

by George Friedlander

Posted 01/19/2018

Chicago Postpones $898 million Bond Sale, Eyes New Structure.

CHICAGO (Reuters) – Chicago on Wednesday postponed an $898 million bond sale until next week at the earliest, citing weaker market conditions and the possibility of restructuring the deal to include taxable debt.

The revenue bond issue, which topped this week's $3.45 billion supply calendar in the U.S. municipal market, was aimed at refinancing some of Chicago's outstanding general obligation debt through a newly created Sales Tax Securitization Corporation.

Chicago Chief Financial Officer Carole Brown pointed to a weaker market tone and the fact that ratios between yields on tax-exempt muni bonds and comparable taxable U.S. Treasuries have risen since the city sold the first $743.7 million of bonds through the corporation in early December to refinance outstanding sales tax revenue debt. The ratios gauge the expensiveness or cheapness of munis versus Treasuries.

"We have the flexibility and the time to possibly evaluate some alternative structuring options and make sure we are offering the appropriate deal to the market given the current market environment," she said in a telephone interview.

While the deal was meant to refund outstanding GO bonds callable within 90 days, the city could add a taxable component to refund debt callable beyond 90 days, according to Brown. The new federal tax law eliminated tax exemption for advance-refunded munis.

The tax-exempt bond deal was initially structured with serial maturities from 2031 through 2039 and a term maturity in 2042.

Chicago created the sales tax securitization corporation last year to refinance up to $3 billion of its sales tax revenue and GO bonds, and produce an initial $94 million in savings for the city's fiscal 2018 budget.

A chronic structural budget deficit, as well as a huge unfunded pension liability that totaled $35.76 billion at the end of 2016, have led to low credit ratings and increased borrowing costs for the nation's third-largest city.

The corporation is pledging Chicago's state-collected sales tax revenue to pay off the new bonds. Investors will get a statutory lien shielding the debt from municipal bankruptcy, which is not allowed under Illinois law.

The bonds are rated AAA by Fitch Ratings and AA by S&P Global Ratings, both of which are several notches higher than the city's GO ratings of BBB-minus by Fitch and BBB-plus by S&P.

Reporting by Karen Pierog; Editing by Matthew Lewis

JANUARY 17, 2018

The Week in Public Finance: Feds to Revisit Payday Loan Restrictions, a Pot Appeal and a Better Way to Do Property Taxes.

A *roundup* of money (and other) news governments can use.

GOVERNING.COM

BY LIZ FARMER | JANUARY 19, 2018

Public-Private Partnership Withstands Court Challenge.

Attorney Mariah DiGrino of DLA Piper details a recent Illinois court case.

Housing for chronically homeless individuals in Lake County, Ill., has been preserved and expanded through a public-private partnership that recently withstood a court challenge by opposing residents. The Lake County Housing Authority is working with PADS Lake County, a local nonprofit homeless services provider, to provide permanent housing for chronically homeless individuals, using funding under the Department of Housing and Urban Development's (HUD's) Continuum of Care program.

The public-private partnership in this case uses a multifaceted approach to reach a narrow segment of the homeless population, whose unique challenges have proven difficult to address. This approach allows the housing authority to tap into multiple resources to reactivate a vacant facility: HUD funding, existing public housing tenant selection processes, and PADS’ experience and expertise serving the chronically homeless. PADS itself is a nonprofit organization that engages a variety of community and financial resources to address homelessness.

The public-private partnership in this case follows a long history of government efforts to engage the private sector in housing programs, beginning with New Deal-era loan guarantees and subsidized loan programs. So-called P3s have evolved to include a variety of arrangements, but all share the common features of combining government resources and authority—such as public funding, public property or facilities, access to better financing, credits, or other incentives—with private-sector funding and expertise to achieve a government objective.

The Lake County case is a reminder that public-private partnerships remain a valuable tool for providing a coordinated and customized approach to housing. It’s also a reminder that, while the public-private partnership framework encourages alliances and broad-based support, such projects are not immune from opposition. Local regulations and stakeholder dynamics are important considerations that can either support or hinder the public agency’s objectives. In this case, local zoning regulations and building officials cleared the way for a project that would otherwise not be permitted absent the involvement of the housing authority but not before community opposition and a decision by a local zoning board delayed the project for two and half years. Given the cyclical and competitive nature of funding, justice delayed is often justice denied.

