
Impact of COVID-19 on Local and State Governments.

Capital markets around the world have felt the wrath of the COVID-19 threat, and investors are asking whether a global recession is imminent.

Consider the following facts:

- The S&P fell close to 1,000 points from Feb 24 to March 23 (3,225 to 2,237), recording a 31% loss;
- The small and non-essential businesses will be hardest hit along with their employees;
- The hardest hit areas in the U.S are also seeing rising unemployment numbers; and
- The federal government's financial stimulus package is still being debated, and its impacts – both positive and negative – are yet to be fully determined on how they might affect the economy.
- For municipal debt investors, the most important question to ask right now is whether there will be municipalities facing the financial strains leading up to a potential for bankruptcies.

In this article, we will take a closer look at how the current COVID-19 situation is affecting the municipal debt markets, and municipal finances in general.

Continue reading.

municipalbonds.com

by Jayden Sangha

Mar 25, 2020

COVID-19 and Understanding Your Force Majeure Clauses.

The China Council for the Promotion of International Trade has currently issued at least 4,811 force majeure certificates due to the COVID-19 pandemic. These certificates qualify the coronavirus outbreak as a force majeure event and certify that a party's partial performance or failure to perform under an agreement be excused if there is a force majeure clause in the agreement. According to a Xinhua state media report, the total contract value for the agreements associated with the certificates is an alarming 373.7 billion Chinese yuan (equivalent to US$53.79 billion). Unfortunately, for many U.S. businesses impacted by the economic hardships caused by COVID-19, these force majeure certificates will be of little use if their contracts are governed by U.S. law. Companies should understand the impact and application of their existing force majeure clauses to COVID-19.

A typical force majeure clause releases obligations and liability if an extraordinary event occurs. These events are usually limited to events like war, fire, natural disasters, civil disorder, strikes or

labor disputes, acts of God or other circumstances beyond a party's reasonable control. When these unanticipated circumstances arise, the force majeure clause may be invoked to relieve the parties from their contractual obligations or to terminate the contract with no further liability from either party.

Far too often, force majeure clauses are an afterthought during the contract negotiation process. Although seemingly unimportant when the parties are trying to close a deal, these clauses have substantive impacts to the business when unanticipated events occur. As the spread of COVID-19 disrupts global supply chains and results in the imposition of emergency rules and regulations, it becomes imperative for companies to prepare themselves for impending commercial disputes.

As a historical example, the SARS virus outbreak in 2003 resulted in many companies asserting force majeure clauses. Northwest Airlines famously relied on the force majeure clause in its labor contracts to lay off employees without notice, asserting that the SARS virus caused its air traffic to Asia to significantly decline. Not surprisingly, the Aircraft Mechanics Fraternal Association, an independent aviation union, claimed the layoffs were an immoral exploitation of the provision and challenged Northwest Airlines' legal justification by filing a class-action grievance. The arbitration board held that while a number of the layoffs were justified by force majeure events, a certain subset of mechanics were unjustifiably laid off, and Northwest Airlines was ordered to rehire those mechanics. The takeaway from this is that a force majeure clause may not apply uniformly to different circumstances.

While the SARS virus resulted in many companies revising the force majeure clauses in their contracts to include "global epidemics" as triggering events, the Northwest Airlines example shows that COVID-19 should be carefully analyzed in its specific impact to different industries. In addition, other contract provisions will alter the legal analysis about whether a specific force majeure clause can be invoked. For example, certain jurisdictions may interpret "acts of God" or "epidemic" differently, so the governing law provision will have an effect on whether the force majeure clause may be invoked. Moreover, force majeure clauses are drafted with specific terms that impact their interpretation. For example, a force majeure clause that does not specifically cite "disease" or "epidemics" may nonetheless have an all-inclusive catch-all phrase (such as "any similar event beyond the reasonable control of a party") that would lead to the COVID-19 pandemic qualifying as a force majeure event.

Just as companies must take a proactive approach to their employees' health and safety with respect to COVID-19, companies should also take a proactive approach to the other business effects of COVID-19. If a company's obligations have been affected by COVID-19 in any capacity, the company should consider certain practices in anticipation of any disputes and to prepare for the possible invocation of a force majeure clause, including, but not limited to the following:

- keeping detailed records of COVID-19's impact on its business functions and on any inability to perform the company's contractual duties;
- documenting COVID-19's impact on the company's supply chains, such as its vendor's inability to secure raw materials, parts, components, or disruption to the capabilities of the vendor's suppliers or independent distributors;
  continuously evaluating the current events of COVID-19 and how the incident is affecting governments and the company's industry. The situation is changing day-by-day, and keeping abreast of the current events will allow the company to quickly reassess its obligations and liabilities;
- reviewing both existing customer agreements and vendor agreements, to analyze the legal obligations and liabilities of all parties under the agreements. Force majeure clauses are each drafted differently and should be interpreted by legal counsel. Companies should also keep in mind

notice provisions within its agreements, so that it does not inadvertently run afoul of its obligations to notify the other party; and
- reviewing insurance coverages and whether the company's current insurance covers business interruption related to COVID-19.

Taft Stettinius & Hollister LLP – Jeff Kuo

March 23 2020

Does the Coronavirus Shutdown Trigger a Regulatory Taking? - Nossaman

With the recent government mandates surrounding COVID-19, many businesses are completely shut down and are legally unable to open their doors to the public. Are those businesses — movie theaters, gyms, retail stores, etc. — entitled to compensation for a regulatory taking? Similarly, landlords are experiencing massive losses as those tenants are unable to make rental payments; are those losses compensable? Should governments worry about liability when issuing orders requiring the closure of businesses?

While compensation arguably should be paid from a decency and "good of the community" standpoint, legally, property owners and businesses are likely not entitled to compensation for a taking due to the shutdown. If you're interested in a fantastic write-up on the legal implications and liability issues under the Takings Clause, I suggest you read Ilya Somin's article, Does the Takings Clause Require Compensation for Coronavirus Shutdowns? You can also review Robert Thomas' summary on inversecondemnation.com related to emergency takings and compensation for commandeered property.

In summary, under existing legal precedent, the government's broad exercise of its "police power" — its ability to protect public health and safety — does not qualify as a taking. From a policy standpoint, Ilya Somin points out that

"no judge will want to be seen as impeding an effort to save large numbers of lives in the midst of a grave menace to public health;" and

"the urgency of the crisis combined with the enormous scale of the compensation that would be required make it more likely that an adverse judicial ruling really would impede the government's policy—potentially even shutting down the shutdown, so to speak."

On the flipside, from a moral policy perspective, the Fifth Amendment Takings Clause has been meant to ensure that the government does not force some people alone to bear the burdens that should be borne by the public as a whole. And yet that is closely what is happening here, as certain businesses and property owners are bearing a disproportionate share of the burden of protecting the population as a whole.

Perhaps some of these businesses will receive relieve through the government's stimulus bill, but many may not. Time will tell whether the government continues to look for other economic measures of compensation to assist these businesses and landlords being forced to shut down.

Nossaman LLP – Bradford B. Kuhn

March 27 2020

Can State and Local Government Seize Your Private Property During a Global Pandemic?

Hotels, parking lots, convention centers and sports fields throughout the world are being used as field hospitals and to otherwise house people suffering from the effects of COVID-19. For example, one hotel in Hong Kong has designated entire floors of the hotel for quarantined guests, and at least 11 hotels in South Korea will house quarantined guests. Given the rapid increase in COVID-19 cases in the United States, many state and local governments are weighing similar measures. In San Francisco, city officials have identified more than 8,000 hotel rooms that could possibly be used for individuals who need a place to self-isolate. These state and local governments are considering the use of private property such as hotels, lodges, apartments and other related facilities as makeshift hospitals, quarantine facilities or housing for first responders to cope with the strain on critical infrastructure. This client alert examines the legal issues around such use.

Do State and Local Governments Have the Authority to Use Your Property During a Global Pandemic?

Generally speaking, state and local governments have the authority to regulate matters of local concern to protect the health, safety and welfare of their populations. These powers, known as police powers, are reserved to the states by the 10th Amendment to the United States Constitution. Likewise, state and local governments have the power of eminent domain to take personal property for public use so long as property owners are justly and fairly compensated in accordance with the Takings Clause of the Fifth and 14th Amendments.

Thus, state and local governments' authority to commandeer private property during a global pandemic can be broken down into two interrelated categories: (1) the authority of state and local governments to use their police powers to regulate to prevent the spread of disease, and (2) the authority of state and local governments to use their power of eminent domain to take private property for protection of the public.

In some instances, the authority of states, counties and municipalities to impose regulations to take control of property as part of efforts to contain the spread of epidemic disease is express. For example, in Colorado, the Colorado Department of Public Health and Environment may "exercise . . . physical control over property and the persons of the people within [Colorado] as the department may find necessary for the protection of the public health." C.R.S. § 25-1.5-102(1)(c).

Similarly, in California, the State Department of Health Services may "take measures as are necessary to ascertain the nature of the disease and prevent its spread." Cal. Health & Safety Code § 120140. Even more expressly, under the California Emergency Services Act, the governor is authorized to commandeer or use any private property or personnel deemed necessary in the exercise of emergency powers during a state of war or state of emergency. The state must pay the reasonable value of the private property or personnel commandeered. Cal. Gov. Code §8572.

Therefore, through the exercise of the police powers and the power of eminent domain, state and local governments do have the authority to use hotels, lodges, apartments, parking lots, convention centers, sports fields and other related facilities as makeshift hospitals, quarantine facilities or housing for first responders during the outbreak of COVID-19.

What Rights Do You Have When Your State or Local Government Takes Your Property?

Even though state and local governments have the authority to use private property as makeshift hospitals, quarantine facilities or housing for first responders, your property rights are protected by the United States Constitution, state constitutions and, in some cases, local governments' municipal codes. The United States Constitution and many state constitutions require state or local governments that take property to pay the property owner just compensation, typically the fair market value of the use of the property. Compensation may be available whether the government takes property permanently or temporarily.

Private property is protected under the Takings Clause of the Fifth Amendment, which applies to the states by the 14th Amendment. The Takings Clause states, "… nor shall private property be taken without just compensation." As a general rule, government need not pay the owner when restricting the public from access to or use of dangerous property, since the property is considered a public nuisance. For example, if a public health agency declared a contaminated meth house a public nuisance, the agency would not have to pay the owner. Similarly, state and local government business shutdowns likely do not trigger the right to compensation under the Takings Clause.

Conversely, government must pay the owner fair market value of the use of the property if the property is seized for public use. Here, in a pandemic scenario, a hotel might be used as a quarantine facility. If the hotel owner can demonstrate lost revenue due to the government's use, the owner may be able to recover the income lost from having no hotel guests during the quarantine.

Consequently, if a state or local government uses your hotel, lodge, apartment, parking lot, convention center, sports field or other related facility as a makeshift hospital, quarantine facility or housing for first responders, the Takings Clause likely serves as a backstop for fair and just compensation for the government's use of your property.

What Should You Consider in This Situation?

Because of the Takings Clause, affected property owners may have leverage in negotiations with state and local governments seeking to use their private property. Given this potential leverage, affected property owners may want to focus on two main areas of consideration: (1) compensation and (2) protection against increased liability.

First, property owners may consider engaging state and local governments in discussions regarding just compensation for the use of the property. Assuming that state or local governments' use of the property will end when the outbreak of COVID-19 ends, compensation should reflect the impact of the state or local governments' use of the property, rather than the value of the entire property. Therefore, any conversations with state or local governments should address the reasonable value of the cost incurred by the landowner in connection with the state or local governments' use of the property. Reimbursement for any out-of-pocket costs associated with the state or local governments' use of the property as a makeshift hospital, quarantine facility or housing for first responders also could be discussed as another form of just compensation.

Second, property owners may consider engaging state and local governments regarding protection against increased liability due to state or local governments' use of the property. This is important because the property owner may remain liable for things that occur on its property during government use, such as a slip-and-fall, because state and local governments have governmental immunity. Thus, if a member of the public were injured on the property in connection with the governmental purpose, the injury could leave the property owner as the sole defendant in a lawsuit. Additionally, in Colorado, government entities may not legally agree to an open-ended indemnity of private property due to TABOR. Therefore, whether in Colorado or another state, it may be advisable to negotiate with the state or local governments to pay for the cost of additional insurance coverage

for the affected properties to ensure that the property owner is not left with the obligation to pay liabilities incurred as a result of the government's use of the property.

In sum, the most important considerations for property owners whose hotels, lodges, apartments or other related facilities are used by state or local governments for makeshift hospitals, quarantine facilities or housing for first responders are: (1) discussing compensation for the reasonable value of the use or reimbursement of out-of-pocket costs, and (2) requiring the state or local governments to cover the cost of additional liability insurance to protect the property owner from increased liability due to the governments' use of the property.

Brownstein Hyatt Farber Schreck LLP – Katherine J. Madden, Sarah M. Mercer and Carolynne C. White

March 26 2020

Key COVID-19 Response Strategies for Development Finance Agencies.

— Bonds, Tax Increment Finance, Revolving Loan Funds —

Development finance has always been at the forefront of recovering from natural disasters and economic challenges. The emergence of the COVID-19 crisis requires a unique and targeted response by the federal government, state and local development finance agencies (DFAs), private banks, and philanthropy.

As the situation surrounding COVID-19 evolves, small businesses and communities across the country are very quickly facing liquidity challenges, job losses, and project stagnation. Credit is tightening and small businesses are struggling to make payroll while communities have been forced to scale back or halt development. Moreover, communities are facing difficulties financing critical infrastructure such as health facilities, broadband networks, and testing centers to address local COVID-19 demands.

DFAs are uniquely positioned to solve these challenges through pragmatic solutions and adjustments to existing initiatives. CDFA understands that DFAs are under considerable stress and pressure to address these immediate challenges while being mindful of the long-term financial health of their organizations and communities. The following set of strategies and recommendations is designed to help DFAs evaluate their portfolios and determine whether modifications are needed for their bonds, tax increment finance, and revolving loan fund programs.

Bond Portfolios

DFAs operate extensive bond portfolios of both recourse and nonrecourse bond issuances. During this crisis, DFAs will face significant pressure to maintain their bond ratings and ensure timely debt service payments for all outstanding bond issuances. DFAs should consider the following:

Outstanding Recourse Bonds – For bonds that are the obligation of the issuer, DFAs should take immediate stock of current debt service payment expectations and prepare the necessary actions to ensure that existing payments are made in a timely fashion. As these are generally general obligation bonds, communities must be prepared to assemble the necessary capital needed to make all existing payments on time to prevent delays and/or defaults. DFAs may want to consult with their financial advisors on options available for refinancing outstanding debt given the low-interest rate

environment being afforded by the capital markets and federal relief efforts. Issuers should note that the stimulus package provides that the Federal Reserve may now purchase municipal bonds. The opportunity to refinance debt and issue new bonds remains strong.

Outstanding Non-Recourse Conduit Bonds – While these debt obligations are not generally the responsibility of the DFA directly, CDFA encourages agencies to be in direct contact with their current conduit bond borrowers. Assess the immediate ability for borrowers to make debt service payments and begin the process of workouts and adjustments if necessary. DFAs do not have direct responsibility for these payments but should be leery of reputational risk associated with potential defaults on issuances. Reputational risk can carry long-lasting consequences for issuers once returning to the capital markets on future issuances.

New Deals in Pipeline – CDFA encourages DFAs to continue to work on new issuances of both recourse and nonrecourse bond deals. The capital markets and federal relief efforts are providing significantly low rates and continuing to encourage investments. As noted earlier, the Federal Reserve may now purchase municipal bonds. This stimulus action does not apply to private activity bonds, but the environment for privately-placed PABs should be favorable. Do not halt new deals. Simply work within the parameters of new capital markets realities and prepare issuances with an eye towards recovery.

Ratings – If you are a rated entity, stay in close contact with your rating agency counterparts. Have constructive conversations about your current rating and the impact of COVID-19 on your bond portfolio. Work with the ratings agencies to ensure that they understand your relative financial position and the important steps you are taking to mitigate late payments and/or defaults. Manage reputational risk by determining any conduit deals that need to be addressed in the immediate future. While these bonds are not necessarily your ultimate responsibility, you want to be proactive about working to maintain a strong rating with the services. This includes working with your troubled borrowers and helping to address workouts and late payment situations.

Tax Increment Finance Portfolios

Thousands of existing tax increment finance districts are operating throughout the country. The COVID-19 crisis will put stress on existing debt obligations of these districts and may delay the development of new districts. DFAs should consider the following:

Existing TIF Obligations – This crisis underscores the need for proper TIF evaluation and regular monitoring to mitigate risk. DFAs and communities should explore and understand the changing landscape of property tax impacts on existing projects. In doing so, DFAs should understand timelines for expected property tax payments and revenues and the subsequent debt service obligations on outstanding projects. This includes revisiting the security or collateral in place for each TIF deal. In addition, DFAs should look at LOC agreements, special assessment commitments, and the allowance for tax assessment appeals as these may lead to revenue loss if challenged.

In the immediate, DFAs should continue to make regular and on-time payments on all existing notes, loans, and bonds. However, DFAs need to begin to develop projections on real estate impacts due to the COVID-19 crisis. A prolonged slowdown in economic activity will inevitably result in smaller than expected tax revenue. TIF obligations backed by real estate taxes have a slightly longer horizon of 12-18 months but should be preparing as if any decline in economic activity will result in less tax revenue. TIF obligations backed by sales tax, use or other sources of revenue should begin immediate workout strategies to mitigate against far lower than expected revenue collection. It is important that DFAs and communities act now to ensure that all obligations be met in both the immediate future and in the next 2-3 years of projects in service. For strong and stable TIFs, it may

be wise to look into refinancing options based on the availability of low interest rates.

DFAs should check their state statute for use of funds allowances. In the event of lower than projected revenues, some state TIF laws allow for the use of excess revenues to be put into reserve funds now to prepare for an eventual decrease in tax revenues later.

Businesses within TIF Districts – An immediate concern is supporting the tenants and businesses within existing TIF districts. These businesses rely on their regular income to pay their subsequent taxes. These taxes are used to fund the TIF debt service. Some businesses will survive the crisis while others will not. Helping to ensure that businesses stay viable during the COVID-19 crisis will help to mitigate tax revenue loss. If a business does close, DFAs should immediately begin working on finding a replacement business for that space. While this may seem counterintuitive during the crisis, TIF districts cannot go without taxpaying businesses for a prolonged period. Work quickly to shore up lost business opportunities and work to remedy nonperforming businesses as quickly as possible. This is of paramount concern in districts with fewer taxpaying businesses or property owners. If a major anchor of a TIF district closes, DFAs should aggressively work to replace that tenant immediately to safeguard the tax revenue stream.

New Districts and Pipeline Projects – It is likely that new districts and pipelined projects will be delayed, reduced or canceled as a result of this crisis. Many communities will naturally become more risk averse during and after this crisis. However, DFAs should continue to run projects through the feasibility process and continue to work with developers and end-users on a strategy to help projects continue through this process. Projections and feasibility studies may require an updated review based on potential hits to revenue expectations. DFAs should also look at non-traditional sources of financing. With the plethora of federal and state recovery resources in the pipeline, now is a good time to begin to identify new sources of capital for a project. TIF will be a very important tool for recovery and DFAs that look forward with a lens towards recovery will be in a good position to approve and execute new projects once the economic slowdown ends.