In recent decades, HUD has sought to use P3s to increase local control of housing efforts, partly in an effort to reduce the reliance on federal funds. The current administration’s goals suggest that trend will continue. While there are unique challenges associated with negotiating and implementing a public-private partnership, P3s provide a unique opportunity to leverage private-sector expertise and resources to achieve a public objective.

PADS previously provided permanent housing for 13 chronically homeless individuals through a lease arrangement with a federal Veterans Affairs health-care center. Hospital administration notified PADS that it needed to reclaim the space, requiring PADS to relocate the residents. After looking for suitable replacement units for several years, PADS and the housing authority entered into a master lease, pursuant to which PADS would sublease units in a vacant facility, known as Midlothian Manor, to chronically homeless individuals, enabling PADS to preserve the existing 13 units and add a new unit. Midlothian Manor was acquired by the housing authority in 2001 as part of its non-federally funded housing inventory and was operated by the housing authority as an assisted-living facility for low-income seniors. Because it was never federally subsidized, the occupancy rate was perpetually low, and the housing authority closed the facility in 2010.

After PADS obtained permits for the proposed project from the local building department, nearby residents objected to the proposed reuse by filing a lawsuit seeking to stop the proposed project. The residents objected on the grounds that their homes and Midlothian Manor are located in the R-1 Residential District under the Lake County Unified Development Ordinance (UDO), which establishes zoning and development regulations throughout unincorporated Lake County. The R-1 district permits low-density, large-lot residential development. The objectors contended that re-occupancy of Midlothian Manor would be inconsistent with the R-1 district regulations.

After a two-and-a-half year battle, PADS, represented by DLA Piper LLP (US), successfully argued to the Circuit Court in November 2016 and then again to the Appellate Court in August 2017 that the project was permitted under the UDO as a “Government Use,” which is a permitted use in all zoning districts under the UDO. “Government Use” is defined under the UDO as a “building or structure owned or leased by a unit of government and used by the unit of government in exercising its statutory authority." The effect of this definition is that a use which would otherwise be prohibited in a given zoning district is permitted when the governmental requirements of the definition are met, even though the uses may be functionally identical.

In upholding the building department's decision permitting the project, the Second District Illinois Appellate Court held in October that the housing authority's ownership of Midlothian Manor and the public-private partnership with PADS satisfied the definition of "Government Use." The objectors had argued that, with a public-private partnership arrangement, the property would not be "used by the housing authority," but would instead by used by PADS. The court rejected this argument and held that the public-private partnership leveraged the housing authority's express power to contract with and assist other entities—public or private—to reuse Midlothian Manor in a way that fits squarely within the agency's statutory purpose of providing safe and sanitary housing.

Affordable Housing Finance

By Mariah DiGrino

January 17, 2018

At DLA Piper, Mariah DiGrino concentrates her practice in the areas of land use and zoning, public-private financing, public incentives, historic preservation, and community and economic development.

Municipal Bond Funds See Record Inflows to Kick Off New Year.

Municipal-bond funds saw $3.1 billion of net new money last week, says ICI

It's only been a month and municipal bond funds are on a tear.

The Investment Company Institute estimated that muni bond funds saw net inflows of $3.1 billion for the week ending Jan. 10. That record-breaking sum is the biggest since the survey began in January 2007.

The bullish flows into munis represents a turnabout for the a sector that a few weeks ago looked bleak. As President Donald Trump's tax plans rushed toward completion, muni-focused mutual funds saw around $1.3 billion in net outflows in December.

At one point, the Republican tax bill threatened to do away with interest deductibility for municipal paper, which would have produced a major headwind for muni investing.

That's because the principal target investor for munis is wealthy individuals looking to cut their tax bill and earn tax-free interest income. Other measures included a repeal of private activity bonds, debt sold by municipalities to finance the projects of corporations like airports.

But sentiment over the sector swiftly turned bullish once the tax plan took its final and more benign form.

"Flipping that pancake to the other side, once the tax bill was finalized and signed, and once it became apparent that the tax rate for the top bracket was very high. Once that all became definitive, perhaps folks that took the outflow train took the inflow train," said Alan Shankel, municipal credit strategist for Janney Montgomery Scott.

Analysts now say negatives of the overall tax plan should be diminished. The Republican tax bill outlawed the use of so-called advanced refunding bonds, a roundabout way for municipalities to refinance their debt. Such bonds represented 15% of total issuance over the past decade, estimated Abigail Urtz, municipal strategist for FTN Financial.