Revolving Loan Fund Portfolios

DFAs operate thousands of loan funds throughout the country. CDFA expects these funds to be impacted significantly due to the COVID-19 pandemic, both in the immediate term to address current economic challenges as well as in the long term as business recovery continues. DFAs should consider the following:

Existing Borrowers – Check in with your current borrowers immediately to fully understand their liquidity and debt service constraints. Many small businesses are facing cash flow and liquidity challenges. They may need immediate adjustments to their loan terms, rates, and repayment schedules.

Adjusting Rates and Terms – To the extent possible, consider adjusting current rates, terms, and repayment schedules. Now is not the time for ultra-conservative approaches to loan fund management. Borrowers are facing liquidity challenges and do not have the cash flow to pay debt service. This is through no fault of their own. Consider easing your loan fund repayment schedule to allow borrowers to defer payments for up to one year. While this may result in less cash flow to the fund, it will allow borrowers to focus on immediate challenges with less debt repayment stress.

New Borrowers & Short-Term Disaster Loans – Halt all non-essential new borrowing that is not related to responding to the COVID-19 crisis. New borrowing should be focused on small businesses impacted by the COVID-19 crisis. Require that new borrowers demonstrate the impact that the crisis has had on their business and their need for immediate capital. Provide short term loans of three to

six months with zero percent interest to allow these borrowers to continue to make payroll and inventory payments. Defer repayment of these loans for up to one year. Finally, consider requiring new borrowers to refinance their distressed loan after one year if they do not pay it off in advance. DFAs may then be able to charge reasonable, but low-cost interest, on the refinanced loans.

Recapitalizing Funds – Federal and state governments, philanthropy, and the banking industry have been responding aggressively to the crisis but still need to hear from loan fund managers on the demand for low-cost capital. Reach out to your partners at federal and state agencies for a request to recapitalize funds immediately. Consider reaching out to foundations and financial institutions for fund capitalization as well. Be aggressive and request flexible funds to immediately put into new loans to address distressed businesses. If recapitalization is not possible, consider asks for loan loss reserves or loan guarantees to help address current borrowing needs.

Other Considerations

DFAs will face a number of challenges in the coming weeks and months. These challenges are understandable and navigable. DFAs were a big contributor to the nation's recovery during the recession of 2008-2009. During the coming months, DFAs should remain vigilant and focused on addressing immediate challenges while keeping a watchful eye on the future. Operational budgets and capacity may get stretched and tested but DFAs should continue to use sound financial management approaches. Now is the time for the development finance community to rise to the occasion and support our nation's bright future and full recovery.

Toby Rittner, DFCP
President & CEO
Council of Development Finance Agencies
trittner@cdfa.net
Twitter @tjrittner

Muni Market Gets Support from Fed as Part of Wide Effort to Curb Virus Fallout, Self-Regulator Warns to Review Compliance.

New York (Thomson Reuters Regulatory Intelligence) – The Federal Reserve on Friday provided support for the $4 trillion municipal bond market as it extended its support of a credit market hit by a flight to safe havens due to the coronavirus health crisis. The move came after muni bond dealers sought help and the industry self-regulator warned firms to bolster controls.

The Fed has stepped in by offering support for firms hit by virus turmoil with direct purchases of short-term securities that make up money market funds and ultra-low interest rates to stem the most severe financial turmoil to hit the U.S. economy since the financial crisis in 2008.

As part of its effort, the Fed and other U.S. banking agencies on Sunday said they were encouraging banks to restructure loans to borrowers hit by the COVID-19 virus that has shut down a widening swath of the U.S. economy as businesses close and consumers stay home to slow its spread.

"The agencies encourage financial institutions to work with borrowers, will not criticize institutions for doing so in a safe and sound manner, and will not direct supervised institutions to automatically categorize loan modifications as troubled debt restructurings," a Fed statement said here.

The municipal market has separate funding mechanisms that were not included in the Fed's money-

market and commercial paper programs. An even larger pool of investment money than money-market funds, the muni market fell under intense pressure in March when it was hit by the biggest wave of fund redemptions on record despite the Fed's actions to shore up short-term credit.

The muni market had seen record inflows in February in the early stages of the market turmoil caused by the spreading health crisis, as investors moved funds from riskier assets to munis, considered safe haven in which defaults have been rare.

The subsequent turnaround in sentiment came in part from a warning in early March in a California municipal bond offering from the state's general fund. California was among the first states to report incidents of the virus. California said in early March that there could be "no assurances that the spread of a novel strain of coronavirus called COVID-19 will not materially impact the state and national economies and, accordingly, materially adversely impact the general fund."

The market in the second week of March was overwhelmed by selling amid fear that California might soon be joined by other state and local governments facing resource constraints from the pandemic and would face financial stress.

The industry self-regulator, the Municipal Securities Rulemaking Board, issued an alert to firms in early March saying that they should review compliance and oversight "in light of the coronavirus" in early March said it was "closely monitoring the impact of the coronavirus disease (COVID-19) on municipal market participants."

With losses mounting and liquidity falling through the end of last week, the Bond Dealers of America on Thursday called on Fed Chairman Jerome Powell to extend its direct purchases of securities to the most-stressed parts of the market and consider easing rules. The trade group sought Fed support to ease liquidity shortages in Variable Rate Demand Notes that play a key role in short-term funding operations for municipals.

"Liquidity has waned significantly as measured by bid-ask spreads and price volatility has been perhaps the most severe ever in the history of the market," Mike Nicholas, the group's chief executive officer said in a letter sent to the Fed last Thursday here. The group had added that the market would be crippled without Fed support since firms would "effectively prevented them from taking on more municipal inventory."

The Fed action looked likely to help the central bank stabilize the short-term rates that provide liquidity, said Matt Fabian, the head of market and credit research at Municipal Market Analytics.

While the Fed action did not directly impact the trillions of dollars long-term municipal bonds held by individuals in hundreds of thousands of issues from state and local government, it would support the top rated short-term securities such as the variable rate notes that are derived from the long-term debt and used in muni-funding operations.

"It will greatly reduce the pressure on the muni money markets to cover investor redemptions while not tanking the value of the underlying municipal bonds they hold, specifically short maturity bonds and notes," he said in an email.

He added that most of the market's liquidity pressure "is exactly in this part of the curve, because investors are converting many of their financial assets to cash without regard to what those assets are," he added.

Self-regulator MSRB said in its coronavirus alert in early March that "the coronavirus may present operational challenges and business disruption for regulated entities." But it added that the firms

can do required supervisory reviews remotely.

Its supervisory process "does not mandate that supervision be done in-person, recognizing that technology plays a prominent role in how dealers conduct their supervisory reviews and a reasonably designed supervisory system could incorporate remote supervision."

FINRA's general guidance for firms notes that municipal dealers must observe a fiduciary standard of care under the Securities Exchange Act of 1934. The standard requires firms to deal fairly, make suitable recommendations, clearly disclose pricing that is reasonable and in line with market prices and have supervision that's "reasonably designed to achieve compliance with applicable rules and regulations."

by Richard Satran

MARCH 24, 2020

In Sweeping Move, Fed Will Lend to Businesses and Local Governments and Extend Bond-Buying Programs.

The Federal Reserve announced a batch of programs Monday to jump-start strained lending markets across the economy, making more credit available to a wide range of businesses and consumers battered by the coronavirus outbreak, including students, car buyers, large corporations, small businesses and cities.

The Fed said it will pump more cash into a financial system that clogged up amid a bruising recession that has shriveled consumer spending as restaurants, movie theaters, stores, sports arenas and other public places shut down to contain the spread of the outbreak.

"The coronavirus pandemic is causing tremendous hardship across the United States and around the world," the Fed said in a statement. "Our nation's first priority is to care for those afflicted and to limit the further spread of the virus. While great uncertainty remains, it has become clear that our economy will face severe disruptions. Aggressive efforts must be taken across the public and private sectors to limit the losses to jobs and incomes and to promote a swift recovery once the disruptions abate."

Last week, the central bank lowered its benchmark interest rates near zero and said it will buy $500 billion in Treasury bonds and $200 billion in mortgage-backed securities. The Fed said Monday it will include commercial mortgage-backed securities in the purchases, making more money available for loans for retail, office and other commercial real estate projects and pushing down their interest rates.

It said it will buy an unlimited amount of Treasury bonds and mortgage-backed securities in an effort to hold down interest rates and ensure those markets function smoothly.

The Fed said it will set up three lending facilities that will provide up to $300 billion by purchasing corporate bonds, buying a wider range of municipal bonds and purchasing asset-backed securities. The central bank said it will renew a financial-crisis-era program that will make funding available for student, auto and credit card loans.

After the Fed announced the Treasury and mortgage bond purchases last week, it quickly ran

through roughly half those amounts by the end of the week. Monday, the New York Federal Reserve said it would purchase $75 billion of Treasurys and $50 billion of mortgage-backed securities each day this week.

That is a much larger amount than the Fed deployed in the financial crisis and its aftermath. In 2012, the Fed launched its third round of asset purchases, known as quantitative easing, which consisted of $45 billion of Treasury purchases a month.

by Paul Davidson

March 23, 2020

USA TODAY

All the Moves the Fed is Making to Bolster the Economy, from Main Street to Muni Bonds.

The Federal Reserve is taking its status as the "lender of last resort" in the U.S. very seriously.

The central bank announced yet another series of measures on Monday morning designed to keep credit markets liquid and to support businesses that continue to feel the ever-worsening economic impact of the coronavirus outbreak.

In addition to scaling up its purchases of Treasuries and mortgage-backed securities to a virtually unlimited amount, the Fed is now also intervening in the corporate bond market via a number of credit facilities that will provide up to $300 billion in new financing to businesses.

Two of those facilities, the Primary Market Corporate Credit Facility and Secondary Market Corporate Credit Facility, are designed to support a corporate credit market that has shown signs of stress in recent weeks. The Primary Market Facility will provide four-year bridge loans to investment-grade companies, while the Secondary Market Facility will purchase outstanding bonds issued by investment-grade U.S. firms and U.S.-listed exchange-traded funds.

The Fed is also relaunching its financial crisis–era Term Asset-Backed Securities Loan Facility, which will lend to investors who purchase asset-backed securities (ABS) backed by student loans, auto loans, credit cards, and other consumer debt. And the central bank is boosting two previously announced facilities, targeting money-market mutual funds and commercial paper, to also include municipal bonds that finance operations for localities across the country.

Additionally, the Fed said it will soon roll out an initiative meant to aid small- and medium-size businesses that are out of the reach of its ambitious corporate bond-buying regime, via a Main Street Business Lending Program. That will come after it ensures Wall Street's big banks have the liquidity they need to continue lending to businesses and households—via expanding its discount window to depository institutions, eliminating reserve requirements for banks, and reestablishing its crisis-era Primary Dealer Credit Facility.

In total, the moves amount to a near-unprecedented intervention by the central bank as it seeks to stabilize financial markets and ensure adequate credit across the U.S. economy in a time of crisis. They also answer—for now—concerns from some observers who have questioned just how much power the Fed has to mitigate the impact of the ongoing economic downturn.

“Every time people say [the Fed is] out of ammunition, they continue to come up with more,” Kathy Jones, chief fixed-income strategist at the Schwab Center for Financial Research, tells Fortune. By intervening in the ABS and municipal bond markets, the central bank’s latest measures are “meant to [address] some of the things that their previous programs hadn’t addressed.”

Municipal bonds, for instance, have been battered amid a lack of market liquidity and concerns about “the creditworthiness of airports, hospitals, and states/city governments at the epicenter of the COVID-19 crisis,” according to a research note released Monday by Morgan Stanley Wealth Management. According to the note, municipal bond prices have fallen to such an extent that yields are at their highest levels compared with U.S. Treasuries “in more than a decade.”

Jones notes that the Fed is taking a particularly aggressive approach in lieu of a promised fiscal stimulus package that continues to be held up in Congress. Until such a bill comes to fruition, the Fed is “the only game in town” as far as government support for the economy is concerned, she adds.

To play that role, the central bank has relied on some creative maneuvers. As in the last financial crisis, the Fed has established a special purpose vehicle (SPV) to operate its current forays into the private credit markets. The SPV—which is partly backed by the $30 billion equity contribution from the Treasury Department’s Exchange Stabilization Fund—functions as a “way around the [legal] limitations” prohibiting the Federal Reserve from using its own balance sheet to purchase private assets.

But while the Fed has been proactive in looking to calm financial markets, it remains to be seen whether the central bank’s moves—namely, its pending Main Street Business Lending Program—can alleviate the pain being felt by small businesses and local economies that are straining under the coronavirus lockdown’s devastating impact on commerce.

“I think this particular type of crisis is having the biggest impact on small businesses and state and local governments,” Jones says, noting that such entities also employ a huge chunk of the U.S. labor force. “It is important to address the needs that they have.”

FORTUNE

by REY MASHAYEKHI

March 23, 2020 12:30 PM EST

Federal Reserve Considering Additional Support for State, Local Government Finance.

Central bank hires former Treasury official to assist with potential municipal-lending program

Federal Reserve officials are reviewing new ways to support financing for state and local governments, many of which are on the front lines of the coronavirus pandemic and will face huge borrowing needs as revenues plunge, according to people familiar with the matter.

The economic-rescue legislation Congress approved this week asks the Fed to charge headlong into areas it has long considered taboo—supporting lending to businesses, cities and states. The Fed

traditionally avoided intervening directly in credit and fiscal policy, preferring to leave such matters to Congress and the White House.

That is changing now because of the fast-moving economic crisis—and because Congress has essentially directed the Fed to get more involved by providing $454 billion to the Treasury to cover any losses in new Fed lending programs.

The Fed has dramatically expanded its balance sheet over the past two weeks, by nearly $942 billion to $5.25 trillion as of Wednesday. The central bank has lent freely to help firms avoid a wave of defaults that could turn a recession into something much worse.

Over two weeks, the Fed has unveiled six lending facilities, five of them enjoying a total of $50 billion in support from the Treasury. Those programs have freed up cash for major Wall Street institutions and will backstop money-market funds and markets for commercial debt.

Democratic lawmakers have made support for city and state borrowing a priority in recent legislative talks, and the latest bill directs the Treasury secretary to seek a Fed lending program for municipal finance.

State and local governments are confronting skyrocketing borrowing costs even as they are straining to pay expenses associated with the spread of the virus. House Speaker Nancy Pelosi told Fed Chairman Jerome Powell last week “to think big and help our states,” she said in an interview on PBS this week. “They are taking a big bite of this wormy apple and they need much more in terms of resources.”

Under its governing law, the Fed can’t directly buy corporate debt, and it is limited to purchasing municipal debt of six months or less. But it can work around these restrictions by creating lending facilities that lend or purchase debt, subject to approval of the Treasury secretary.

The Fed has already dipped a toe into muni-debt markets by expanding a money-market lending backstop to include certain types of municipal debt—and by purchasing some highly rated municipal debt in a facility backing the market for very short-term commercial debt.

As of Wednesday, short-term interest costs on variable-rate municipal bonds have more than tripled compared with two weeks ago and are now higher than the rates governments typically pay on 30-year bonds, according to an index maintained by the Securities Industry and Financial Markets Association.

Monday’s announcement by the Fed to include more municipal debt in existing lending facilities appears to have made only a small dent, bringing the index, which tracks bonds that adjust their rates weekly according to what investors are willing to pay, to 4.7% down from 5.2% the prior Wednesday.

Interest rates on other short-term muni debt that spiked last week have fallen after the Fed said Monday it would purchase some municipal variable rate debt. Rates on water, power and sewer bonds issued by New York City and Los Angeles fell back to their typical rates of between 1% and 2% Thursday after hitting nearly 8% on Friday.

Kent Hiteshew, who established an office of state and local finance at the Treasury Department in the Obama administration, has been hired by the Fed for a six-month appointment to advise on muni markets, according to people familiar with the matter.

Among the questions Fed officials are considering: Whether to expand existing facilities to

accommodate other municipal debt or to launch a new facility devoted to state and local finance. Fed officials will have to decide which municipal debt might be eligible for support and on what terms.

There are limits to how far the Fed can lend using its emergency authorities. Its loans must be well secured, which the Fed typically satisfies by restricting borrowing to highly-rated issuers.

“The states and localities that need the most help are the most risky by definition,” said Ernie Tedeschi, an economist at Evercore ISI, an investment research firm, who previously worked in the Treasury Department during the Obama administration.

The Fed and Treasury brainstormed ways to support hard-hit state and local treasuries after the 2008 financial crisis, but opted against doing so.

Governments have been canceling almost all planned long-term muni deals, borrowing they typically rely on for infrastructure needs and budget management, after investors fled muni mutual funds last week and prices plummeted. There was $761.7 million in total muni issuance last week, according to Refinitiv, compared to around $8 billion during a typical week earlier in the year.

Government borrowers include states facing high Medicaid costs, delayed income tax collections and huge drop-offs in sales taxes as commerce has slowed to a standstill—and municipalities that run hospital systems, nursing homes, jails and public-health departments.

“As our borrowing costs go up, that’s fewer dollars they have to allocate to the crisis,” said Matthew Chase, executive director of the National Association of Counties.

Fed officials have long had broader philosophical objections to intervening in financial affairs of subnational entities. The central bank is the fiscal agent of the federal government, and they have viewed state and local finance as the domain of Congress and the Treasury Department.

“The Fed’s response has typically been, ‘Look, if the federal government wants to support state and local finance, they can do that directly,” said Lewis Alexander, who served as an economic adviser at the Treasury Department from 2009-11 and is now chief U.S. economist at Nomura Securities.

“There is a real reluctance to blur the line between the federal government and the state and locals. You start going down that road, it’s hard to know where to stop.”

The Wall Street Journal

By Nick Timiraos and Heather Gillers

March 27, 2020 2:59 pm ET

Senate Stimulus Takes Steps to Add Liquidity to Municipal Market.

After extensive effort from the BDA and its membership, the Public Finance Network, and issuers and market participants nationwide, the Senate has included provisions aimed to stabilize the municipal market in a sweeping $2 trillion dollar stimulus package that will likely pass later today.

While at this time it is uncertain if the House will return to vote in person, of if they will use a procedure known as “unanimous consent,” meaning no objections from Members allowing the measure to pass without the full House present.

In the draft, which can be viewed here (bond provisions start on p.513)

Sec. 4003 The Senate gives authority to the Federal reserve to:

Provide up to $454,000,000 available to make loans, loan guarantees, and other investments in support of programs or facilities established by the Board of Governors of the Federal Reserve System shall be available to make loans and loan guarantees to, and other investments in, programs or facilities established by the Board of Governors of the Federal Reserve System for the purpose of providing liquidity to the financial system that supports lending to eligible businesses, States, or municipalities by:

(A) purchasing obligations or other interests directly from issuers of such obligations or other interests; or

(B) purchasing obligations or other interests in secondary markets or otherwise.

(C) making loans, including loans or other advances secured by collateral.

Additional Conditions

A loan, loan guarantee, or other investment by the Secretary shall be made under this section in such form and on such terms and conditions and contain such covenants, representations warranties, and requirements (including requirements for audits) as the Secretary determines appropriate. Any loans made by the Secretary under this section shall be at a rate determined by the Secretary based on the risk and the current average yield on outstanding marketable obligations of the United States of comparable maturity.