The diminishing supply could give a boost to municipal bond-buyers and push yields lower. Debt prices rise as yields fall.

However, it may not all be rosy for munis.

Urtz said the outlook for demand could be a major wild card because one of the chief pieces of the bill was a cut to the corporate-tax rate to 21% from 35% this year.

The reduced corporate-tax rate may undercut appetite from banks and insurance companies, which have grown into significant players in the municipal-bond market (see chart lower). Banks now own more than $500 billion of the $3.8 trillion sector, according to Federal Reserve data.

"With banks the fastest growing buyers of municipals in recent years, fears about tax reform's impact on the municipal market have naturally focused on this provision," she said. "These buyers will be grappling with some sticker shock as previously cheap valuations start to look less appetizing."

Market Watch

by Sunny Oh

Published: Jan 18, 2018 7:32 a.m. ET

European Insurers Find Yield in U.S. Municipal Bond Market.

- **Higher credit quality than corporates fuels foreign interest**
- **Longer maturities are focus for European insurance companies**

The global hunt for yield is so vigorous that payments to protect against car losses, deaths and storms in Europe are helping to bankroll roads and utilities in the U.S.

The $3.8 trillion municipal-bond market, long the investment mainstay of U.S. residents, is seeing demand from European insurance companies drawn to higher yields and ratings than they can find closer to home. It's boosting the liquidity of a market where U.S. states and local governments raise money. And it's also providing a new source of business to asset managers.

"It's been very robust demand," said Ben Barber, head of municipals at Goldman Sachs Asset Management, which manages about $52 billion of the securities. "We're seeing brand new entrants into the market that are coming to institutional investors like us."

The interest from corporations such as Germany's Munich Re underscores the changing landscape in the municipal market, which is so U.S. focused that radio commercials for New York commuters tout local bonds. By the end of September, foreign buyers had increased their holdings of the securities to about $104 billion, more than double what they held a decade earlier, federal data show.

Municipals once held little allure overseas because federal tax breaks depress the yields. But in the era of low and even negative yields on global bonds, foreigners have taken a closer look, particularly in the taxable sector, where rates are higher.

Higher Quality

European insurers in particular are drawn to the higher quality of municipals compared with corporate debt. Sixty-seven percent of the Bloomberg Barclays Municipal Index is rated AA or higher, while just 11 percent of the comparable U.S. investment-grade corporate bond index is, according to an analysis by Matt Caggiano, who helps oversee more than $9 billion of insurers' municipal holdings at Deutsche Bank AG.

And for the higher credit quality, foreign investors are getting more in return, even considering currency fluctuations, according to an analysis from Bloomberg Intelligence.

To better match their liabilities, life insurers also favor longer-maturity bonds, which are more common in the municipal market than in the corporate world. And European Union regulations effective in 2016 allow insurers to put aside less in capital for holding infrastructure debt than corporate bonds.

"Municipals are an attractive investment, and we will use opportunities to accentuate our positions," said Josef Wild, a spokesman for MEAG, the asset manager for Munich Re, which provides reinsurance and insurance. The company likes municipals for their high ratings and spreads over Treasuries and are using them to diversify its investments, he said by email.

New Funds

While Munich Re handles its investments internally, other insurers have outsourced their municipal strategies. Goldman Sachs Asset Management has seen its holdings of taxable municipals for European insurers increase by 89 percent in about a year. In September, Nuveen Asset Management launched a new high-grade municipal fund spurred by interest from clients outside the U.S., according to John Miller, co-head of fixed income. Overall, it's managing $2.5 billion in taxable municipals for foreign insurers as of the end of 2017 from nothing a little more than a year ago, he said.

To make room, some insurers are selling Treasuries, as well as European and U.S. corporate bonds, while others don't necessarily need to.

"There's a lot of cash being thrown off, and it's an easy way for them to make another allocation in decent yielding credit markets," said Jason Pratt, head of insurance fixed income at Neuberger Berman, which manages about $30 billion in assets for insurers.

Foreigners have made an impact: liquidity in taxable municipals has improved as trading activity shows, said Goldman's Barber. And new taxable deals have more potential buyers than bonds available than was seen in the past, said Deutsche's Caggiano.

The European insurers are likely to step up their purchases as they grow more comfortable with municipals, as yields remain competitive globally and as supply of taxable municipals picks up. Some analysts expect that the recent ban on advance refundings in the U.S., a previous source of tax-exempt debt, may compel issuers to refinance via taxable securities.

“We know from talking to potential clients that there’s still capacity,” Caggiano said.

Bloomberg

By Romy Varghese, Katherine Chiglinsky, and Julie Edde

January 19, 2018, 5:23 AM PST

[Muni Bonds May Not Be the Reliable Bet They Once Were.]

Investors should make sure to better understand the risks, and perhaps adjust their strategy accordingly

Can investors still use municipal-bond funds as core holdings in their taxable accounts?

For a long time, many have done just that—taking advantage of the bonds’ big tax benefits, and using their low risk as a haven in times of stock-market turmoil.

But munis aren’t looking like such a reliable bet anymore. Since the financial crisis, some big municipalities have defaulted on their obligations, while a number of states, cities and now Puerto Rico are currently facing financial woes. And bankrupt municipalities are increasingly making bondholders scrounge for what’s left after paying employee pension funds.

So while it may still be possible to keep a muni fund as a core holding, investors should understand how the asset class has changed.

Price swings in the digital currency led to explosions in trading volume, assets under management and volatility at Bitcoin Investment Trust.

Municipal bonds offer investors interest that’s tax-free at the federal level and at most state and local levels, if investors own bonds issued by any government entity within their state of residence.

When deciding whether to buy muni bonds, investors usually make a comparison between the yields of a muni bond and a U.S. Treasury note or bond of similar maturities. The “taxable yield equivalent” to a municipal bond is the municipal bond’s yield adjusted for the investor’s tax bracket.

So if an investor is hypothetically in a 50% bracket, including both federal and state taxes, a taxable yield twice that of a municipal yield—or a municipal yield half that of a taxable bond—would make two bonds equivalent. In that case, if a highly rated muni bond offered more than half the yield of a comparable U.S. Treasury, an investor could consider the muni bond the better choice in a taxable account.

A changed asset class
For decades, that was a reasonable comparison, and largely all that investors had to consider about munis. The chance of losing an investment was not even an issue: The historical default rate of the roughly $3.8 trillion market with more than 80,000 issuers has been low—0% for AAA-rated bonds and only 0.30% for AA- and A-rated bonds from 1970 through 2009, according to a Moody’s study.

Unfortunately, municipal profligacy has begun to result in more high-profile distress and bankruptcy in recent years, including Jefferson County, Ala.; Detroit; Harrisburg, Pa.; Central Falls, R.I.; and

Vallejo, San Bernardino and Stockton in California. Now the fate of more than $70 billion that creditors have lent to Puerto Rico is in doubt, as Hurricane Maria battered the island already struggling with manufacturing and population loss.

An updated Moody's study from 2016 notes that the "sector has changed over the past decade and more profound changes may be in the offing. The once-comfortable aphorism that 'munis don't default' is no longer credible, although default rates remain low."

In some cases, investors betting on munis have gotten burned. Recently, Franklin Double Tax Free Income fund merged with Franklin High Yield Tax Free Income fund (FHYVX) after it inflicted significant losses on investors. The fund had more than half its assets in Puerto Rico bonds.

Some analysts warn that many bond issuers are heading into precarious financial situations. In a 2016 research report from PNC Capital Markets, Tom Kozlik argues that around 20% of issuers haven't adjusted their spending to reflect diminished revenue after the financial crisis.

Mr. Kozlik doesn't cite names, but other observers have pointed fingers at issuers at risk.

"Though I'm not warning of an industrywide municipal-bond crisis, I think investors have to think carefully about individual credits and what, exactly, they're investing in," says Nicole Gelinas of the Manhattan Institute think tank. In the case of Chicago, "it's difficult to see, 10 years from now or even sooner, how, exactly, Chicago figures out [its problems with underfunded pensions] without bondholders having to take some sort of hit, as well." (Chicago officials declined to respond to a request for comment.)

And when a municipality goes bankrupt, investors aren't always first in line to recover their money. Stockton and San Bernardino honored their obligations to state-employee pension funds at the expense of bondholders in their bankruptcies. "General obligation" bondholders, once thought to be above revenue bondholders in the case of defaults, aren't necessarily ahead of unions.

Munis aren't Treasurys

Not all municipal-bond experts are pessimistic. Tracy Gordon, a senior fellow at the Urban Institute think tank, says investors shouldn't be alarmed about munis' safety, emphasizing their low historical default rates. "It's unfair to paint the whole sector with a broad brush," she says.