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

Bond Dealers of America

March 25, 2020

BDA Applauds Senate's Efforts to Support Municipal Market.

Last night, (March 26, 2020) the Senate passed the CARES Act, (H.R. 748), a broad, $2 trillion dollar stimulus package in response to the ongoing COVID-19 pandemic.

The BDA applauds the Senate's quick and effective action to stem the economic uncertainty associated with the virus crisis.

We note particularly Section 4003 of the Act providing the Treasury and Fed with broader standby authority to support the bond markets during times of particular distress and dysfunction, to the immediate benefit of issuers, investors, tax payers.

H.R. 748 would allocate up to $500 billion of cash from the Treasury Department to:

- Provide liquidity to eligible businesses, States, and municipalities related to losses incurred as a result of coronavirus;
- Treasury would "make loans, loan guarantees, and other investments in support of eligible businesses, States, and municipalities." and

- Some of those funds are earmarked for specified industries like airlines, leaving $454 billion to support Federal Reserve programs for targeted beneficiaries.

Those funds would be used to support "loans and loan guarantees to, and other investments in" Fed programs "for the purpose of providing liquidity to the financial system that supports lending to eligible businesses, States, or municipalities by:

- Purchasing obligations or other interests directly from issuers of such obligations or other interests
- Purchasing obligations or other interests in secondary markets or otherwise; and
- Making loans, including loans or other advances secured by collateral."

It is important to note that this bill authorizes but does not require the Fed to intervene in the markets.

Also please note that Treasury resources pledged to Fed credit programs can be leveraged as much as 10 to 1, meaning that a $454 billion Treasury commitment could result in up to $4.5 trillion of Fed liquidity. The bill would also provide up to $125 billion in direct support to localities that can help bridge the gap with lagging revenues, especially in light of delayed tax filing deadlines.

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

Bond Dealers of America

March 26, 2020

Move by Fed May Help Shore Up Short-Term Borrowing for States and Localities.

The municipal bond market is experiencing a massive crunch as investors react to the coronavirus pandemic.

The Federal Reserve took action this week that could help bolster state and local governments' access to short-term borrowing as the coronavirus crisis pressures their finances.

For some states and localities, short-term debt is an important source of cash for covering expenses at times when tax revenues are not rolling in. But the virus outbreak has been driving turmoil in the municipal bond market, threatening the flow of this type of lending.

Demand for municipal debt has collapsed as the disease outbreak disrupts nearly every corner of the U.S. economy. The pandemic-driven downturn is also stoking worries that state and local tax revenues could take a sizable hit, while at the same time governments spend big to combat the disease.

"Basically there are no buyers for municipal bonds at both the long end and the short end of the curve," said Michael Belsky, executive director of the Center for Municipal Finance at the University of Chicago's Harris Public Policy school.

Fleeing investors caused the roughly $3.8 trillion municipal bond market to hemorrhage a record $12.2 billion from municipal-bond mutual funds during a week's time ending Wednesday.

Some state and local government advocates are making a case that the federal government should intervene deeper into the municipal bond arena to help states and localities weather the pandemic. There's at least one proposal in the U.S. Senate to head that direction.

Emily S. Brock, director of the federal liaison center for the Government Finance Officers Association, applauded the latest move by the Fed. But she added: "We do need to open up the spigot a little bit wider in order to get that shot of adrenaline in our space."

States, cities and other local government entities around the U.S. commonly issue long-term debt to finance things like school construction and highway and mass transit projects. Bonds like these are usually paid off over many years.

But some also borrow on a short-term basis to maintain adequate financial liquidity. Tax payments can come in bursts at different times of year, while on the other side of the ledger governments must have consistent funding on hand to cover wages and other operating costs.

"There's a mismatch," said Bart Hildreth, a budgeting and finance professor at Georgia State University's Andrew Young School of Policy Studies. "You have cash flow deficits during the year."

To deal with this dynamic, states and localities might borrow short-term with the anticipation of collecting tax revenues in the months that follow and then using that money to repay the debt.

Unlike a 20-year bond that might be issued to build a bridge, this sort of short-term "cash flow borrowing" tends to involve debt that matures within the course of a fiscal year.

"It's a pretty regular feature of the borrowing plans of the moderate- to large-sized governments," Hildreth said. "Same thing with states."

But a concern now is that the upheaval in the municipal bond market is causing the investor cash that would normally be available for short-term state and local borrowing to dry up.

"Nobody's purchasing," said Brock. "All of the supply is being held on the dealers' books. And so we have a bit of a challenge."

This is where a move the Fed announced on Friday could help. Earlier in the week, the central bank announced that it was establishing a new Money Market Mutual Fund Liquidity Facility.

The general idea with this entity is to channel money towards money market mutual funds, supporting the flow of credit, and also keeping the funds functioning smoothly while the economy is in flux and as they meet investor demand for withdrawals. The funds are a common investment for households and businesses.

Under the program, the Federal Reserve plans to offer loans to banks and other financial institutions that purchase certain assets from the funds as collateral. What the Fed did on Friday is expand the list of eligible collateral to include highly-rated, short-term municipal debt, with a maturity of one year or less.

Tim Blake, managing director of public finance at Moody's Investors Service, said a main benefit for state and local governments from the Fed facility is that it could provide investible money that the money market funds could use to purchase short-term state and local debt.

That could be especially important at a time when states and localities are facing huge uncertainties over how the coronavirus will affect their costs and revenues.

“There are probably going to be many government issuers and not-for-profit issuers that are seeing significant revenue declines in the coming months, and the need for some borrowing,” he said.

“This would allow the funds to purchase cash flow notes issued by governments,” Blake added.

Belsky, at the University of Chicago, said that, “basically the federal government is becoming the investor of last resort.”

Hildreth noted the Federal Reserve did not extend similar programs put in place in response to the Great Recession to cover short-term municipal debt. “Many of us thought they should have done it back then,” he said. “It shows that they have assessed the situation more severely this time that state and local governments are facing.”

But how effective the program will be in aiding state and local governments will depend partly on how banks respond.

“It’s really whether they need to use that asset or not,” said Natalie Cohen, president and founder of National Municipal Research. “How meaningful it’s going to be is questionable.”

Brock suggested there are ways the federal government could go further to help state and local governments through the municipal bond market. For instance, if the federal government were to somehow hold municipal debt of all types and maturity durations, or if it purchased what are known as Variable Rate Demand Notes.

This week, U.S. Sen. Bob Menendez, a New Jersey Democrat who serves on the Senate Banking Committee, introduced a bill that would allow the Federal Reserve’s board to authorize federal reserve banks to directly buy and sell muni bonds of any maturity under “unusual and exigent circumstances.”

The senator said that his legislation would provide state and local governments with federal support in financing the costs tied to the coronavirus outbreak, and other future emergencies.

But Tom Kozlik, head of municipal strategy and credit with Hilltop securities, said in a brief issued on Friday that there is not enough information available yet to know if the bill would solve the liquidity crunch facing the long- and short-term municipal bond market.

“The devil could be in the details here,” he wrote.

Looking ahead, Belsky pointed out that many of the nation’s public works projects are financed using municipal bonds. If the nation slips into a full-blown recession due to the coronavirus, he said, infrastructure investment could be key to kickstarting a recovery.

Route Fifty

By Bill Lucia

MARCH 21, 2020

The Fed Enters the Municipal Bond Market to Lend Cities a Hand, but Will It

Be Enough?

On Monday, the Federal Reserve went all-in to support America's shuttered economy. Among its most remarkable moves was its backstop of the $3.8 trillion municipal bond ("muni") market, a critical source of financing for states, counties, and municipalities. The Fed hopes this will keep credit flowing to states and localities as their revenues—and the market for their debt—reel in the wake of the global coronavirus pandemic. As investor dollars rush out of the muni market, it is revealing troubling debts as well as questions about the role of fiscal federalism in a time of crisis.

State and local debt is facing its largest monthly drop in value since 1987, sending yields soaring nearly a full percentage point to 2.6% this week. Investors withdrew more than $12 billion from municipal bond funds last week, the highest weekly outflow on record, with some funds posting their largest one-day drop in a decade. Many funds now trade below the value of their assets, including those for New York State, suggesting that investors fear surging defaults.

Munis are normally considered among the safest of assets. Just a few weeks ago, investors were scooping up this debt in a flight to risk from markets roiled by the coronavirus. This is continuing the trend since the Great Recession of strong investor demand for state and local debt, culminating in more than $100 billion in inflow last year. Muni's tax-exempt status has made them especially popular following the 2017 tax law.

Continue reading.

E21

by Michael Hendrix

MARCH 25, 2020

Cares Act Summary.

Read the Summary.

CARES Act: Municipalities - Miller Canfield

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted, authorizing up to $2 trillion in economic relief for distressed sectors of the American economy. Title IV, subtitle A of the CARES Act constitutes the Coronavirus Economic Stabilization Act of 2020 (the "Stabilization Act") and authorizes up to $500 billion for loans, loan guarantees, or other investments to support eligible businesses, States or municipalities "related to losses incurred as a result of coronavirus." Under the Stabilization Act, a "municipality" includes a political subdivision of a State, and an instrumentality of a municipality, a State or a political subdivision of a State.

Specifically, the Stabilization Act allows the Secretary of the United States Treasury to make up to $454 billion in loans and loan guarantees to, and other investments in programs or facilities established by the Federal Reserve "for the purpose of providing liquidity to the financial system

that supports lending to eligible business, States, or municipalities" by:

1. Purchasing obligations or other interests directly from issuers of those obligations or interests;
2. Purchasing obligations or other interests in secondary markets or otherwise; or
3. Making loans, including loans or other advances secured by collateral.

The Treasury Secretary has broad discretion to establish the terms, conditions and forms of these investments in Federal Reserve liquidity programs. However, while the Stabilization Act prohibits the forgiveness of any principal amount of a loan to a State or municipality, it ties the interest rate on such loans to "the risk [related to such debt] and the current average yield on outstanding marketable obligations of the United States of comparable maturity." This provision could serve to calm the recent volatility in the relationship between U.S. Treasury yields and that of State and municipal debt.

Additionally, the CARES Act establishes the Coronavirus Relief Fund (the "Fund"), which provides for the direct payment of up to $150 billion from the United States Treasury to States, Tribal governments and units of local government exceeding 500,000 in population "out of money not otherwise appropriated." A local unit of government receiving a direct payment from the Fund may only use the money to cover costs that:

1. Are necessary expenditures incurred due to the public health emergency with respect to the coronavirus;
2. Were not accounted for in the budget most recently approved as of the date of enactment of this section for the State or government; and
3. Were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020.

Finally—in order to receive a direct payment from the Fund—the unit of local government must provide the Treasury Secretary with a certification signed by the Chief Executive of the local unit stipulating that the "local government's proposed uses of the funds are consistent" with the Fund's requirements for a municipality's use of money received via direct payment thereunder.

This is part of a series of our COVID-19 alerts providing clients with practical advice on measures they can take to navigate through these challenging times. Please contact the authors or your Miller Canfield attorney with further questions.

Miller Canfield PLC – Jeffrey S. Aronoff and Sean C. Rucker

March 27 2020

Senate Passes $2T Package With NOL Changes, Rebate Checks.

The Senate passed an economic aid package that will provide taxpayers with a rebate, temporarily modify provisions of the Tax Cuts and Jobs Act and expand unemployment insurance.

Lawmakers unanimously approved the Coronavirus Aid, Relief, and Economic Security Act (H.R. 748) to send it to the House. The bill is meant as a compromise between Republicans and Democrats and is the product of almost one week of negotiations between the two sides.

Lawmakers announced a deal in the morning of March 25, but negotiations continued throughout the day to nail down language that appeased both sides.

While the tax provisions agreed to by both sides remained largely unchanged, Republican lawmakers were unhappy with language expanding unemployment insurance, arguing that it disincentivized individuals from going to work because they could make more while unemployed.

Sens. Lindsay Graham, R-S.C., Tim Scott, R-S.C., Rick Scott, R-Fla., and Ben Sasse, R-Neb., offered an amendment to change the unemployment provisions to prevent an individual from receiving unemployment compensation that is more than the amount of wages the individual was earning prior to becoming unemployed. The amendment, which required 60 votes for adoption, was defeated 48 to 48.

The bill now heads to the House, where it may run into some problems after some progressive Democrats offered criticism of the bill. But House Speaker Nancy Pelosi, D-Calif., said she intends to approve the bill in the fastest way possible without having to call back all members of the House. The House would be able to approve the bill by unanimous consent if there are no objections on either side or by voice vote, which could see some members travel back but not all.

Senators agreed to roll back a Tax Cuts and Jobs Act provision preventing net operating losses from being carried back to reduce income in a prior year. The provision has been relaxed to allow for losses in tax years 2018 through 2020 to be carried back up to five years.

The bill also provides for individuals making less than $75,000 or married couples earning less than $150,000 to receive a $1,200 direct payment from the IRS, while those with children would get an extra $500 per child.

President Signs $2 Trillion Coronavirus Relief Bill: NABL

On March 27, 2020, the President signed H.R. 748, a $2.2 trillion stimulus package. Below are a few elements of the bill:

– Allow the Fed to directly purchase munis to stabilize the market

– Provide $150 billion for a Coronavirus Relief Fund

– Provide $130 billion for health care systems

– Provide $25 billion for transit systems

– Provide $10 billion for airports

– Provide $5 billion for Community Development Block Grants

– The $150 billion Coronavirus Relief Fund administered by the Treasury will disperse $8 billion to tribal governments, $3 billion to territories and the District of Columbia, and the remaining $139 billion to states and cities with populations over 500,000.

– Any municipality with a population under 500,000 will have to make its request for money from the new Coronavirus Relief Fund to their state.

Even Municipal Bonds Aren't Safe From Downgrades.

It seems like no asset is safe in this coronavirus-stricken market—even municipal bonds, which were once seen as some of the safest debt issues in the fixed income space. S&P Global Inc and Moody's Corp, two of the largest credit rating agencies, issued downgrades that included municipal bonds.

"Municipal bonds tied to specific projects or taxes are also being downgraded. S&P recently cut the ratings on revenue bonds backed by a student housing project in Corpus Christi, Texas, by six notches, taking the debt from the lowest notch of investment-grade deep into junk territory," a Wall Street Journal report noted. "Falling tax collections are also hitting bonds backed by governments' broad taxing powers."

And it's not just downgrading that prospective municipal bond investors need to watch. It's having a boomerang effect on insurers that guarantee these bonds.

Continue reading.

ETF Trends

by BEN HERNANDEZ on MARCH 25, 2020

Muni Bonds Bounce Back, Poised for Best Week Since 1982.

Municipal bonds extended their rally in early trading, putting the securities on track for the biggest weekly gain since 1982.

Yields fell four basis points on the shortest-dated municipals on Friday to 1.18%, a drop of 1.7 percentage point since the week began. The securities have seen yields decline dramatically this week as Congress inched closer to a vote on its plan to curb the economic toll of the coronavirus, which would let the Federal Reserve buy municipal bonds.

The performance is a sudden reversal from the historic sell-off that hit the market earlier this month. State and local debt gained about 7.3% this week as of Thursday, a massive recovery from the 6.6% loss the prior week, according to Bloomberg Barclays indexes. If that performance holds today, it would mark the best week of performance since September 1982, the data show.

John Loffredo, co-head of MacKay Municipal Managers, said crossover buyers like insurance companies are starting to wade back into the market, he said.

They're seeing the cheaper valuations of municipals and "picking their head up," he said.

Bloomberg Markets

By Amanda Albright

March 27, 2020, 6:19 AM PDT

Muni Bonds Surge, Reviving From Worst Crash in Over Four Decades.

- **Yields tumble by more than 60 basis points across the curve**
- **Junk bonds hit hard in sell-off revive as buyers swoop in**

Municipal-bond prices surged, staging the biggest one-day rally in nearly three decades, as Congress and the White House struck a deal on a more than $2 trillion stimulus package to soften the impact of the economic slowdown triggered by the coronavirus.

The gains sent yields sliding sharply across maturities, but the drop was steepest for the shortest-dated securities that were hardest hit by the steep sell-off this month as fund managers dumped the easiest-to-unload bonds when investors fled en masse. Three-month benchmark yields dropped 75 basis points to 1.8% while those on 10-year bonds fell 61 basis points to 2.06%. Those on the longest-dated securities fell 61 basis points to 2.56%.

The rally gained force after the White House and the Senate reached an agreement on a massive package of spending and tax breaks in a bid to prevent the swift shutdown of much of America's economy from leading to a deep, prolonged recession. It includes about $500 billion that can be used to back loans and assistance to companies, as well as state and local governments.

The price jump was the biggest since 1993 and sent yields tumbling by the most since Bloomberg's benchmark indexes begin in 2011. The drop was roughly three times as big as the decline Tuesday and included high-yield bonds that tumbled steeply during the sell-off.

"The stimulus will be very helpful to the overall market," said James Iselin, a portfolio manager at Neuberger Berman Group. "The stimulus will inspire confidence that a bridge is being built to help get us to the other side as we continue to deal with challenges resulting from this unprecedented moment."

The two-day rally broke what had been an escalating slide in the $3.9 trillion municipal market as investors pulled cash out of mutual funds at a record-setting pace on concerns about how the economic fallout of the pandemic would affect cities, airports, hospitals and others that have issued tax-exempt bonds. The retreat saddled many borrowers with skyrocketing interest bills on floating-rate debt and effectively shut down the market for new debt issues as Wall Street banks put offerings on hold.

The Federal Reserve softened the liquidity strains by extending its lending programs to include some of the shortest-dated municipal securities, while the stimulus promises to ease the financial strains on local governments and other borrowers.

The municipal market has been whipsawed by unprecedented volatility this month, so it's not clear yet whether the rally is the start of a turnaround or a false start that could reverse if the pandemic worsens. But there are some signs that investors are swooping in to scoop up securities most affected by the sell-off.

On Wednesday, some of the most actively traded securities were floating-rate bonds issued by New York's water system, whose yields surged to 6.75% during the rout.

Bonds backed by Ohio's tobacco-company legal settlement payments, a type of security that is a mainstay of high-yield funds, surged, with those due in 2055 climbing to as much as 93 cents on the dollar from about 75 cents Tuesday.

Puerto Rico's sales-tax backed debt — which is a bellwether of the high-yield market that was dealt the steepest losses this month — were also among the most heavily traded, with the price of those due in 2058 rising to as much as 94 cents on the dollar from about 80 cents Monday.

"People are finally taking a breather and saying, 'were we too hard on credit?'" said Jason Appleson, a portfolio manager for PT Asset Management LLC. He said investors are using the time ahead of Congress' stimulus vote to take stock of their holdings and whether bonds were penalized too much, though he said he's skeptical about whether the rally could be maintained if mutual funds continue to see cash pulled out.

"It's a different mentality today," he said.

Bloomberg Markets

By Danielle Moran

March 25, 2020, 6:24 AM PDT Updated on March 25, 2020, 4:51 PM PDT

— With assistance by Amanda Albright

Coronavirus Sorts Bond Market Into Winners and Losers.

(Bloomberg Opinion) — For the past month, bond traders confronted nothing short of chaos at every turn. U.S. Treasuries, mortgage-backed securities, investment-grade and high-yield corporate bonds, leveraged loans and collateralized loan obligations, it didn't matter. Everything was for sale, and no one was willing — or, in many cases, able — to buy.

That relentless tide is starting to turn as March draws to a close. Thanks to a series of bold steps by the Federal Reserve, namely its promise to buy as many Treasuries and agency mortgage-backed securities as necessary, its unprecedented venture into the investment-grade credit market and its deeper expansion into municipal bonds, traditionally safe debt is showing signs of returning to more normal yields and spreads. Blue-chip companies feel comfortable borrowing again.

Don't necessarily take the latest dire fund flow numbers at face value. Yes, investment-grade bond funds experienced a record $38 billion outflow in the week through March 25, as did munis with $13.7 billion of withdrawals. But individual investors are drawn to winning asset classes. And these securities have staged comebacks that are unprecedented in recent memory.

The same optimism hasn't reached the riskier parts of the debt markets. The amount of bonds and loans trading at distressed levels in the U.S. quadrupled in less than a week to almost $1 trillion, nearing the 2008 peak, Bloomberg News's Katherine Doherty reported. Credit-rating companies are downgrading companies at the fastest pace in more than a decade, ushering in several large fallen angels like Ford Motor Co. and Occidental Petroleum Corp. Mortgage real estate investment trusts have been pummeled by margin calls from banks anxious that tenants won't cover rent. As it stands, the Fed's programs won't backstop these parts of the market — probably for good reason.

Simply put, the bond market has bifurcated into winners and losers after this month's mayhem. Here's what the divide looks like:

Winner: U.S. Treasuries

It took a record amount of buying from the Fed, and a pledge to purchase much more, but the world's biggest bond market showed clear signs of tranquility this week. On March 19, the spread between liquid on-the-run 10-year debt and older off-the-run securities was four basis points, or eight times as high as a month earlier. On Monday, after the Fed's scrapped its limits on quantitative easing, the spread dropped to 1.6 basis points. By Thursday, it fell to 0.4 basis points.

The MOVE index of implied volatility for the U.S. government bond market also indicates more orderly Treasuries trading. It hit the lowest level since Feb. 26 on Wednesday, after the sharpest two-day percentage decline since data begin in 1988. Benchmark yields across the curve are settling into sensible ranges — a major win for the Fed.

Winner: Investment-grade corporate bonds

Yes, the yield spread on the Bloomberg Barclays index of high-grade corporate bonds reached 373 basis points on Monday, the widest since 2009. But it's looking increasingly like that'll be the worst of it. That gap narrowed 20 basis points on Tuesday and then 29 basis points on Wednesday. A tightening of that magnitude has never happened since daily data began in 2000.

In what's arguably an even more encouraging sign of market health, more investment-grade companies are choosing to issue new debt. McDonald's Corp., Nike Inc., 3M Co. and Deere & Co. were among those that priced deals amid Wednesday's rally, while Nvidia Corp., Home Depot Inc. and Target Corp. were marketing bond offerings on Thursday. Because Treasury yields are near record lows, these companies are still borrowing at rates similar to those a year ago.

Loser: High-yield corporate bonds

At first glance, junk bonds appear to be on a similar trajectory as their high-grade counterparts. Spreads on the Bloomberg Barclays high-yield index peaked at 1,100 basis points on Monday before tightening by 75 basis points over the next two days. On a relative basis, that's still not nearly the same rebound.

Unlike the investment-grade market, high-yield issuance is nonexistent while so much uncertainty remains about the coronavirus outbreak and length and impact of the U.S. economic halt. No deals are scheduled. At best, there's speculation about potential offerings in the coming months.

To make matters worse, the longstanding fear of a wave of fallen angels overwhelming the junk-bond market is finally starting to materialize. In the biggest example, Ford's $35.8 billion of debt will be removed from the Bloomberg Barclays investment-grade index at the end of the month and move into high yield. Meanwhile, those companies already rated junk are looking more at risk of folding: S&P Global Ratings said this month that the default rate on U.S. nonfinancial corporate debt may rise above 10%.

Loser: Leveraged loans, riskier CLOs

It's mostly the same story, if not worse, in leveraged loans. The distressed trading level is defined as corporate bonds that yield at least 10 percentage points above Treasuries and loans that trade for less than 80 cents on the dollar. The S&P/LSTA Leveraged Loan Price Index was hovering just above 76 cents at the beginning of the week. It increased on Wednesday for the first time since March 10 but remains firmly below that distressed threshold.

No loans launched or priced this week. There aren't even any bank meetings scheduled. This market is almost entirely frozen, though some buyers have been looking to buy scarce double-B credits and the largest, most liquid obligations.

Leveraged loans' credit ratings are an important flashpoint for certain parts of collateralized loan obligations. Generally, CLOs have a 7.5% limit for triple-C rated loans. The way they're structured, though, it would take an enormous amount of downgrades to even begin to concern top-rated tranches. Indeed, on Wednesday, Citigroup Inc. published a report titled "CLO AAA Screams Cheap." In the same breath, though, the strategists noted "the spread pickup of CLO BB to BBB breached post-crisis highs last week, suggesting serious credit risk concerns." In other words, the lower-rated tranches are definitely dicey, but the safest portions are being unduly punished along with them.

Winner: Agency mortgage-backed securities

This one is a bit of a no-brainer. The Fed's open-ended QE includes mortgage securities guaranteed by Ginnie Mae, Fannie Mae and Freddie Mac. These have bounced back in a big way, recouping all their losses from the last two weeks.

The central bank bought $39 billion on Wednesday, $36 billion on Tuesday and $30 billion on Monday. For some context, before this month, the highest total for an entire week was $33 billion in March 2009.

Loser: Private commercial MBS, mortgage REITs

As my Bloomberg Opinion colleague Matt Levine put it yesterday, "nobody wants a margin call right now."

Of course, that's exactly what's happening to mortgage real-estate investment trusts. As I wrote earlier this week, the REITs have plunged in price because banks are worried that closed tenants will miss rent, which will cause landlords to miss mortgage payments, which will wipe out the cash flow to commercial mortgage-backed securities. A Bloomberg Barclays index of "U.S. CMBS 2.0," which is the market of conduit and fusion CMBS deals issued since January 2010, is down almost 11% this month, easily the biggest loss ever.

The Fed isn't heavy-handed in this nonagency part of the mortgage market, though some investors are pleading for the central bank to do more. Until then, each day the U.S. economy remains halted creates further pain for these securities.

Winner: Municipal bonds

To end on a positive note: Look at munis go!

In what I'd describe as nothing short of breathtaking, the yield on 10-year, triple-A munis tumbled by 138 basis points in three days, with Wednesday representing the biggest one-day advance since 1993. If any investor was looking for evidence of a "V-shaped" recovery, look no further than the iShares National Muni Bond ETF (ticker: MUB). In a matter of days, it went from its lowest price since 2013 to rocketing back to roughly the same level it started at in 2020.

This doesn't usually happen to the $3.9 trillion municipal market. Traditionally, steep losses and huge outflows begin a vicious cycle of more withdrawals and further forced selling. All those pieces were in place as of last week. The Fed did signal a bit of support to the market since then, and the $2 trillion fiscal relief bill in Washington does pledge monetary support to local governments, but that doesn't feel like the entire story. More likely, opportunistic investors saw muni ETFs trade at wider discounts to their net asset values than any other fund, and individual bond pickers noticed 10-year tax-exempt yields three times as high as taxable Treasuries, and determined it was too cheap to pass up.

In that sense, munis were a microcosm of the $100 trillion global bond market: Things got weird in a hurry. Central banks swiftly provided liquidity and gave investors a chance to breathe again. Now it's time to sort through the wreckage.

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

Bloomberg Opinion

by Brian Chappatta

March 27, 2020

Brian Chappatta is a Bloomberg Opinion columnist covering debt markets. He previously covered bonds for Bloomberg News. He is also a CFA charterholder.

Muni Funds Under Pressure From TOB Deleveraging.

Summary

- This week has brought echoes of the financial crisis in the municipal bond market with a number of fund deleveragings.
- Patchy liquidity and a worsening macro picture makes us cautious in the near term. However, there are also positive signals for the medium term.
- For investors wishing to adopt a more cautious stance without leaving the market, we like open-end funds, term CEFs, and taxable muni CEFs.

Here we go again. In a stark repeat of the financial crisis era events, a number of municipal funds have begun to deleverage. At focus is the unwinding of tender option bonds – a financial structure that allows municipal funds to raise leverage and increase fund payouts. According to Bloomberg, about 75 TOBs with $1.2bn of bonds liquidated last week.

Continue reading.

Seeking Alpha

Mar. 24, 2020

Variable-Rate Muni Yields Fall in Wake of Latest Fed Action.

CHICAGO, March 23 (Reuters) – Yields on variable-rate municipal debt tumbled on Monday after the Federal Reserve took another step to help ease a liquidity crunch as part of an unprecedented credit support package to backstop an economy reeling from coronavirus shutdowns.

The U.S. municipal bond market was steady through midday, according to a preliminary read of Municipal Market Data's benchmark triple-A yield scale, while the daily variable rate demand note (VRDN) yield reset fell to around 5.56% from a whopping 7.23% on Friday.

"That's probably a direct effect of the Fed's announcement," said Greg Saulnier, an MMD managing

analyst, not it was “probably a stretch” to attribute tentatively unchanged yields across the curve to the central bank’s move.

Yields in the $3.8 trillion market where states, cities, schools and other issuers sell debt, have surged amid a selling frenzy by funds and others scrambling for cash as coronavirus fears wreak havoc on global markets.

The Fed on Monday expanded eligible collateral for loans in money market and commercial paper facility programs to include municipal VRDNs and “high-quality” tax-exempt commercial paper. On Friday, the Fed allowed highly rated short-term muni debt to be used in the money market program.

The iShares National Muni Bond ETF, which tracks the overall municipal bond sector, was last up 1.6%, extending Friday’s bounce a day after it hit the lowest level since April 2011.

In a statement, the central bank cited “tremendous hardship” due to the spreading coronavirus and the need for aggressive efforts in the public and private sectors “to limit the losses to jobs and incomes and to promote a swift recovery once the disruptions abate.”

Muni analysts at Barclays noted in a report on Monday: “This is likely to help to start unfreezing tax-exempt money markets; however, outright purchases of munis might still be needed.”

Michael Decker, vice president for federal policy at Bond Dealers of America, said the muni market “is generally not performing as it’s supposed to, but it’s being felt most acutely at the short end of the yield curve.”

While the spot yield on one-year, short-term munis has soared this month, VRDNs have fared even worse. Daily VRDN yields reset on Friday at 7.23%, up from 1.59% on March 13, according to MMD.

Decker described VRDNs, which fell out of favor in the wake of the previous market meltdown, as “sort of the commercial paper of the municipal world,” although the debt is designed with longer maturities.

Issuance of VRDNs, which peaked over the last two decades at $121 billion in 2008, fell to just $8.7 billion in 2015 and totaled $25 billion in 2019, according to Refinitiv data. Muni issuers, meanwhile, sold $44.7 billion of short-term debt last year. Tax-exempt commercial paper issuance is relatively small, analysts said.

(Reporting By Karen Pierog; Editing by Alden Bentley)

Coronavirus Chaos Torpedoes Municipal Bond Market.

After initially staying strong as markets declined, munis tumble 11% in 11 days.

The COVID-19 pandemic has shown no mercy for the municipal bond market, which has plummeted in the past two weeks despite being considered a relatively safe investment when the markets are down. And this could be particularly damaging to institutional investors, who own the majority of outstanding municipal bonds.

According to Bernardi Securities, a broker/dealer specializing exclusively in municipal bonds, 40% of outstanding municipal bonds are owned by institutional investors. Pension funds, insurance firms,

community banks, and trust departments own approximately 35% of outstanding municipal bonds, while 25% of them are owned by hedge funds, bond funds, arbitrage firms, and other general institutional investors.

Municipal bonds initially responded well when the markets began to fall in February. As the Dow 30 and the S&P 500 tumbled 18.6% and 17.5% respectively between Feb 5 a.nd March 9, the Bloomberg Barclays Municipal Bond Index, which tracks the US dollar-denominated long-term tax exempt bond market, rose over 2%. But during the next 11 days the index fell nearly 11% to its lowest point since the end of November 2018, and it was down 7.5% year to date as of March 20.

A sharp drop of this degree is “extremely rare” said Cooper Howard, director, fixed income and income planning at Charles Schwab.

“Munis are feeling the impact of COVID-19 on two fronts,” Howard wrote in a recent market commentary. “First, this is a unique trading environment in which liquidity is strained. Second, there are longer-term concerns about the impact that a sudden and severe slowdown in economic activity could have on municipalities’ finances.”

Howard said that contributing to the limited liquidity was the fact that municipal mutual funds experienced their first week of fund outflows after more than 50 consecutive weeks of inflows. In some cases, this means that fund managers may have to sell them to meet clients’ redemption requests, driving down prices. Additionally, he said long-term concerns about how the coronavirus will affect interest rates have led to a limited number of buy offers or have resulted in bids that are much further away from the market than expected.

“While we don’t expect widespread municipal bond issuer defaults due to COVID-19, we do expect the decline in consumer activity to have an impact on some municipalities’ finances,” Howard said. “This impact will be felt especially hard by issuers in certain sectors with already lower liquidity.”

In particular, the sectors of the municipal bond market most affected include state and local governments, hospitals, airports, and universities.

Goldman Sachs has revised its unemployment forecast sharply higher due to the impact of COVID-19 and estimates a 5.5 percentage point increase in the unemployment rate to a 9% peak in impending quarters. This translates to lower personal income tax revenue for states, which is among their biggest sources of revenue. And as non-essential businesses are being shut down in many states, local sales taxes will also take a big hit.

Howard says these factors will pose a risk for states with already lower liquidity levels, and local governments that are reliant on sales taxes will suffer more the longer it takes for the crisis to subside.

“Depending on how the equity markets perform for the rest of the year, some local governments may be faced with higher pension costs,” Howard said. “This too could pressure their finances.”

Meanwhile, increased hospitalizations and the strain the virus is having on hospital resources could pressure high-occupancy hospitals and potentially crowd out other services. And drug and medical device supply chains could also be negatively affected, Howard said. “The health care sector already tends to be lower-rated, on average, compared with the rest of the muni market,” he said, “so we would suggest further caution here.”

And because COVID-19 has devastated the air travel industry, airlines have been forced to significantly reduce capacity, which has led Moody’s to recently downgrade its outlook on the sector

to “stable” from “positive.”

“However, most US airports tend to benefit from fixed revenues, and should be able to manage through declines in demand,” said Howard, noting that other outbreaks, such as the SARS coronavirus outbreak in 2002, haven’t resulted in ratings downgrades. But, he added, “if concerns about the coronavirus linger and severely curb travel demand, this could result in downgrades.”

As for colleges and universities, they are likely to be less affected by the virus as many of them have already moved to an online format for the remainder of the 2019-2020 school year.

“This is unlikely to affect near-term revenues, but enrollment could be hurt if concerns about the virus linger,” Howard said. “Schools that are reliant on foreign students will be affected to a greater degree than those with a more diverse student mix.”

Chief Investment Officer

March 23, 2020

In Wreckage of Muni Market Crash, Brave Investors Eye Bonds at 90% Yields.

- **Forced selling wreaked havoc with traditional gauges of value**
- **Even bonds backed by Treasuries slid in worst rout in decades**

By some measures, the municipal-bond market is full of screaming buys for anyone brave enough to wade in.

Take a note issued by New York’s Metropolitan Transportation Authority that’s due in about two months. It traded among securities dealers at yields as high as 11.2% on Friday and hit 90% the day before that — an unheard of payout for securities that not long ago yielded 0.6%.

Bonds repaid with Ohio’s share of the 1998 tobacco-company settlement that changed hands for as much as 116 cents on the dollar last month are now going for around 74 cents. Even so-called pre-refunded debt — which is virtually risk free because it’s paid off with federal government bonds that are held in an escrow account — are yielding about 2.8%, more than triple 10-year Treasuries.

“At these levels there’s value in the market,” said Lyle Fitterer, co-head of municipal investments at Baird Advisors, who was referring to broader market conditions. “You can find some very good muni credits trading at levels you haven’t seen in a decade.”

The record-setting sell-off that raced through the market until this week has left broad wreckage in its wake, in part because of unprecedented uncertainty about how badly local governments, hospitals and public transit systems will be hurt by an economy that has virtually ground to a halt in a matter of weeks. States and cities have pleaded with the federal government for hundreds of billions of dollars in aid, showing how severe they expect the hit to be as tumbling stock prices, shuttered stores and mass layoffs cut deeply into their tax collections.

But as mutual-fund managers unloaded whatever they could to raise cash, some bonds that may have very little risk to the coronavirus shutdown tumbled as well. Even top-rated, two-year municipal debt is yielding 934% what similarly-dated Treasuries do, up from as little as 56% just in January.

Kyle Gerberding, director of trading for Asset Preservation Advisors, is focusing on the pre-refunded bonds since the Treasuries that backstop them essentially guarantee they won't default. "That's the biggest no-brainer trade," he said.

Wilmington Trust this week said it was moving taxable and tax-exempt accounts to an overweight position in investment-grade municipal securities after the spate of "indiscriminate selling."

Dan Scholl, head of municipal fixed income at the firm, said the company is looking at the pre-refunded bonds as well as variable-rate securities, which saw one gauge of yields soar to the highest since 2008 as investors sold them aggressively to get cash. Because those securities are backstopped by banks, they can always be resold at 100 cents on the dollar.

Scholl said he is also focusing on large states and cities whose bonds have cheapened amid the sell-off. They're trading at "very attractive levels," he said.

No state government has defaulted since the Great Depression, and local government bankruptcies remained extremely rare during the last recession. Yet some states have seen their yields jump sharply this month. Illinois's 10-year general-obligation bond yields have more than tripled to nearly 6%, three full percentage points more than the benchmark, according to Bloomberg's BVAL indexes.

Of course, the key question facing such buyers is whether the rout is over or there's more pain ahead, and the market is highly dependent on individual investors who have a tendency to keep pulling out when losses pile up. Furthermore, some governments, including Illinois, were already contending with deep pension shortfalls before stock prices tumbled this year.

On Tuesday, though, the municipal market gained for the first time in over two weeks after the Federal Reserve included some of the securities in its emergency lending program and Congress made progress toward enacting economic stimulus legislation. Yields on some of the shortest-dated securities slid 18 basis points, showing that some of the liquidity strains that drove the sell-off have eased.

Samuel A. Ramirez & Co. said on Monday that it's tough to accurately value municipals or any asset class currently given the volatility.

"What is now considered 'cheap' may not be when the dust settles," the company wrote in a report to clients.

Bloomberg Markets

By Amanda Albright

March 24, 2020, 8:29 AM PDT Updated on March 24, 2020, 10:03 AM PDT

— With assistance by Martin Z Braun

State Treasurers: Fed Must Step Up as Municipal Bond Market Craters.

OAKLAND — As the Covid-19 crisis batters state economies, more than a dozen state treasurers are urging Congress to authorize the Federal Reserve to buy municipal bonds — a key tool to finance necessary infrastructure and public projects.