But if investors choose munis as a core holding, many analysts advise using a diversified fund to lessen the risk of issuers defaulting. What's more, investors shouldn't expect the bonds to rally during a stock-market decline, as U.S. Treasurys often do.

That's because munis have become closely tied to the health of state-employee pension funds. If stocks fall and pension funds lose money, the funds often turn to municipalities to make up losses—which makes muni bonds less attractive and hurts muni investors.

Indeed, the Bloomberg Barclays Municipal Index lost nearly 2.5% in 2008 during the stock crash—instead of providing municipal-bond investors with protection. That's hardly catastrophic, but it might not have represented the resilience that the bond investors were expecting. And results might be less benign during the stock market's next wipeout.

The Wall Street Journal

By John Coumarianos

Jan. 7, 2018 10:08 p.m. ET

Mr. Coumarianos, a former Morningstar analyst, is a writer in Laguna Niguel, Calif. He can be reached at reports@wsj.com.

[SALT Shift Bolsters Munis' Appeal to Wealthy in High-Tax States.]

- **With deductions capped, investors may look for new tax breaks**
- **Analysts expect uptick in demand from states like California**

Residents in New York, New Jersey and Connecticut who waited in queues to pay their property taxes early and take advantage of an expiring tax deduction may be lining up in 2018 to buy municipal bonds issued in their home states.

Strategists from Barclays Plc and Charles Schwab Corp. say demand for munis could increase from wealthy residents of high tax states this year because the Republican tax bill caps state and local property and income tax deductions at $10,000.

That kind of money doesn’t go a long way in Manhattan, where the average deduction per tax return is about $25,000 or Marin County, across the Golden Gate Bridge from San Francisco, where it’s about $17,000, according to the Tax Foundation. So residents may be eager to find other ways to reduce what they owe to the federal government.

“What are the remaining tax havens? Munis are still one of them,” said Mikhail Foux, the head of municipal strategy for Barclays in New York.

Californians, who pay a top income-tax rate of 13.3 percent or residents of New York City, which has a combined state and local rate of 12.7 percent, now have even more incentive to buy local debt because the interest is exempt from both state and federal taxes, he said.

Fewer Bargains

By increasing the cost of state and local taxes to wealthier residents, the federal shift may make it more politically difficult to raise taxes and curb the pace of bond sales backed by such revenue. Just four states — California, New York, New Jersey and Illinois — account for about 42 percent of long-dated, fixed-rate municipal bonds, Citigroup Inc. analysts led by Vikram Rai said in a Jan. 11 note to clients.

“A pullback on debt issuance by any of these states can cause a scarcity shock in the space for long-dated municipals,” they wrote.

At the same time, the increased demand for tax-free income may bring greater attention to mutual funds targeted at specific states.

Nuveen Asset Management’s California High Yield Municipal Bond is the best-performing open-end California municipal bond fund over the past 10 years, according to Morningstar Direct. It invests 36 percent of its assets in real-estate-related debt and has benefited from a run-up in property values since the Great Recession, said John Miller, Nuveen’s co-head of fixed income, who oversees $131 billion of muni debt.

Municipalities in California can sell bonds backed by assessments on homeowners to pay for roads and sewers in new neighborhoods.

“There’s really nothing that actually went into default in the last cycle in California in this type of bond,” said Miller, whose fund delivered annual returns of 6.25 percent for the 10-year period ending Dec. 31. “Some of these districts did trade 50-60 cents on the dollar. Now you have heavy, heavy overcollateralization.”

Miller said it will become harder to find bargains in the municipal market once the federal tax bill stokes even greater demand for higher-yielding California bonds. At the same time, limits on the ability of states and local governments to refinance their debt are promising to cut the pace of new sales.

“It’s going to get more challenging because pricing is tighter,” Miller said.

Low Defaults

Nationally, high-yield bonds offer a spread of about 2.7 percentage point more than AAA rated debt, but the premium is narrower for risky municipal debt issued in California, Miller said. And muni defaults remain low, with only $500 million defaulting for the first time in 2017, the least since 2008, he said.

“A growing economy tends to narrow spreads and low defaults tends to narrow spreads,” Miller said. “If spreads are narrowing, all else being equal, high-yield has an opportunity to outperform. You still have to pick the right credits.”

Delaware Funds Tax-Free New York Fund is the best performing New York retail fund over the 10-year period ending Dec. 31, returning 4.7 percent, according to Morningstar.

Almost half of the fund’s assets are invested in bonds in the A or BBB category, with about 15 percent in junk-rated or non-rated bonds. The largest portion of its holdings, 23.1 percent, is in the education sector.

New York offers investors a diverse range of bonds, said Greg Gizzi, who helps manage Delaware’s New York fund. For example, in the higher-education sector, the state has more than 100 private colleges and universities, from AAA rated Columbia University to BB rated Metropolitan College of New York.

“We’re going to seek to diversify into those lower investment grade and those below investment grade categories despite the fact that we exist in a world that has constrained supply,” Gizzi said.

Bloomberg

By Martin Z Braun

January 12, 2018, 7:34 AM PST

Bloomberg Brief Weekly Video - 1/11

Taylor Riggs, a contributor to Bloomberg Briefs, talks with editor Joe Mysak about this week’s municipal market news.

Watch video.

Bloomberg

January 11th, 2018, 9:41 AM PST

Muni Market Set for Slow January After Tax-Fueled Rush to Market.

- **Citigroup says muni-bond sales unlikely to exceed $15 billion**
- **Muni market tends to outperform during January slowdown**

Municipal bond issuance could be poised for a multi-year low this month, setting up state and local debt to deliver hefty returns.

The drop in sales is expected to come after issuers rushed to sell a monthly record of bonds in December to avoid changes to the municipal market as part of federal tax reform. Municipal bond analysts say they expect very light issuance during what is typically a slow month for sales.

"I think you could see a record-low issuance," said James Dearborn, who oversees $29.5 billion as head of municipal bonds at Columbia Threadneedle Investments in Boston. "The forward calendar indicates it's going to be a very quiet month, if not quarter."

The 10-year low for January bond sales came after a similar rush to market when the Build America Bonds program was set to expire in 2010. Issuance totaled just $13.6 billion in January 2011, well below the $24.8 billion average for the month seen over the last decade, according to data compiled by Bloomberg.

Bond sales last month broke the previous monthly issuance record set in December 1985, which was driven by Congress' overhaul of the tax code. The next month, municipal bond issuance was a paltry $1.69 billion, according to Bond Buyer data. Bond sales are unlikely to fall below that figure, though, as $722 million in bonds have already been sold this month as of Jan. 5 and $3.6 billion in sales are scheduled for the week of Jan. 8 alone, according to data compiled by Bloomberg.

RBC Capital Markets is forecasting muni-bond sales of $10 billion in January, while Citigroup analysts say they would be "extremely surprised" if issuance exceeds $15 billion. Other analysts say they are hesitant to give a forecast for January given the mad dash to sell late last year.

"There are definitely deals that are going to be coming over the next couple of weeks, but it's difficult to figure out which issues are left to get done in January because of the deals that got accelerated," Tom Kozlik, managing director and municipal strategist at PNC.

The municipal bond market typically outperforms in January due to a drop-off in supply combined with investors looking to reinvest cash received from matured bonds and coupon payments.

While it's "nearly impossible" to predict supply this month, the drop-off in sales will cause this trend to continue, said Peter Block, managing director at Ramirez & Co. Net supply stood at negative $9.5 billion on Jan. 5, with $9 billion in bonds set to mature and $8.7 billion in bonds being called, according to data compiled by Bloomberg.

"Demand is going to be extremely high and you're going to see municipals outperform Treasuries because of the principal and interest that's been received," he said. "That's how the dynamic is going to be received."

Bloomberg Markets

By Amanda Albright

January 9, 2018, 4:00 AM PST

— With assistance by Elizabeth Campbell

The Week in Public Finance: Deficits in 25 States, Exxon Sues California Localities, and New Jersey's Lottery Claim.

A roundup of money (and other) news governments can use.

GOVERNING.COM

BY LIZ FARMER | JANUARY 12, 2018

Multifamily Housing Bond Issuance May Drop in 2018.

WASHINGTON – Issuance of multifamily bonds may drop this year from the recent high of $14 billion in 2016, according to experts at a recent housing conference who were uncertain whether the decline will be significant.

Multifamily housing bond issuance had been expected to decline last year from the 2016 peak, but some projects were rushed to market at the end of 2017 when private activity housing were nearly terminated under tax reform.

"Part of the drop off, if there is one, might be that many states issued as many bonds as they could to make sure they preserved that bond authority," Garth Rieman, interim executive director of the National Council of State Housing Agencies, told The Bond Buyer.

Final Thomson Reuters' (TRI) data on housing issuance for 2017 won't be released until February.