“We are hoping the federal government is going to step in a little bit more,’’ said California State Treasurer Fiona Ma, one of 14 state treasurers who signed a letter to congressional leaders, Treasury Secretary Steven Mnuchin and Jerome Powell, the head of the Federal Reserve.

Ma says that while federal officials are assessing how to help the private sector, “they shouldn’t forget about the state and local municipal bond market.”

“That would really help stabilize the market and help local governments during these difficult times,’’ Ma said in an interview with POLITICO on Sunday.

Municipal bonds issued by states and local governments have traditionally been a major tool to finance public projects such as bridges, highways, schools and airports. Nationally, the municipal bond market is valued at approximately $4 trillion — with California representing about 15 percent of that market, experts say.

Big investors such as mutual funds have traditionally been large buyers of municipal bonds, which have been widely considered safe investments in volatile times. But the Covid-19 crisis has had a devastating effect on the municipal bond market as mutual funds sold off bonds, cratering the demand. California experts say in the past week, the activity in municipal bond deals for state and local municipal bonds has collapsed as much as 90 percent.

Ma said she’s been in contact with Rep. Maxine Waters, who heads the House Financial Services Committee, as well as Sens. Dianne Feinstein and Kamala Harris to plead for federal help for the states.

In their letter, the treasurers argued that for “state governments to do their part in mitigating the associated economic and social costs” in the current crisis, “they need to have confidence that they will continue to have access to financing.”

The letter asks Congress specifically to revise Section 14(2)(b) of the Federal Reserve Act “to authorize the Federal Reserve to purchase securities in the municipal debt market of a sufficiently broad set of maturities” to help states sell their bonds. Currently, the statute only permits purchases of state and local debt “with a maturity from date of purchase of not exceeding six months.”

“The Federal Reserve is best-suited to achieve that end,’’ they argued.

POLITICO

By CARLA MARINUCCI 03/22/2020 02:24 PM EDT

Some States Much Better Prepared Than Others for Recession.

As the widely expected recession sparked by the COVID-19 pandemic takes hold, the impact in some states will be unnecessarily harsh — especially if the recession is relatively deep — due to the state’s failure to adopt policies that support families and communities during a downturn, our review of state policies in four key areas finds. More specifically, people in states with inadequate budget reserves, weak unemployment insurance systems, relatively inaccessible Medicaid programs, and/or expensive higher education systems are particularly likely to struggle during the recession if they lose their jobs or enter the recession looking for work with few family resources to support them. Mississippi is the most poorly prepared. It’s the only state that ranks in the bottom ten across all

four categories, while Florida, Louisiana, New Hampshire, and South Dakota rank among the worst in three categories. That said, every state likely will face significant budget gaps in the coming months, even those best prepared for the downturn, and will need aggressive help from the federal government.

The pressures on state finances from the COVID-19 pandemic and resulting likely recession are mounting and will quickly become severe. Sales taxes, which make up a third of state revenues, are rapidly collapsing as restaurants and stores across the country close their doors and lay off their workers. Data are not yet available on the full scope of this collapse, but there is little doubt it is drastic, perhaps unprecedented. Income taxes, which make up another third of state revenues, also will decline sharply as mass layoffs rapidly push down people's income and therefore their income taxes. Plus, the steep drop in the stock market means that wealthy people will soon begin reporting massive capital losses on their quarterly tax returns, further reducing state revenue.

Continue reading.

CBPP

BY MICHAEL LEACHMAN & JENNIFER SULLIVAN

MARCH 20, 2020

Force Majeure Events – Will Your Project Contract Require a Response to the Coronavirus Pandemic?

As the number of those impacted by the coronavirus ("COVID-19") pandemic continues to grow, affected parties across all industries look for guidance on how to deal with this novel situation. Governments and private parties are analyzing project contracts as they take precautionary actions to prevent the spread of COVID-19. In this midst of all of this confusion, two questions arise: What does the COVID-19 pandemic and the steps being taken in response mean for your project contracts? And, will an excusable delay/force majeure clause provide any protection for the impacts of COVID-19?

Force majeure or other excusable delay clauses ("force majeure clauses") grant parties contractual relief from some or all performance when specified events beyond the control of the parties occur and impair the ability of one or both of the parties to perform (a "Force Majeure Event"). The question of whether a force majeure clause in a project contract will address schedule or cost impacts attributable to the effects of the COVID-19 pandemic involves a three step analysis.

First, determine whether the force majeure clause provides relief to either the owner or the contractor (or both) in the event of a situation like the COVID-19 pandemic. The force majeure clause will typically define in detail what constitutes a Force Majeure Event. Force Majeure Events are often defined to include events like natural disasters, terrorist attacks, labor action, government-declared emergencies, epidemics and pandemics.

Second, determine any limitations that apply to the protections under the force majeure clause. Many such clauses only allow relief if the Force Majeure Event materially impacts the work to be performed and the work schedule under the contract. The clause may similarly dictate that the event affected the project site or geographical area in which the project is located. Most project contracts require the contractor to take commercially reasonable measures to mitigate the impact of a force

majeure event. This duty to mitigate is critical to consider as some work, for example design work, can still proceed remotely and is less likely to be materially impacted by a pandemic such as COVID-19. Construction, utility and other field work as well as work related to operation and maintenance of projects in the operating phase, on the other hand, may be more likely to be impacted by precautionary measures put in place to combat the spread of COVID-19.

Lastly, determine what relief can be sought. This step in the analysis allows the parties to the contract to plan and manage the likely project impacts. Project contracts may vary in the nature of relief provided and relief may even vary depending on the type of Force Majeure Event in question. Force majeure clauses in design-bid-build contracts normally allow time extension only, without the right to additional compensation. Clauses in alternative delivery contracts may be similarly limited, or may allow additional compensation for costs incurred as a direct result of the event, or may provide for the parties to share certain costs. Additionally, some contracts may exclude cost relief for matters where the contractor's insurance provides coverage.

With the uncertainty surrounding the COVID-19 pandemic, more and more infrastructure projects are likely to be directly impacted. Now is the time to conduct a full analysis of your project contracts and plan for the potential impact of COVID-19.

Nossaman Infra Insight Blog

By David Aguilar, Elizabeth Cousins on 03.18.2020

State-Specific Coronavirus Employer Q&A.

Based on questions we have received over the last several days, here are some general principles that employers should keep in mind when navigating issues related to COVID-19:

1. Communicate with employees, but be mindful of privacy rights and considerations.
2. Have a centralized, internal communication and planning team. This team should be made up of individuals from operations, human resources, security, legal, and information technology.
3. Make a safe workplace a top priority.
4. Do not discriminate, and apply workplace policies in a fair and neutral manner.
5. Evaluate options for leave of absences, whether paid or unpaid.
6. Have a plan for layoffs or a temporary shut-down.
7. Stay up to date on the latest developments for the locations in which operations are conducted.

Below are general answers to specific questions that may arise in considering the above-mentioned principles. COVID-19 is a very complex topic and is constantly evolving, and therefore, it is important to stay abreast of new information, as well as federal, state, and local advisories in an employer's areas of operation. **Note that the answers below focus mainly on federal law and state laws of Indiana, Ohio, Illinois, Kentucky, and Minnesota.**

NOTE:

****This is not meant to be construed as legal advice or guidance on a particular circumstance as each issue that arises for a particular employer will require a fact-intensive evaluation of many factors, including without limitation the employer's policies, the severity of COVID-19 as indicated by public health officials, and local or nationwide emergency regulations and directives.**

If you have questions regarding your particular situation or circumstances, please feel free to contact any member of Taft's Employment & Labor Relations Group directly.

When should an employer require employees to stay at home?

Employers can legally request and require an employee to stay home for the COVID-19's 14-day incubation period if the employee presents a real threat to other employees. Such employees include those who are ill or are experiencing any of the COVID-19 symptoms, those who have been exposed through another individual, or those who have traveled to countries where there is a high exposure risk.

Employers may also decide to suspend operations for a period of time if directed to do so by a local, state, or federal governmental authority or if it becomes more prudent to prevent employees from coming into work (for example, if there are confirmed cases of COVID-19 in the area). In this case, employers could consider teleworking arrangements with employees.

To avoid any sort of discrimination issues (especially on the basis of national origin and/or perceived disability), employers should put the duty on the employee to come forward and self-report such symptoms or exposure risks. In addition, employers should be sure to treat all employees in a specific job category in the same and consistent manner.

What if an employee tests positive for COVID-19?

Employers should immediately send home all employees who have worked with that particular employee within the last 14 days, and should also notify any clients, customers, or other third parties with whom the employee had contact. Employers also should not identify by name the individual who tested positive (see below for privacy concerns).

Can an employer prevent employees from personal travel?

Not necessarily. While an employer cannot typically prohibit legal travel, the employer may choose to deny time off if the denial is based on the destination, business cost of a resulting quarantine, or other legitimate business-driven reasons. The reason cannot be the national origin of the employee. Employers can require employees to self-quarantine for the 14-day incubation period once they return home from travel.

Employers should educate their employees before they engage in such travel and that such travel may result in quarantine or self-monitoring for a prolonged period of time. In addition, employers should monitor those employees returning from such travel for signs of illness.

What if an employee shows symptoms of COVID-19?

An employer may ask an employee if he or she is experiencing symptoms of COVID-19, but make sure the inquiry is limited to relevant symptoms. If the employee feels ill or is experiencing symptoms, the employer may send him or her home and encourage him or her to see a doctor.

On March 18, 2020, the EEOC issued guidance clarifying that employers may ask an employee who calls in sick if he or she is experiencing COVID-19 symptoms – which the EEOC identifies as fever, chills, cough, shortness of breath, or sore throat. Relatedly, the EEOC advises that employers may delay the start date for an applicant or withdraw a job offer made to an applicant (if the employer would need the employee to start immediately) if the applicant has been diagnosed with COVID-19 or exhibited symptoms of it.

Can an employer take the temperatures of its employees?

According to the EEOC's March 18, 2020 guidance, yes. (Prior to the issuance of this new guidance, the answer had not been entirely clear.) While measuring an employee's temperature is a medical examination under the ADA, the EEOC's new guidance states: "Because the CDC and state/local health authorities have acknowledged community spread of COVID-19 and issued attendant precautions, employers may measure employees' body temperature."

The EEOC also clarified that an employer may also screen applicants for COVID-19 and take an applicant's temperature, so long as it is performed after a conditional job offer and the employer does so on a consistent basis.

Still, as a practical matter, an employee or applicant may be infected with the COVID-19 coronavirus without exhibiting recognized symptoms such as a fever, so temperature checks may not be the most effective method for protecting the workforce.

Can an employer ask employees to disclose whether they have a medical condition that could make them especially vulnerable to COVID-19 complications if they are not experiencing any symptoms?

No. Making disability-related inquiries of employees without symptoms is prohibited by the ADA.

Should leave taken as a result of COVID-19 be designated as FMLA?

Yes. For an employee to invoke their 12 weeks of unpaid FMLA leave, he or she must have a "serious health condition" and otherwise satisfy the FMLA eligibility criteria. Based on recent reports, COVID-19 would qualify as a serious health condition depending upon the specific situation. Accordingly, an otherwise eligible employee with COVID-19 or an employee who is taking care of a qualifying family member with COVID-19 would be permitted to take protected FMLA leave.

However, employees who refuse to come to work out of fear of contracting COVID-19 would not qualify for FMLA leave.

Also, it is important to keep in mind that many states have paid sick leave and family medical leave laws that may be implicated in the event an employee (or dependent family member) contracts COVID-19. Be sure to check the state and local laws of each jurisdiction in which the employer operates or has employees.

****Update:** The U.S. House of Representatives passed the Families First Coronavirus Response Act on March 14, 2020, and the bill has been sent to the Senate. It includes many provisions that apply to employers, such as emergency-based FMLA and paid sick leave. The bill is expected to undergo revisions prior to being passed by the Senate, and therefore, a more detailed update regarding the passed version of the bill will follow.

Is telework an option?

As a general rule, there is no requirement that an employer allow employees to telecommute. In determining whether to allow particular employees to telecommute, an employer should ensure that its flexible workplace policies are administered in a way that does not discriminate against an employee because of a protected characteristic (such as race, sex, national origin, age, disability, etc.). An employer should be prepared to offer a legitimate, nondiscriminatory explanation for why it may choose to allow some employees to work from home and not others.

In addition, employers should have a system in place to track hours worked by non-exempt

employees to ensure that proper wages (including overtime if applicable) are paid.

Employers should also consider possible implications under the ADA (and related accommodation laws) when deciding whether, and in what circumstances, it will allow employees to work from home. Under the ADA, employers have an obligation to provide reasonable accommodations to employees with a disability unless doing so will present an undue hardship. Intermittent or temporary telecommuting arrangements may be a reasonable accommodation for such employees if they can successfully perform the essential functions of a job without coming to work. By allowing temporary telecommuting arrangements in response to COVID-19, an employer may impact its ability to decline temporary telecommuting arrangements as a reasonable accommodation to persons with disabilities in the future. Therefore, employers should carefully consider the precedent set by allowing employees to telework in response to COVID-19 when the essential functions of their position cannot be adequately performed at home. If the employer allows employees to telecommute where it would not otherwise do so because of the unique challenges posed by the COVID-19 outbreak, it should make clear in its communications that the telecommuting accommodation is being granted due to the extraordinary circumstances posed by the virus.

What if an employee has children affected by a school closure?

At this time, there is no federal law that requires employers to provide leave (whether paid or unpaid) for employees caring for healthy children who are unable to attend school. However, the Families First Coronavirus Response Act (in its current form) includes paid leave for employees caring for children as a result of a school closure. We will have more information on this once the bill is reviewed and passed by the Senate.

In addition, state laws may impose different requirements. For example, California requires most employers to provide unpaid leave to parents, guardians, grandparents, stepparents, foster parents or persons standing in loco parentis to a child for child care during unexpected school closures. Similarly, New York City mandates that employers provide employees with leave necessitated by the "employee's need to care for a child whose school or childcare provider has been closed by order of a public official due to a public health emergency." Chicago's paid sick leave ordinance provides that employees may take paid sick leave when their child needs care because their school is closed due to a public health emergency.

Even if there is no requirement in a particular state to pay employees while staying home to care for children during a school closure, employers should consider different options to support employees during this period. Some options include allowing affected employees to telework, attempting to coordinate reduced work schedules or coordinated childcare among affected employees or allowing affected employees to run a deficit in paid time off programs that can be repaid over time.

What if an employee refuses to come into work in order to avoid contracting COVID-19?

The employer should address this issue on a case-by-case basis and determine the basis of the particular employee's refusal before requiring the employee to come to work.

The Occupational Safety & Health Act permits employees to refuse to work if they believe on reasonable grounds that there is a dangerous condition at the work site or that the work constitutes a danger to their health and safety. If the office at which the employee works has confirmed cases of the virus, then it may be best to allow those employees to telework or to take leave time.

In addition, the National Labor Relations Act allows employees to engage in concerted action regarding the conditions of employment. Accordingly, an employee may be protected from discipline

for refusing to come to work if the refusal is part of a concerted protest against unsafe working conditions.

Does contraction of COVID-19 generally implicate the ADA?

Generally no. In most cases, COVID-19 is a transitory condition and is, therefore, not a qualified "disability" under the ADA.

Keep in mind, however, that this answer could change in the event an employee develops lasting exacerbation of existing conditions or experiences symptoms that substantially limit a major life activity for a more extended period of time. In these circumstances, the employer should gather information regarding the medical impairment and engage in the interactive process with the employee to determine whether the employee can perform the essential functions of the job and, if so, what reasonable accommodations can be afforded to the employee to enable him or her to perform those essential functions.

How should employers prevent harassment or discrimination of those suspected of being infected?

Employers must take steps to prevent discrimination and harassment against individuals who are disabled or perceived as disabled because they are exhibiting symptoms suggestive of having contracted COVID-19. In order to accomplish this, employers should ensure the confidentiality of all employees' medical information and leave details to prevent harassment. Employers should consider reminding employees of anti-harassment and discrimination company policies, and should make sure that leave policies and other applicable workplace policies are being applied in a uniform, equitable, and neutral manner. And as always, employers must be vigilant about promptly responding to and investigating any complaints of harassment or bullying in the workplace.

If an employee contracts COVID-19, what information should be shared with other employees?

If an employee contracts a confirmed case of COVID-19, the employer should inform its other employees of possible exposure to COVID-19 in the workplace. This should be done by simply stating that an unidentified employee with whom they may have had recent contact has been exposed to or has tested positive for COVID-19.

Employers should not, however, disclose to co-workers the identity of the infected employee. Communications with employees about medical conditions should be kept confidential and medically-related documents kept in a location separate from the employee's personnel file.

Do employers need to pay exempt employees during periods of leave or a temporary shutdown?

No, unless the employee is still performing work. Employers must pay exempt employees their full salary for any week in which they perform any work, even if the employee is telecommuting. If an employer furloughs an exempt employee for an entire workweek, then no salary is owed for that full week and the employee's exempt status will not be impacted.

Do employers need to pay non-exempt employees during periods of leave or a temporary shutdown?

No. Employers must pay non-exempt employees only for hours actually worked.

Note that an exception does exist for non-exempt employees who receive fixed salaries for a fluctuating workweek. Such employees must receive their full salary of any week in which they performed any work.

Should an employer shut down facilities to avoid liability?

It depends. As mentioned above, the Occupational Safety and Health Act states that employers have a legal obligation to provide a safe workplace and requires employers to protect employees against "recognized hazards" to safety or health that may cause serious injury or death. Here, OSHA will likely rely upon recommendations issued by the Centers for Disease Control, the World Health Organization, or similar resources to determine the extent of a "recognized hazard."

Employers need to be mindful of when it becomes reasonably likely that employees at a worksite will be exposed to COVID-19, whether by the nature of the profession (i.e., first responders, health care workers, transportation workers) or by the presence of employees in the workplace who have tested positive for the virus. Employers will need to develop a plan with procedures in place to protect their workforce—and, the time is now to start developing such a plan. Such a plan can include: conducting employee awareness training, developing procedures for issuing and the use of personal protective equipment, developing a means of reporting illness or exposure, and preserving documentation and records.

The prudent approach is to give employees the option to telecommute (if possible) or to take leave during this time. At the point in time when the employer determines that employees are at a higher risk of exposure by coming into work, then employers should re-evaluate and decide whether to cease operations at a particular facility (especially for those employees who cannot telecommute due to job duties).

Does the WARN Act apply to an employee furlough or temporary closing?

The Worker Adjustment Retraining Notification Act generally requires employers with 100 or more employees to provide at least 60 calendar days of notice to its employees prior to any plant closing or mass layoff. A plant closing is defined as 50 or more countable employment losses at a single site of employment in a 90-day period that results from ceasing operations in one or more operating units. A mass layoff is defined as 50 or more countable employment losses at a single site of employment in a 90-day period that also involves 33% of the active workforce at the site.

Notably, if employees are laid off for less than six months, then the employees do not suffer an employment loss and WARN Act notice requirements are not triggered. Keep in mind that it may be difficult to know how long the layoff will stay in place, so providing notice may be the most prudent approach.