Multifamily housing bonds have been the largest component of PAB issuance subject to state volume caps and Rieman expects that to continue.

The demand for affordable housing remains "extraordinary," Rieman said adding, "I think there are a lot of underlying reasons why production will remain high."

On the plus said, Rieman expects a pickup in use of mortgage revenue bonds by states to assist first-time homebuyers. "As interest rates rise, that creates a little bit more separation between tax-exempt rates and taxable rates which may allow tax-exempt bonds increase activity," he said.

Some of the MRBs used in early 2018 will be left over from late 2017, Rieman cautioned, but state housing finance agencies overall are likely to support more single-family home purchases this year.

Housing advocates remain hopeful that Congress may act on bipartisan bills to enhance the low-income housing tax credit which is linked to housing bonds in financing about half of the nation's multifamily housing rehabilitation and new construction.

The bipartisan Affordable Housing Credit Improvement Act (H.R. 1661) has 122 cosponsors in the House and the companion bill in the Senate (S. 548) has 22 cosponsors, including Senate Finance Committee Chairman Orrin Hatch, R-Utah.

Housing experts who attended a recent panel discussion here sponsored by the National Conference of State Housing Agencies also hope Congress and the Trump administration can be persuaded to include affordable housing in their plans for infrastructure spending.

"Elements like that might support more activity later this year," Rieman said.

For now, public housing agencies and developers are adjusting to the tax changes enacted by Congress that make housing bonds a less attractive investment.

The drop in the corporate tax rate to 21% from 35% is expected to make housing bonds less attractive as investments, experts agreed during the panel discussion.

There will be changes in housing bond pricing but nothing as extreme as what happened in the 2008-2009 Great Recession, said Anthony Freedman, a partner at Holland & Knight.

"The substance of the program hasn't changed at all," Freedman said.

"We weren't devastated, but we definitely were damaged," said Michael Novogradac, the managing partner in the San Francisco office of Novogradac & Co. His firm estimates the tax changes will produce a roughly a 14% drop in the value of investing in projects using the low-income tax credit which is often paired with housing bonds.

"In terms of what impact that is going to have coming up, I wish I knew," Novogradac said. "I know it's negative. I know it's adverse."

Foreign banks, in particular, are reassessing their investments because of complex new rules involving the base-erosion and anti-abuse tax (BEAT) said Priya Jayachandran, senior vice president for housing development at Volunteers of America.

Jayachandran, who is taking over as president of the National Housing Trust on Feb. 1, said another possible setback for affordable multifamily housing development this year would be if interest rates rise.

Scott Hoekman, senior vice president and chief credit officer of Enterprise Community Investment, said that despite the negatives of the new tax law, "The final changes are survivable."

The multifamily housing sector is flexible enough to figure it out how to cope, Hoekman said.

"What would have turned our world upside down was if private activity bonds had been eliminated," Hoekman said.

By Brian Tumulty

BY SOURCEMEDIA | MUNICIPAL | 01/12/18 07:08 PM EST

Chicago Suburb Follows City with Securitization, Bypassing Junk Rating.

CHICAGO – A junk-rated Chicago suburb is following the city's lead by securitizing its state supplied sales tax revenue in a $47 million deal.

The bonds priced Wednesday, according to underwriter George K. Baum & Co.

The village of Bridgeview southwest of Chicago published an offering statement and investor presentation Monday. Fitch Ratings released its report assigning a BBB-plus rating to the deal on Tuesday.

At the same time, Fitch gave the village a first-time issuer default rating of BB-plus, one notch below an investment grade. S&P Global Ratings in March dropped the village to the speculative grade level of BB-minus when it cut its rating by four notches from BBB.

Chicago's Sales Tax Corporation received a AAA rating from Fitch ahead of its inaugural $575 million securitization earlier this month that refunded sales tax bonds. It returns next month with a $795 million issue to refund general obligation bonds.

The village has struggled to manage its debt burden after its investment in a stadium to house Major League Soccer's Chicago Fire has fallen far short of fiscal expectations.

The village of 16,000 issued $135 million for the stadium in 2005, which has been followed by tax increases, asset sales, refinancings and restructurings. Bridgeview, which has about $240 million of debt, had previously been considering restructuring debt beyond the useful life of the stadium, according to S&P.

The securitization sale included a tax-exempt A series for $26.6 million and a taxable B series for $20.4 million. The borrower is the special purpose entity Bridgeview Finance Corp.

Baum is the sole underwriter and Austin Meade is advising on the deal.