In addition, the WARN Act provides an exemption when layoffs occur due to unforeseeable business circumstances. The employer, however, must still provide "as much notice as is practicable, and at that time shall give a brief statement of the basis for reducing the notification period." Accordingly, if the employer is in a position to evaluate the impact on its workforce, the employer must provide notice to employees who will be affected by a temporary shutdown. In addition, the employer must provide a statement to employees that explains why more extensive notice could not be provided—in this circumstance, it would be the unforeseeable nature of COVID-19 and its impacts on the workplace.

The WARN Act also has an exception for a "natural disaster." However, the Act does not specifically address whether a pandemic qualifies as a natural disaster, and therefore, it is not advisable to rely

on this exception to avoid notice requirements.

What about state-specific WARN Acts?

Several states have "mini-WARN" laws, which may provide further notice requirements and apply to layoffs of a short duration. Indiana and Kentucky do not have a mini-WARN law and, therefore, Indiana and Kentucky employers must comply only with the federal WARN Act.

In addition to compliance with the federal WARN Act, an Ohio employer who lays off or separates fifty or more employees in a seven-day period because of a lack of work is required to furnish notice to the director of Ohio Department of Job and Family Services (ODJFS) the dates of layoff or separation and the approximate number of individuals being laid off or separated. Such notice must be made at least three days before the first layoff.

Similarly, Illinois employers who lay off, at a single site of employment, either 33% of their employees (excluding part-time employees) including at least 25 total employees (excluding part-time employees), or, who lay off at least 250 employees (excluding part-time employees), must give 60 days prior notice of the layoff. Notice is to be given to the employees and the Department of Commerce and Economic Opportunity and the chief elected official of each municipal and county government where the layoff occurs. Notably, Illinois law provides for an exception to the notice requirement if the Illinois Department of Labor determines that the need for a notice was not reasonably foreseeable at the time the notice would have been required, and specifies what notice should be provided to the Department of Labor in order for that finding to be made.

Minnesota's "mini-WARN" law requires any employer providing notice under the federal WARN act to also report to the Minnesota Commissioner of Employment and Economic Development the names, addresses, and occupations of the employees who will be or have been terminated. The mini-WARN law encourages Minnesota businesses "considering a decision to effect a plant closing, substantial layoff, or relocation of operations … to give notice of that decision as early as possible" to the Commissioner, employees of the affected establishment, any employee organization representing the employees, and the local government where the establishment is located.

Do employer-instituted shutdowns entitle workers to unemployment benefits?

Yes, employees are generally entitled to unemployment benefits if they are furloughed when a facility temporarily shuts down and all other unemployment requirements are met.

In Indiana, the requirements include (1) being able, available and actively searching for work, (2) losing a job through no fault of the employee, and (3) the employee earned enough wages to qualify for payments. Indiana allows an employee to file a claim as soon as he or she becomes unemployed. There is also a one week waiting period after an employee files a claim, during which the employee will not receive benefits.

In Ohio, unemployment benefits are available to individuals who are totally or partially unemployed due to no fault of their own. The employee must be able to work, available for work, and actively seeking suitable work. Like Indiana, Ohio allows an employee to file a claim as soon as he or she becomes unemployed. There is generally a one-week waiting period after an employee files a claim, during which the employee will not receive benefits. However, by Executive Order on March 16, 2020, Ohio Governor Mike DeWine announced that individuals who are totally or partially unemployed, or who are participating in the SharedWork Ohio Program will not be required to serve a waiting period before receiving unemployment insurance or SharedWork benefits. Ohio employers can refer to the ODJFS website for specific information about Coronavirus and Unemployment

Insurance Benefits.

In Illinois, employees temporarily laid off because of COVID-19 can qualify for UI benefits as long as they are able and available for and actively seeking work. Under emergency rules recently adopted, the individual need not register with the employment service. Further, if the individual is confined to their home due to (1) a medical professional's diagnosis of COVID-19, (2) necessary care for a family member diagnosed as having COVID-19, or (3) due to government recommended/imposed quarantine, is eligible for UI benefits if all other requirements are met. Illinois employers can refer to the Illinois Department of Employment Security website for further information about COVID-19 and UI benefits.

On March 16, Minnesota Governor Tim Walz signed an executive order making workers affected by COVID-19 eligible for unemployment benefits. Under the executive order, applicants are eligible for unemployment benefits if (1) a healthcare professional or health authority recommended or ordered that they avoid contact with others, (2) they have been ordered not to come to their workplace due to the outbreak, and (3) their children's school district, daycare, or other childcare provider is unavailable, and no reasonable accommodation from their employer or other childcare arrangement was available.

In Kentucky, unemployment benefits are available to individuals who are unemployed through no fault of their own, are able and available to work and are making a reasonable effort to obtain new work, and register for work when they file their claim. Kentucky allows an employee to file a claim as soon as he or she becomes unemployed. There is generally a one-week waiting period after an employee files a claim, during which the employee will not receive benefits. However, on March 16, 2020, Kentucky Governor Andy Beshear, by Executive Order, said Kentucky will waive the waiting period for unemployment compensation for those who are losing their jobs because of COVID-19 and will waive any work search requirements while the state of emergency is in effect.

Keep in mind that unemployment benefits will vary by state, and there may also be waiting time periods in place before benefits are provided.

What if the employee's hours are just reduced, then is the employee eligible for unemployment?

It depends. In Indiana, employees may also qualify for partial benefits if the employer reduces the work hours to less than the employee's regular full-time work week. Any severance pay or other employer-provided compensation will be deducted from the employee's unemployment benefit.

In Ohio and Illinois, employees may also qualify for partial benefits if the employer reduces the work hours to less than the employee's regular full-time work week. In both states, an individual is "partially unemployed" in any week if, due to involuntary loss of work, the total remuneration payable to the individual for such week is less than the individual's weekly benefit amount.

In Minnesota, employees are eligible for unemployment benefits if their hours are "substantially reduced," meaning reduced to below 32 hours per week.

In Kentucky, employees also may be eligible for partial benefits if they are still employed by their regular employer but are working less than their normal full-time hours due to lack of available work.

Some states also have "work share" programs. These programs are meant to soften the blow of full layoffs by allowing employers to reduce hours for full-time employees, who then may collect

prorated unemployment benefits for the lost hours. To take advantage of a work share program, the employer must submit a plan to state officials for approval, and the requirements for a particular plan vary drastically by state. Some employers that implement work share programs continue to fund employee benefits while the program is in place. SharedWork Ohio is Ohio's voluntary layoff aversion program. Illinois and Minnesota similarly have work share programs in place. Indiana and Kentucky have not implemented an official work share program.

If an employee is ill and unable to work, will he or she be eligible for unemployment benefits?

Not likely. In Indiana, Ohio, Illinois, and Kentucky, claimants for unemployment benefits must be "able" to work. An ill employee likely would not meet that requirement. Similarly, in Minnesota, claimants must be "available for suitable employment."

If employees are no longer working, are they still entitled to group health plan coverage?

Not necessarily. Employers should check their group health plan document to determine how long employees who are not actively working may remain covered. Once this period expires, active employee coverage must be terminated (unless the carrier or self-funded plan sponsor otherwise agrees to temporarily waive those eligibility provisions) and a COBRA notice must be sent. Keep in mind that employees do not have to be terminated or permanently laid off to be eligible for COBRA.

If the applicable plan is self-funded and the employer would like to waive plan eligibility provisions, the employer must first make sure that any stop-loss coverage insurance carriers agree to cover claims relating to participants who would otherwise be ineligible for coverage.

If an employee contracts COVID-19, does workers' compensation apply?

It depends on the circumstances. Taft has prepared a client alert on this point available here. Generally speaking, any illness or injury arising out of or in the course of employment would trigger workers' compensation—this includes a contagious illness that is contracted at work or while traveling for work. The problem is that, in most circumstances, it is difficult to know for sure how and where a particular employee contracts an illness.

If the employee travels for work from a place with little or no risk of contraction to a place with a high risk and is diagnosed within the 14-day incubation period after such travel, then it is likely that the illness will be deemed covered by workers' compensation. However, if an employee incidentally contracts COVID-19 from an infected co-worker, there likely will not be workers' compensation liability.

In addition, the State of Washington recently directed its Department of Labor and Industries to ensure workers' compensation protections for health care workers and first responders. The directive instructs the Department to change its policies regarding coverage for these two groups and to "provide benefits to these workers during the time they're quarantined after being exposed to COVID-19 on the job." While Indiana, Ohio, Illinois, and Kentucky have not issued a similar directive to date, they and other states may follow suit in the upcoming days or weeks. In Minnesota, if an emergency responder contracts an infectious or communicable disease that they are exposed to in the course of employment outside of a hospital, the disease is presumed to be an occupational disease due to the nature of their employment.

Taft Stettinius & Hollister LLP – Sukrat Baber, Brian G. Dershaw, Justin D. Flamm, Heather A. Jackson, Connie M. Kremer, Samuel N. Louwagie, Melissa A. Macchia, Evan Priestle and Gregory J.

Stenmoe

March 19 2020

US Federal Banking Agencies Introduce Measures to Protect US Financial System Against COVID-19-Related Risks and Assist Consumers Affected by COVID-19.

The three US federal banking agencies have taken steps to enable the financial system to continue functioning during the pandemic.

During the course of this week, the three US federal banking agencies — the Board of Governors of the Federal Reserve System (Federal Reserve), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) — have taken a series of actions intended to enable the US financial system to continue functioning in the midst of COVID-19 and to encourage banks to meet the financial services needs of their customers who are affected by the pandemic.

These actions include the following measures:

- **Decreasing Interest Rates:** In recognition of the near-term disruption to economic activity and the risks to the economic outlook posed by COVID-19, the Federal Open Market Committee of the Federal Reserve lowered the target range for the federal funds rate to 0.0% – 0.25% on March 15, 2020.
- **Reduction in Reserve Requirements:** The reserve requirements for thousands of depository institutions will be eliminated when the Federal Reserve's reduction in the reserve requirement ratio to 0% becomes effective on March 26, 2020. This liquidity-promoting measure is intended to help support the flow of credit to households and businesses by enabling depository institutions to more readily engage in lending.
- **Availability of Intraday Credit:** To support the liquidity needs of households and businesses as well as the continued functioning of the payment systems, the Federal Reserve has encouraged the use by depository institutions of intraday credit extended by Reserve Banks on both a collateralized and uncollateralized basis.
- **Use of Federal Reserve Discount Window:** The discount window enables the Federal Reserve to provide depository institutions with ready access to funding to allow such institutions to manage their liquidity risks and protect their customers, particularly during times of market stress. To assist with meeting the demands for credit from households and businesses that are struggling during the current economic climate, the Federal Reserve has encouraged more active use of the discount window by depository institutions by lowering the primary credit rate to 0.25% as of March 16, 2020, and permitting borrowing from the discount window for up to 90 days, prepayable and renewable by the borrower on a daily basis. The Federal Reserve also announced that it would continue to accept the same broad range of collateral for discount window loans, including securities and loans that meet certain eligibility criteria. The FDIC and the OCC have also encouraged banks subject to their respective supervision to use the discount window.
- **Reliance on Capital and Liquidity Buffers:** The federal banking agencies have encouraged banks to provide assistance to households and businesses whose credit needs are being adversely impacted by COVID-19 by using their capital and liquidity buffers to lend and take other supportive actions in a manner that promotes the safety and soundness of the financial system. Any automatic limitations on capital distributions that may be triggered as a result of a bank falling below certain capital levels will be phased in gradually in order to promote continued lending by banks.

- **Establishment of Commercial Paper Funding Facility (CPFF):** The Federal Reserve is establishing the CPFF to alleviate the strain caused by the pandemic on the commercial paper market, which directly finances a variety of economic activities. The CPFF will be structured as a credit facility to a special purpose vehicle (SPV), and the SPV will support the flow of credit to households and businesses by serving as a liquidity backstop to facilitate the issuance of term commercial paper by eligible US issuers. As of March 17, 2020, the SPV will purchase unsecured and asset-backed commercial paper rated A1/P1 directly from eligible companies. The Federal Reserve Bank of New York (FRBNY) has committed to lend to the SPV on a recourse basis, and the Treasury Department's Exchange Stabilization Fund (ESF) will provide US$10 billion of credit protection to the FRBNY. The SPV will cease purchasing commercial paper on March 17, 2021, unless the Federal Reserve extends the CPFF.
- **Establishment of Primary Dealer Credit Facility (PDCF):** Beginning March 20, 2020, the PDCF will offer overnight and term funding with maturities up to 90 days for at least six months, subject to further extension if necessary. The PDCF will support the Federal Reserve's goal of supporting households and businesses affected by the pandemic by allowing primary dealers to promote smooth market functioning and facilitate the availability of credit. Credit extended to primary dealers under the PDCF may be collateralized by a broad range of investment grade debt securities, including commercial paper and municipal bonds, and a broad range of equity securities. The interest rate charged will be the primary credit rate, or discount rate, at the FRBNY.
- **Establishment of Money Market Mutual Fund Liquidity Facility (MMLF):** In recognition of the crucial role that money market funds serve as a common investment tool for families, businesses, and a variety of companies, the Federal Reserve has established the MMLF program to enhance the liquidity and functioning of the money markets. Through the establishment of a MMLF, the Federal Reserve Bank of Boston will make loans available to eligible financial institutions secured by high-quality assets purchased by such financial institution from money market mutual funds. The Treasury Department, through the ESF, will provide US$10 billion of credit protection to the Federal Reserve in connection with the MMLF. On March 19, 2020, the federal banking agencies released an interim final rule and request for comment to ensure the effective use of the MMLF by financial institutions. Among other things, the interim final rule accounts for the fact that financial institutions will not be taking any credit or market risk in association with MMFL activities by modifying the federal banking agencies' capital rules to enable such institutions to receive credit for the low risk of their MMLF activities. The interim final rule is currently effective, and the period to receive comments will close within 45 days following publication in the Federal Register.
- **US Dollar Liquidity Arrangements With Other Central Banks:** The Federal Reserve is establishing temporary US dollar liquidity arrangements (swap lines) with the central banks of Australia, Brazil, Denmark, Korea, Mexico, Norway, New Zealand, Singapore, and Sweden. As with swap lines already established between the Federal Reserve and other central banks, these new facilities are intended to ease the strains in global US dollar funding markets in order to mitigate the impact of such strains on credit supply to households and businesses, both within the US and abroad. Such arrangements will be in place for at least six months, and the new facilities will support the provision of US dollar liquidity in amounts that will vary depending on the particular central bank.
- **Community Reinvestment Act (CRA) Consideration:** The federal banking agencies released a joint statement on March 19, 2020, regarding CRA consideration for activities engaged in by financial institutions in response to COVID-19. Among other things, the joint statement clarifies that financial institutions will receive CRA consideration for community development activities in response to the COVID-19 national emergency, including those that (i) help to revitalize or stabilize low- or moderate-income geographies as well as distressed or underserved non-metropolitan middle-income geographies, and (ii) support community services targeted to low- or moderate-

income individuals. The statement will be effective through the six-month period after the national emergency declaration is lifted, unless extended by the federal banking agencies.

This article is made available by Latham & Watkins for educational purposes only as well as to give you general information and a general understanding of the law, not to provide specific legal advice. Your receipt of this communication alone creates no attorney client relationship between you and Latham & Watkins. Any content of this article should not be used as a substitute for competent legal advice from a licensed professional attorney in your jurisdiction.

Global Privacy and Security Compliance Law Blog

Latham & Watkins LLP – Alan W. Avery and Pia Naib

March 19 2020

COVID-19 Guidance for Institutions of Higher Education: Holland & Knight

Highlights

- The fast-changing developments of COVID-19 have left institutions of higher education scrambling to address a wide range of unexpected legal issues.
- This Holland & Knight alert addresses some of the questions more frequently asked by colleges and universities, which should exercise caution and continue to monitor official guidance from federal and state agencies.

The fluid and fast-changing impact of the new coronavirus (COVID-19) has left institutions of higher education (IHEs) scrambling to address unexpected legal issues. This guidance addresses some of their more frequently asked questions.

1. What Happens When IHEs or Their Vendors Cannot Perform Contracts Due to the Virus?

The coronavirus is certain to test jurisprudence pertaining to force majeure clauses, impossibility of performance, and, relatedly, so-called "acts of God." State law will govern these issues. Force majeure clauses are typical in commercial contracts. The ultimate resolution of their applicability will depend closely on the terms of the contract and the specific circumstances concerning performance. Such clauses usually identify "causes beyond the control" of the contracting party. Disputes about whether the clause applies in a given case will commonly focus on what is causing one party to fail to perform a contractual obligation. Those clauses that specifically reference epidemics or pandemics will have the greatest force.

Impossibility of performance or commercial impracticability can be defenses to contract performance. Under the impossibility of performance doctrine, a party is discharged from performing a contractual obligation when the obligation is impossible to perform due to unforeseeable circumstances. Mere inconvenience or increased cost does not ordinarily meet the standard. An "act of God" may be the reason for the impossibility of performance. "Acts of God" are also commonly listed in force majeure clauses. Each state addresses this issue slightly differently, but Acts of God have been described as acts or occurrences "so extraordinary and unprecedented that human foresight could not foresee or guard against" them and for which negligence or want of diligence, judgment or skill played no part. See *Fla. Power Corp. v. City of Tallahassee*, 154 Fla. 638, 646, 18 So. 2d 671 (1944); *Cain v. Atlantic Coast Line R. Co.*, 74 S.Ct. 89, 54 S.E. 244, 247 (1906).

2. May IHEs Inquire of Employees About COVID-19 Exposure? When May They Have a Duty to Inquire?

The General Duty Clause of the Occupational Safety and Health Act, 29 U.S.C. § 654(a)(1), and many corollary state statutes, require employers to furnish to each worker "employment and a place of employment, which are free from recognized hazards that are causing or are likely to cause death or serious physical harm." Accordingly, the Occupational and Safety Administration (OSHA) advises that employers implement policies that will result in the "prompt identification and isolation of potentially infectious individuals." OSHA requires employers to record COVID-19 illnesses among the workforce when the virus is contracted in the workplace. These records must be submitted to OSHA on Form 300A and maintained onsite.

An employer's failure to inquire of employees about exposure could give rise to legal claims. Workers' compensation claims are also possible for respiratory diseases to the extent an employee can establish causation from the workplace environment and that his or her occupation presents a particular hazard of the disease occurring so as to distinguish other occupations. Therefore, IHEs should consider excluding or sending home an employee who is symptomatic or returning from travel from high-risk locations specified by the Centers for Disease Control and Prevention (CDC).

During a pandemic, exceptions to the American with Disabilities Act's (ADA) restrictions on employer health inquiries allow employers to inquire about an employee's potential infection with the disease and travel from high risk locations. See the U.S. Equal Employment Opportunity Commission's (EEOC) Pandemic Preparedness in the Workplace and the Americans with Disabilities Act. The ADA's "direct threat" rule allows inquiries because an employee infected with COVID-19 will pose a direct health and safety threat to co-workers and others in the workplace. 29 C.F.R. § 1630.2(r). The bona fide occupational qualification defense may also be applicable on these facts. In contrast, an employee who is ill with something else such as the seasonal influenza does not have a disability under the ADA. State and municipal disability laws should also be consulted.

The CDC recommends that employers separate sick employees from other employees. Asking an employee who has been absent from work for a medical reason for the absence is not a violation of the ADA. Nor is requiring an employee to provide a doctor's note certifying fitness to return to work. The CDC also recommends that if an employee is confirmed to have COVID-19, employers should inform co-workers immediately so that they can seek appropriate medical screening or care. Employers should provide general information to employees if an employee is infected, but should not specifically disclose the identity of any infected employee, except, as discussed below, with persons who can prevent or lessen a serious and imminent threat to the health or safety of the public. See 45 C.F.R. § 164.510(a); cf. 45 C.F.R. § 164.508. The personal information disclosed should be the minimum necessary to accomplish the purpose.

Employers may ask employees if they believe they have come into contact with someone who has been exposed to the virus, but may not ask employees whether they have a medical condition that could make them especially vulnerable to the virus. Furthermore, due to the Genetic Information Nondiscrimination Act (GINA) and corollary state laws, employers are restricted from inquiring about family members or their recent potential exposure. 42 U.S.C. §199gg-91(d)(16)(A); 29 C.F.R. § 1635.3(c) (protected genetic information includes "[t]he manifestation of disease or disorder in family members of the individual (family medical history)"). An employee who is asked by the employer to self-quarantine for the COVID-19's incubation period (which is currently identified as 14 days) may be eligible for protected leave under the Family and Medical Leave Act (FMLA) and corresponding state laws. Any information gathered about an employee's health must be kept separate from his or her general employment file and treated as a confidential medical record.

3. May IHEs Inquire of Students About Coronavirus Exposure? When May They Have a Duty to Inquire?

Colleges and universities are commonly places of public accommodation with on-campus housing. The ADA provides that a public accommodation may exclude an individual if that individual poses a "direct threat" to the health or safety of others that cannot be mitigated by appropriate modifications in the public accommodation's policies or procedures, or by the provision of auxiliary aids. 28 C.F.R. § 36.208(a). In addition, according to the U.S. Department of Justice (DOJ), "The Fair Housing Act affords no protections to individuals with or without disabilities who present a direct threat to the persons or property of others." State and municipal public accommodation and housing discrimination laws should also be consulted.

The failure of an IHE to inquire of students about exposure could give rise to legal claims. State landlord and tenant laws commonly require landlords and tenants of residential properties to comply with the requirements of applicable health codes. Landlords are ordinarily responsible for the sanitary condition of common areas. Threats or dangers to public health may also constitute a public nuisance under applicable municipal laws. Were tenants in client facilities to become infected with COVID-19, the buildings or portions of buildings could be deemed unfit for human habitation until remediated.

The Federal Housing Administration's Office of Multifamily Housing (MFH) recommends that property owners and agents follow CDC guidelines and the direction of local health officials, especially in the event of property quarantine. Accordingly, IHEs may have a duty to inquire about the potential exposure of students to COVID-19 and to separate them from others. The information solicited should be the minimum necessary to accomplish the purpose. Any records created by personnel on behalf of the IHE are likely to be "education records" within the meaning of the Family Educational Rights and Privacy Act (FERPA). 20 U.S.C. § 1232g(a)(4)(A); 34 C.F.R. § 99.3 (definition of "education records). Records created and maintained by a healthcare worker not acting for the school would not qualify as education records.

4. Must Institutions Report a Threat of Exposure and, if So, What Should They Report?

The CDC recommends, and the U.S. Department of Education endorses, sharing accurate information with staff, students and faculty about steps the IHE is taking to prevent and limit exposure risks. In addition to the obligation as an employer to report confirmed-cases to OSHA, IHEs should also notify local health officials about potential virus exposure, as permitted by local law.

In emergencies, when necessary to prevent or lessen a serious and imminent threat to the health or safety of the public, healthcare providers may share protected health information (PHI) without prior written consent with persons in a position to prevent or lessen the threatened harm. See Joint Guidance on the application of FERPA and the Health Insurance Portability and Accountability Act (HIPAA); 45 C.F.R. § 164.512(j). According to the U.S. Department of Health and Human Services (HHS), examples include state and local health departments, the U.S. Food and Drug Administration, and CDC.

Similarly, FERPA provides that personally identifiable information (PII) from a student's education records, including student health records, may be disclosed by educational agencies and institutions to appropriate parties in connection with a health or safety emergency, without the consent of the parent or eligible student, if knowledge of the information is necessary to protect the health or safety of the student or other individuals. 20 U.S.C. § 1232g(b)(1)(I); 34 CFR §§ 99.31(a)(10) and 99.36. HHS has stated that an emergency includes the outbreak of an epidemic. 45 C.F.R. §§ 164.501 and 164.512(b)(1)(i).

A school that provides healthcare to students in the normal course of business, such as through its health clinic, may be a "health care provider" under specific HIPAA analysis. If a school that is a "health care provider" transmits any PHI electronically in connection with a transaction for which HHS has adopted a transaction standard, it typically would be a covered entity under HIPAA. However, many schools that meet the definition of a HIPAA-covered entity do not have to comply with all of the requirements of HIPAA rules as related to students because, with limited exceptions, the school's student health records are considered "education records" or "treatment records" under FERPA. See 45 CFR § 160.103 (definition of PHI ¶¶ (2)(i), (ii)). The HIPAA Privacy Rule specifically excludes from its coverage those records that are protected by FERPA by excluding such records from the definition of PHI. As relates to the records of nonstudents (such as staff) treated at a school healthcare clinic, those records would be regulated by HIPAA.Likewise, the records of hospitals associated with IHEs would be regulated by HIPAA.

HIPAA permits covered entities to disclose PHI, without a patient's authorization, to persons at risk of contracting or spreading a disease, 45 C.F.R. § 164.512(b)(1)(iv), and PHI about the patient as necessary to treat the patient or to treat a different patient.1 Treatment includes the coordination or management of healthcare and related services by one or more healthcare providers and others; consultation between providers; and the referral of patients for treatment. See 45 CFR §§ 164.501, 164.502(a)(1)(ii), 164.506(c).

With students and staff in dozens of countries across the world, institutions may face a request from a foreign government agency or institution for health information in order to combat COVID-19. For staff medical records, HIPAA allows disclosures to foreign government agencies, but only if a domestic public health authority directs the disclosure. 45 C.F.R. § 164.512(b)(1)(i). Requests from partner foreign institutions (for either staff or student records) cannot be satisfied, absent written authorization. For student records, FERPA allows for disclosure to foreign public agencies if "it is necessary to protect the health or safety of the student or other individuals."

5. When Institutions Cancel Classes, Educational Programs or Close Their Campuses, What Are Their Obligations Under Title IV?

Many IHEs are extending spring break or closing their campuses. The CDC reports, "When classes are suspended, IHE may stay open for staff or faculty (unless ill) while students temporarily stop attending in-person classes. Keeping the IHE facilities open a) allows faculty to develop and deliver lessons and materials electronically, thus maintaining continuity of teaching and learning; and b) allows other staff members to continue to provide series and help with additional response efforts."

On March 5, 2020, the U.S. Department of Education issued "broad approval" for IHEs to use online technologies to continue students' educations without violating Title IV or the Higher Education Act (HEA). The Department is also allowing IHE accreditors to waive their distance education requirements for institutions implementing distance learning solely due to COVID-19. For distance education, institutions may communicate with students via email, use chat features, set up conference calls, and allow for submission of work electronically. DOE has also authorized IHEs to enter into temporary consortium agreements with other institutions, so that students can complete courses. In addition, an IHE may continue to pay federal work-study wages to students during a closure if it occurred after the beginning of the term, the institution is continuing to pay its other employees and the institution continues to meet its institutional wage share requirement.

If an institution ceases operation during a payment period or a student fails to return when an institution reopens, the requirement for return of Title IV funds kicks in. But if an institution reopens during the same payment period and students return to class at that time, the students are considered to have reentered the same period and retain Title IV eligibility. Importantly, IHEs may

also petition DOE to approve a reduced academic year.

6. When Students Withdraw from Classes or Educational Programs, What Are the Consequences Under Title IV?

The U.S. Department of Education is permitting students to take an approved leave of absence for COVID-19-related concerns or limitations, even if a student notifies the institution in writing after an approved leave of absence has begun. In such an event, the institution may retain the Title IV funds to apply when the student continues enrollment and must ensure that the student is permitted to complete the coursework. IHEs are invested with professional discretion to adjust on a case-by-case basis the cost of attendance. IHEs may offer non-standard term schedules to students who have been recalled from travel abroad programs or canceled out of experiential learning opportunities after the semester began.

7. May Quarantines Be Enforced Against Employees and Students?

COVID-19 meets the definition for "severe acute respiratory syndromes" as set forth in Executive Order 13295, as amended by Executive Orders 13375 and 13674, and, thus, is a federally "quarantinable communicable disease."2 Apart from a public order, private employers may require employees to self-quarantine if they pose a "direct threat" or "a significant risk of substantial harm to the health or safety of the individual or others that cannot be eliminated or reduced by reasonable accommodation."3 The assessment by the CDC or public health authorities would provide the objective evidence needed for this determination. If the condition is met, the individual is not protected by the ADA in this context.

OSHA advises employers to "develop policies and procedures for immediately isolating people who have signs and/or symptoms of COVID-19, and train workers to implement them." OSHA recommends isolating people "suspected of having COVID-19 separately from those with confirmed cases of the virus to prevent further transmission."

Holland & Knight LLP – Nathan A. Adams IV, Paul G. Lannon, Miriam McKendall and Matthew W Sloane

March 18 2020

S&P: U.S. State Unemployment Insurance Claims Are Not An Immediate Challenge To State Liquidity

NEW YORK (S&P Global Ratings) March 23, 2020–While the economic fallout from potentially massive unemployment levels will be a credit challenge for U.S. states, S&P Global Ratings does not believe that near-term state liquidity pressure will stem directly from payments on unemployment insurance claims that have recently spiked because of the coronavirus pandemic.

This is because the program structure allows states to receive federal loans, if necessary, to cover state unemployment insurance trust fund deficiencies, if any, under current law. These federal loans must eventually be paid back to the federal government, however, through higher taxes on businesses or through other means.

During the Great Recession, some of these federal loans became quite substantial (see "Unemployment Insurance Fund Bonds Help States Pay Off Federal Unemployment Loans,"

published Sept. 6, 2012, on RatingsDirect) and in some cases prompted states to issue bonds carrying lower interest rates to pay off higher-interest federal unemployment insurance loans. In the first quarter of 2012, loans from the federal unemployment account reached $40.7 billion. In 2011, California's unemployment loan from the federal government peaked at $11.0 billion alone. As of Dec. 31, 2019, federal unemployment account loans were only $63.3 million, attributable entirely to the Virgin Islands, and aggregate state unemployment trust fund balances were $75.7 billion. While the federal government has indicated that certain states have below-optimal levels of state trust fund balances (such as California at $3.3 billion as of Jan. 1, 2020), we believe the ability to tap into federal loans relieves short-term unemployment trust fund liquidity pressures for any particular state.

If states meet certain technical requirements and maintain a certain threshold of unemployment insurance tax rates on businesses over time, they can initially receive these federal unemployment trust fund loans interest-free. Qualifying states receive interest-free federal unemployment loans if a state takes a federal advance after Jan. 1, and repays it by Sept. 30, of the same year. After that, interest charges are imposed and if the state continues to fail to repay the loan by Nov. 10, of the year in which a second Jan. 1, has passed, then all taxable employers in a state will be subject to a reduced credit of 0.3% on the Federal Unemployment Tax Act tax, for which the credit reduction grows in subsequent years depending on state tax rates and changes in state law. For 2020, 31 states meet the eligibility criteria for interest-free borrowing.

The Louisiana Workforce Commission announced on March 19 that employers within the state will get a temporary deferral from paying their first-quarter 2020 unemployment taxes to June 30. If similar deferrals spread to other states, it could cause the amount of federal unemployment loans to rise higher than what they might be otherwise, but again would be unlikely to cause near-term state liquidity issues. These funds would still need to be repaid to the federal government from later business taxes, but potentially at a higher tax rate.

S&P Global Ratings will continue to monitor unemployment insurance trust funds and the extent to which higher taxes that are imposed on businesses to replenish these funds could reduce economic competitiveness, or cause a state to issue tax-backed debt to repay federal loans. However, we believe the short-term credit effects are limited.

This report does not constitute a rating action.

S&P Global Ratings, part of S&P Global Inc. (NYSE: SPGI), is the world's leading provider of independent credit risk research. We publish more than a million credit ratings on debt issued by sovereign, municipal, corporate and financial sector entities. With over 1,400 credit analysts in 26 countries, and more than 150 years' experience of assessing credit risk, we offer a unique combination of global coverage and local insight. Our research and opinions about relative credit risk provide market participants with information that helps to support the growth of transparent, liquid debt markets worldwide.

S&P: Updated Scores For U.S. Metropolitan Statistical Areas Based On Various Criteria For 2019

S&P Global Ratings has updated its scores for U.S. metropolitan statistical areas (MSAs) based on its local government GO criteria, priority-lien criteria, water/sewer criteria, and special assessment debt criteria (see "U.S. Local Governments General Obligation Ratings: Methodology And

Assumptions" (published Sept. 12, 2013, on RatingsDirect), its "Priority-Lien Tax Revenue Debt" (published Oct. 22, 2018), "U.S. Public Finance Waterworks, Sanitary Sewer, And Drainage Utility Systems: Rating Methodology And Assumptions" (published Jan. 19, 2016), and "Special Assessment Debt Criteria" (published April 2, 2018).

Overall, 31 of the 384 MSA scores changed with 18 improving and 13 weakening. Additionally, one MSA was added: Poughkeepsie-Newburgh-Middletown, N.Y. This number of changes is lower than it has been during the past three years. The changes are due almost entirely to the employment growth aspect of the MSA score, which represents a comparison of each MSA's percentage change in employment over the past five years against the sum for all MSAs. The change in employment is measured through 2019, and does not take into account recent or projected economic changes in 2020 accompanying the COVID-19 pandemic.

Other factors influencing the changes include:

Continue reading.

Cities Reel From Hammer Blows of Sports, Events Going Dark.

- **Cutting big-ticket events ripples through local economies**
- **Spokane's arenas to lose $1.5 million from loss of tournaments**

March was looking like a great month for Spokane: The eastern Washington city was going to host games in the NCAA's March Madness basketball tournament as well as the Pacific Northwest Qualifier, which brings thousands of volleyball players and their families.

But both have been canceled because of the coronavirus pandemic, at a cost of more than $1.5 million in revenue for the Spokane Public Facilities District, which runs the venues for the events.

"This is a major hit to our economy," said Stephanie Curran, chief executive officer of the facilities district.

City and state official across the U.S. are confronting the sweeping economic toll wrought by the virus that has emptied stadiums, arenas, hotels, restaurants and other businesses that just a few weeks ago were bustling.

Concerts and tours have been canceled along with New York's Broadway theaters. Major League Baseball, the National Basketball Association and the National Hockey League last week suspended operations and the NCAA canceled all spring championship events.

Sports and Taxes

Major sporting events can provide large infusions of tax revenue for host cities. The city of Omaha, Nebraska, has seen its three biggest events of the year — the NCAA basketball tournament, College World Series baseball tournament and Berkshire Hathaway's annual meeting — canceled within the past week.

Those events have a combined economic impact of roughly $100 million for the city, an estimated $5 million to $10 million of which is city tax revenue, said Stephen Curtiss, the city's finance director.

"It's not the ideal scenario for us as a city," he said. Event-related tax revenues account for 1%-1.5%

of the city's general fund, a loss he said would pale in comparison to the hotels, restaurants and other businesses that have closed or limited operations after federal officials urged people to avoid gatherings of 10 or more people.

Some $9 billion in tax-free municipal bonds to have been issued to finance sports stadiums and arenas that could remain empty for months due to the virus, nearly half in New York and Florida, according to Bloomberg Intelligence.

Florida's Miami-Dade County, for example, services the debt that financed the Miami Marlins' baseball stadium in part with hotel taxes, and the area is seeing a 9% decline in bookings, said Eric Kazatsky, senior municipals strategist at Bloomberg Intelligence. If that revenue stream dries up, the county would need to tap other revenue streams to service that stadium debt.

"When you hit an unexpected rough patch in the economy, you could find yourself in a situation where the municipality is on the hook," he said.

In New York City, budget officials estimate some $3.2 billion in tax revenue will be lost over the next six months as the virus hollows out entertainment, tourism, hotel and other key sectors of its economy. Hotels are projected to be at 20% occupancy through June while restaurant sales are forecast to be down by 80%. Some $1.4 billion in spending cuts are needed to preserve services vital to the city's most vulnerable, according to the city comptroller's office.

Social distancing measures will push thousands of small businesses in Maryland into bankruptcy without additional cash from the state or federal government to get them through the near-term shutdown of normal life caused by the virus, said Peter Franchot, Maryland's comptroller.

The economic turmoil will eventually become a threat to the state's tax revenues. Franchot said an accurate estimate isn't possible until the scope of the outbreak is better understood, but his staff has told him state tax revenues could be reduced by 15% to 20%. Such a dramatic decline could push state officials to make emergency spending cuts, which is what unfolded in the wake of the 2009 financial crisis, he said.

"I hope it doesn't happen, but it could based on a lengthy self-quarantine lockdown of the state's economy," Franchot said.

Big-ticket events have vast effects on the the regional economies of the cities that host them, said Anirban Basu, an economist and chief executive officer at Sage Policy Group Inc. in Baltimore.

"The supply chain around these events is extraordinarily extensive and it's difficult to know when these supply chains actually end because they're so extensive," he said.

Cities that are heavily dependent on hotel rooms, ticket taxes, casinos and other event-based sources stand to see the greatest pressure in the near term, which could lead to service reductions as officials adjust to maintain balanced budgets.

"All of that revenue is about to tumble, so to try to cobble together savings, you're going to see services curtailed," Basu said.

Spokane has also canceled its St. Patrick's Day parade, a middle school basketball tournament that regularly fills the Spokane Convention Center and the girls' volleyball tournament that spreads over two weekends and is the area's highest grossing event, Brian Coddington, communications director for the city of 200,000.

The city is trying to assess the impact on local revenue, adjusting hiring plans and trying to figure out options.

“The information is coming quickly and there are a lot of variables we don’t know, like how long the impact might last,” Coddington said.

To soften the blow, Mayor Nadine Woodward, who took office Jan. 1, and other Spokane Valley officials are promoting an #OrderUpSpokane program to encourage people to buy takeout or pickup from local restaurants.

“All the businesses are really responding and trying to do the best they can to adjust to this,” Coddington said. “We’re asking people to be really creative about how they are making adjustments in their daily lives.”

No Choices

In normal times, there’s little financial loss to a community from the cancellation of an event, said Andrew Zimbalist, an economics professor at Smith College in Northampton, Massachusetts. For people who live near a stadium or an arena, it’s often a choice between paying for the night out at the event or spending the money at a local restaurant or different location.

“Now they just can’t go to the local theater or the local concert because those places are shut down too,” Zimbalist said. “There’s less money the households are spending in the local economy. If you don’t spend money at the ball park, there’s no place to spend it.”

Greensboro, North Carolina, hotel entrepreneur Dennis Quaintance said the abrupt nature of the cancellations added to the sting for his companies.