Proceeds will ease pressures on the village's balance sheet by refunding its 2008A-2 bonds, covering a debt service payment on the village's series 2005 bonds, and financing some capital projects. The B series will refund the village's series 2008B-1 and series 2008B-2 bonds, eliminating the village's floating-rate obligations.

The new securitization bonds hold a first lien on the village's state-collected portion of its home rule sales tax and local share of the statewide sales tax.

"The BBB-plus sales tax securitization bond rating is based on the bankruptcy-remote, statutorily defined nature of the issuer and a bond structure involving a perfected first lien security interest in the sales tax revenues," Fitch wrote.

The legal structure supports a true sale of the revenues and, in Fitch's opinion, insulates bondholders from any village operating risk. Under the structure, the village will sell all right, title and interest in the pledged revenues to the corporation and the state will direct all pledged sales tax revenues to the trustee.

Louis F. Cainkar Ltd. is bond counsel to the corporation. Burke Burns & Pinelli Ltd. is counsel to the corporation and Quarles & Brady LLP is disclosure counsel. Nixon Peabody LLP is special bankruptcy counsel.

Nixon Peabody gives its “reasoned and qualified opinion” in the offering statement that were the village to enter a bankruptcy – which is not currently allowed under state law – the corporation “would not be subject to substantive consolidation with the village nor would payments to bondholders be subject to the automatic bankruptcy stay.”

The village’s finance director referred calls for comment on the transaction to Dan Denys at Austin Meade but he did not return calls to discuss the deal.

The review of the pledged sales tax being leveraged drove the sharp contrast between the Bridgeview and Chicago ratings. Bridgeview faces stagnant growth prospects in its pledged tax revenue and the tax base faces risks from a concentration of the top 10 tax generators accounting for over half of pledged sales taxes.

The differential in ratings “proves the point that we look at the underlying sales tax base,” Fitch analyst Matthew Wong said in an interview.

“It’s a very stark contrast with Chicago,” analyst Amy Laskey said.

Fitch said a severe decline would pressure the rating but collections have shown resilience through economic cycles. Coverage is strong and sales tax revenue is able to tolerate a 66% decline to 1 times coverage. No additional debt is allowed under the bond resolution.

Fitch’s speculative grade issuer default rating reflects a “very high liability burden” that includes its bonded debt and pension liabilities which are at 61% of village personal income.

“The village has made several budget management decisions in the last several years that have eroded its ability to support operations, including general obligation backing of the Chicago Fire stadium,” Fitch wrote. “Fitch expects that ongoing budget management may be somewhat constrained by the sales tax securitization issuance as it diverts a portion of its sales tax revenue away from the general fund to pay for debt service and may require a corresponding increase in property tax rates.”

The Illinois General Assembly approved the new local borrowing program over the summer at Chicago’s behest as a means to bypass weak general obligation ratings by using a bankruptcy-remote structure.

Some market participants say the sturdiness of the new structure can’t truly be known until tested. They cite the ongoing challenge to some Puerto Rico’s debt. Others warn that the program could be abused by borrowers that lack fiscal restraint.

The stark rating differences between Chicago and Bridgeview provide “a great example of why techniques like securitization have to be viewed on an individual basis,” said Joseph Krist, a partner at Court Street Group LLC. “Securitization in and of itself is not a panacea for credits across the board.”

Krist said he sees why the securitization is attractive to the village because it provides a path to achieve some of its fiscal goals while addressing a market concern over its GO credit largely due its investment in a sports stadium that has disappointed.

When S&P junked the rating in March, it placed the rating on CreditWatch for a possible further downgrade due to concerns over market access and weakened liquidity. S&P removed the watch status and assigned a negative outlook in August after the village successfully modified its letter of credit with BMO Harris Bank NA. The village had been looking at borrowing to pay off $25 million of debt. BMO agreed to an extension of its amortization schedule. The securitization sale will allow the village to shed the floaters.

By Yvette Shields

BY SOURCEMEDIA | MUNICIPAL | 12/20/17 07:18 PM EST

S&P: U.S. Not-For-Profit Health Care Sector 2018 Outlook: Balance Sheet Strength Drives Stable Outlook Despite Expectations That Operations Will Weaken.

S&P Global Ratings has affirmed its stable outlook on the U.S. not-for-profit health care sector for 2018. Our view is based on the overall strength of balance sheets in the sector…

Continue Reading

Jan. 11, 2018