First the Atlantic Coast Conference basketball tournament was called off, and then the NCAA March Madness games.

“We went from about 100% occupancy to about 10% in one day,” Quaintance, chief executive officer of the employee-owned Quaintance-Weaver Restaurants & Hotels, said in an interview.

“If none of that had been on the books, we would have had different business that didn’t go away,” he said.

Bloomberg Markets

By Ryan Beene, Todd Shields, and Susan Decker

March 18, 2020, 8:23 AM PDT Updated on March 18, 2020, 9:22 AM PDT

— With assistance by Danielle Moran

Fitch Rtgs: Oil Price Plunge to Pressure US Energy States & Locals

Fitch Ratings-Austin/San Francisco/New York-17 March 2020: The sharp decline in oil and natural gas prices will reduce economic output and revenues in US states, cities, counties, and single-purpose districts with significant energy sector exposure, says Fitch Ratings. Governments’ vulnerabilities to these fiscal pressures will be compounded by the broader economic pressures

caused by the coronavirus outbreak and related containment efforts, although the situation remains uncertain and is evolving rapidly.

The current price decline may represent a longer-term shift in the demand and supply landscape, causing these states and local governments to adjust to a longer period of negative or reduced growth in the building blocks of their revenue bases. This could lead to a change in Fitch's assessment of the underlying economic fundamentals of these credits and in some cases, a reassessment of these ratings.

States that have increased their financial resilience since the 2014-2016 natural resources downturn are expected to weather the current tumult with a limited rating impact, although those outcomes are predicated on the continuation of sound fiscal policies, which include provisions for an extended period of market weakness. Energy states whose revenue systems are less reliant on natural resources development, feature more diverse economies, or have accumulated significant reserves, such as Colorado and Texas, are also expected to maintain greater financial stability.

A sustained drop in oil prices could negatively affect the ratings of a handful of local government issuers with a high degree of economic and taxpayer concentration in the energy sector. However, most local governments in oil producing regions appear well prepared for a transitory period of stress and have withstood temporary prior price declines of up to one to two years with minimal ratings migration.

The effects to the energy sector will be a function of the duration of depressed oil prices and a government's level of economic diversity, structure of its revenue framework, spending flexibility and current level of reserves. The nature of a local government's participation in the industry and location in their state will also determine how vulnerable it may be to declining prices. Communities with 'downstream' energy facilities such as petrochemical manufacturing may benefit from lower energy prices.

Generally, Fitch believes US energy states and most local governments have sufficient fiscal tools to address near-term economic and financial stress linked to energy price drops. However, strained energy markets coupled with the coronavirus pandemic creates significant uncertainty as to the extent to which policy actions can address a longer-term shift in the demand/supply equation, requiring state and local officials to make greater and more fundamental budgetary adjustments than they have in past energy industry downturns.

Following the 2014-2016 natural resources downturn, when the price of West Texas Intermediate dropped to a low of $36.82 per barrel (bbl) from more than $100.00/bbl, sharp declines in financial resilience or weak budgetary responses resulted in rating downgrades for the states of Alaska, Louisiana, Oklahoma and West Virginia. These states have rebuilt their financial resilience since the downturn and are now rated 'AA-', 'AA-', 'AA' and 'AA', respectively, all with Stable Rating Outlooks, although Alaska's multiple downgrades from 'AAA' reflected its inability to advance financial policies that ensure stable financial performance.

Texas' rating of 'AAA' remained intact through this period of stress due to its greater economic and revenue diversity and sizable reserves. Montana also sustained its 'AA+' rating due to increased economic diversification and conservative fiscal policies. As oil and natural gas development has expanded in the US over the past several years, current oil and natural gas price turmoil may cause economic harm to a broadened group of US states.

As it did during the 2014-2016 period, Fitch is monitoring 15-20 local governments with energy concentration in Texas, California and Alaska that are at elevated risk for negative rating action.

Issuers consist primarily of smaller communities in production areas but also include industry headquarter cities. Fitch ultimately took no negative rating actions on at-risk issuers during the last energy downturn as prices recovered, alleviating much of the economic concern. In the current environment, we expect the combination of reduced exploration activity and coronavirus economic pressures will be felt most acutely in the smaller, more concentrated oil-based economies, while larger cities may experience less severe effects, given the size and diversity of their regional economies.

Contacts:
Steve Murray
Senior Director, US Public Finance
+1 512 215-3729
Fitch Ratings, Inc.
111 Congress Ave., Suite 2010
Austin, TX 78701

Marcy Block
Senior Director, US Public Finance
+1 212 908-0239
Fitch Ratings, Inc.
Hearst Tower
300 W. 57th Street
New York, NY 10019

Andrew Ward
Director, US Public Finance
+1 415 732-5617
Fitch Ratings, Inc.
One Post Street, Suite 900
San Francisco, CA 94104

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

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

---

Fitch Rtgs: Coronavirus Fallout to Lower Public Power Demand, Affordability

Fitch Ratings-New York/Austin-20 March 2020: US public power systems are expected to face limited immediate credit pressures related to the spread of the coronavirus, but an economic slowdown will weigh on longer-term performance, says Fitch Ratings. Significantly lower electric demand poses the most significant near-term risk for public power systems. While Fitch expects most systems to support revenue requirements and operating margins by raising retail rates, declining levels of employment and household income could strain affordability metrics over time and undermine rate-setting strategies, weakening credit quality.

Systems serving territories that rely heavily on travel and tourism, along with those subject to large

shutdowns, are most likely to face immediate pressures as these regional economies suffer and electric demand falls precipitously. The effect of a sudden drop in energy sales on these issuers and their responses are expected to vary and will likely depend on the length of time demand is suppressed. Systems that rely heavily on purchased power, or those where fuel is a major expense, may be able to offset the effect of lower sales through lower purchases; whereas systems with higher fixed costs will experience the highest declines in margins and require the most pronounced increases in rates to preserve financial performance. Where economic weakness throughout the servicer territory limits an issuer's ability or willingness to increase rates, negative rating action may be warranted.

The effect on electric demand and prospective rate increases at other public power systems is expected to be more muted. Commercial and industrial sales will likely decline along with economic output but residential sales could rise reflecting increased isolation and changes in working habits. Fitch considers the effect of stressed demand on an issuer in its rating methodology and as part of each review. At this time, we expect that the resulting stress from the coronavirus will be in line with our applied stress for most issuers.

Declines in major operating expenses and more resilient rate structures could also lower revenue requirements, further limiting upward pressure on rates in the near term. Prices related to natural gas supplies have already reached levels consistent with Fitch's stress case and interest rates continue to test historical lows. Recent trends toward a higher component of fixed charges in retail rates should also lessen the effect of lower energy sales on revenue collection. Robust cash balances maintained by most issuers should further buffer the impact of any near-term disruption in cash flow.

Over the longer term, performance and credit quality could be negatively affected by sustained lower demand and pressures on household income, residential electric affordability and future rate setting. Improved affordability has helped to preserve demand and support rate-setting initiatives in recent years, bolstering financial performance. Residential electric costs consumed an estimated 2.2% of median household income (MHI) in 2019, well below the level of 2.8% in 2010.

Over the same period, financial performance throughout the sector has improved. Medians for Fitch-calculated coverage of full obligations and net adjusted debt/adjusted funds available for debt service (FADS) improved to 1.44x and 6.00x from 1.27x and 7.30x, respectively. To the extent lower MHI and weaker affordability result in more restrained rate-setting and demand declines, FADS will fall. This could weaken credit metrics and trigger rating actions for issuers on the cusp of a lower rating category.

Contacts:

Dennis Pidherny
Senior Director, US Public Power
+1 212 908-0738
Fitch Ratings, Inc.
Hearst Tower
300 W. 57th Street
New York, NY 10019

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

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

---

Fitch Rtgs: Federal Coronavirus Aid Key Short-Term Boost to US States

Fitch Ratings-New York-19 March 2020: The federal government is funneling billions of dollars to US states to offset the growing implications of the coronavirus but the scope of states' fiscal pressures and the ultimate effect on ratings is uncertain, says Fitch Ratings. Since early March, the federal government has provided nearly $1 billion in direct public health aid for US states and local governments, opened up access to the $40 billion federal Disaster Relief Fund (DRF) and enacted legislation providing billions more to states through a 6.2 percentage point (pp) increase in the Medicaid matching rate. For context, the US Census Bureau estimates states collected $257 billion in tax revenue in first-quarter 2019.

Lower-rated states, such as Illinois rated 'BBB', New Jersey rated 'A' and Connecticut rated 'A+', are more vulnerable to the adverse economic conditions posed by the coronavirus pandemic. This is due to lower levels of financial resilience than other states, which Fitch rates in the 'AA' or 'AAA' categories, indicating exceptionally strong or a very strong capacity for payment of financial commitments. A sustained period of disrupted economic activity would test all states' resilience and pressure ratings. Shutdowns in many parts of the country signal an unprecedented decline in economic activity for an unknown period and the full scope of necessary public health spending remains unclear. Fitch is reaching out to all rated states to assess their initial responses and any near-term credit pressure points.

The three federal aid measures will provide an important boost to state budgets, particularly for lower-rated states, although revenue losses and crisis spending may quickly escalate and remain high for some period. On March 6, Congress and President Trump enacted the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020 (H.R. 6074) allocating $8.3 billion for domestic ($6.7 billion) and international ($1.6 billion) relief efforts. The bill included $950 million in aid to state and local health departments, including tribal entities, with half to be distributed within 30 days and the remainder available through Sept. 30, 2022. This aid flows through the Centers for Disease Control and appears likely to be distributed based on states' need.

On March 13, following requests from members of Congress and Washington's governor, the president declared a Stafford Act national emergency. The declaration authorizes use of the DRF to reimburse states and locals at a 75% rate for related spending. On Feb. 29, the Federal Emergency Management Agency reported the DRF balance at $42.643 billion.

On March 18, Congress and the president enacted a second bill, the Families First Coronavirus Response Act (H.R. 6201) that includes potentially the most significant fiscal aid for states, including the territories and the District of Columbia, a 6.2pp increase in the Federal Medical Assistance Percentage (FMAP) for Medicaid for every quarter of the national emergency. FMAP is the rate at which the federal government reimburses states for Medicaid spending.

Medicaid is one of the largest line items in state budgets with the Medicaid and Children's Health Insurance Program (CHIP) Payment Access Commission reporting states spent $230 billion in federal fiscal year 2018, while the federal government contributed nearly $400 billion. The Center on Budget and Policy Priorities estimates the H.R. 6201 increase could provide $35.7 billion in federal aid over a full year, or roughly $9 billion each quarter.

In prior downturns, FMAP increases played important roles in supporting state budgets and credit quality. The 2009 federal stimulus bill increased FMAP by 6.2pp for all states, with provisions for additional increases based on states' unemployment rates leading to FMAP rate increases of at least 9pp and as high as 15.56pp. In total, the Kaiser Family Foundation (KFF) estimated the 2009 FMAP increase provided $103 billion to states. In 2003, Congress increased the FMAP rate 2.95pp providing $10 billion in aid to offset the 2001 recession according to KFF. The ultimate value of the H.R. 6201 FMAP rate increase will depend on states' Medicaid spending, which could be notably higher than in prior downturns given the public health nature of the pandemic.

Contacts:

Eric Kim
Senior Director, US Public Finance
+1 212 908-0241
Hearst Tower
Fitch Ratings, Inc.
300 W. 57th Street
New York, NY 10019

Michael Rinaldi
Senior Director, US Public Finance
+1 212 908-0833

Arlene Bohner
Senior Director, US Public Finance
+1 212 908-0554

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

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

---

Fitch Ratings: Reviewing Infrastructure Issuers for Coronavirus Vulnerability.

Fitch Ratings-New York-18 March 2020: The coronavirus pandemic represents a significant challenge to the global economy, and therefore, to the performance of transactions in the infrastructure and project finance space, according to Fitch Ratings. The wide range of transactions, from enterprise to project structures, single-assets to multi-asset, demand-based to contracted, and single jurisdiction to multi-jurisdiction provide for a wide variety of potential impacts. Given the fast-moving nature of events, this release outlines our approach to reviewing the infrastructure and project finance ratings monitored by Fitch in the context of this crisis. This may evolve over time as the situation changes. However, providing insight into Fitch's approach to this crisis at this stage will provide visibility into our process and thinking in a volatile environment. It is Fitch's view that demand-based transactions will be most affected at the outset with contracted transactions feeling the knock-on effects as the crisis evolves.

Fitch has categorized our ratings into higher and lower risk sub-sectors and is currently grouping credits within those sub-sectors based on their flexibility to absorb this stress at their current rating

level. This review will take 10 days to two weeks but Fitch will prioritize sectors with a higher magnitude of potential rating impact for action during that period. Where rating actions are not warranted Fitch will provide commentary with credit-specific views. Lower risk sub-sectors will be reviewed according to our normal annual surveillance procedures.

The impacts of the coronavirus pandemic, while still evolving, create risks that are far beyond what has been experienced in the infrastructure and project finance sectors in many decades. While the Global Financial Crisis (GFC) provides a benchmark and demonstrated the stability of core infrastructure assets (enterprises and projects), the rapid shutdown of major global economies that is being experienced now creates the potential for the near-term economic impact to be materially worse, and creates uncertainty on the future collateral effects on contractual arrangements and the nature of the recovery.

The following are considerations tied to Fitch's Key Rating Drivers for infrastructure and project finance ratings:

DEMAND-BASED ASSETS MOST VULNERABLE: Demand-based assets, particularly those in the transportation space, have been and are expected to continue being most significantly impacted, with airports exposed to declines that appear worse than those experienced after the 9/11 terrorist attacks, and ports seeing declines comparable to or exceeding drops seen through the GFC. The knock-on underlying economic impacts, potential reticence for travelers to return to the skies or to cruise vessels as quickly as in the past, changes in the supply chain for goods, and counterparty exposure related to airlines and shipping companies all put into question the pace of the recovery. Toll roads are affected with commuter volumes significantly declining. Though these assets are exposed to broader economic weakness and the nature of the recovery, they are also more likely to have volumes return faster as life returns to some normalcy. Managed lanes, which are more prevalent in the U.S., are especially vulnerable to acute traffic declines as they are congestion relievers. However, most benefit from debt deferability provisions under the U.S. government's TIFIA loan program that mitigate short-term demand volatility.

CONTRACTED ASSETS HAVE COUNTERPARTY RISKS: Contracted assets, particularly those in the energy space, are primarily exposed to the credit quality of their counterparties. The relative historical stability of utility counterparties (power and water) provides some comfort, though modest rating downgrades in those sectors would relate to transactions that are currently directly capped by a major counterparty. The increased prevalence of commercial and industrial (non-utility like) counterparties in energy transactions creates some risk of added volatility in counterparty credit quality.

MERCHANT RISK ELEVATED: Fitch rates one purely merchant power asset and a number of contracted transactions with merchant tails. Volatility in commodity prices and uncertain demand in the energy and power markets are expected to put pressure on current power prices and longer-term price growth. These transactions are structured with higher financial margins in the merchant period as a mitigant to contract rollover risk, so revised rating case margins could now be tighter. These impacts will vary by market.

SPORTS EXPOSURE MIXED: The sports sector has a combination of contracted revenues and demand-based revenues. The league financings are secured by media contracts so are exposed to any material weakening in credit quality in the major media players. The team, stadium and arena financings have some of the benefit of media revenues but are more exposed to variable revenues tied to demand, such as tickets, sponsorships and advertising. The presence of annual and multi-year contracts in the case of stadium and arena financings, the historical practice of not providing refunds but instead providing credits against future contracts and ticket purchases to smooth cash-

flow, and a fully-funded debt service reserve fund of at least six months provide protection.

CONSTRUCTION DELAYS LIKELY: Projects in construction may have logistical impacts from labor and materials shortages and unpredictable interface issues that cause delays and cost increases.

OPERATING UNDERPERFORMANCE LIKELY: While operations would typically not be a systemic concern for our infrastructure and project finance ratings, coronavirus may cause the performance of assets to be affected if operations are impacted by labor and material shortages, although this should only be a short-term concern. Delays in scheduled maintenance activities should also not be a material concern in most situations, provided the delays are not protracted.

FORCE MAJEURE DECLARATIONS LIKELY: The coronavirus pandemic and governmental actions taken to contain it will trigger force majeure provisions in certain contracts. Where force majeure contractual defenses are unavailable, legal doctrines such as impossibility, impracticability and frustration will also come into play. Disputes around excuses for nonperformance inevitably will be hotly contested and rife. Fitch will consider specific language in material agreements that may cause performance impacts or delays to be uncompensated from revenue, operating or construction counterparties as well as the elevated potential for disputes creating a higher level of credit risk.

BUSINESS INTERRUPTION CLAIMS UNCERTAIN: Many infrastructure enterprises and projects have business interruption insurance. However, policy language and exclusions vary. A case-by-case analysis is required to determine whether revenue loss resulting from the coronavirus pandemic will be covered. This heightens the importance of management's discretionary internal liquidity policies and structured liquidity in infrastructure transactions.

REFINANCE RISK ELEVATED: Transactions with bullet debt that have maturities in the next three to six months, particularly those with large bullets and weaker credit profiles, will be more exposed to sharp spikes in credit spreads. In the infrastructure space, these tend to be large enterprises with diversified operations but if they are already facing operational challenges this crisis could exacerbate the impact. Project financings with bullet debt are typically limited to those with long-tenured concessions or very long useful lives, so they retain some ability to roll over debt with short-term instruments pending a more favorable long-term financing environment.

Infrastructure assets also have key risk mitigants that warrant consideration:

GOVERNMENT INTERVENTION LIKELY – The powers and actions of government (national, state and local, coordinated multi-sovereign), particularly as they relate to transportation infrastructure enterprises and projects, have the potential to have both adverse and positive impacts. These include the administrative actions and regulations that have already restricted economic and social activity. However, transportation infrastructure is the backbone of every economy, so governments are heavily incentivized to provide financial and other support to stabilize the economy and vulnerable industries (such as the airlines) to facilitate an orderly recovery. Where government policies are known or highly likely Fitch will consider the impact in its analysis.

ENTERPRISES MORE PROTECTED: Most infrastructure enterprises have a diverse number of assets and, in some cases, are located in various jurisdictions, have assets with quasi-monopolistic characteristics and long useful lives, both restricted and unrestricted liquidity, balance sheet flexibility as growth capex plans can be modified, and management discretion on the distribution or application of surpluses that provide material resilience to navigate the events of the next three to six months.

PROJECTS HAVE STRUCTURAL PROTECTIONS: Most project structures, while being single asset in

most cases, have strong capital structures that restrict how revenues are applied, including requiring equity distribution tests that protect lenders by tying up cash due to underperformance before dividends can be transferred to sponsors. Most projects also have fully cash-funded debt service reserve funds. Those with six month reserves are more vulnerable to a prolonged event and a slow recovery.

Fitch's rating committees will focus for each transaction on the potential magnitude and impact of the downturn and the ability to recover, while maintaining critical levels of liquidity for the current rating level. Fitch will continue to target a 'through-the-cycle' view with a focus on the extent that operating cash flow can service debt at the existing rating level, the ability to maintain existing levels of liquidity, the ability to recover to a financial profile consistent with the current rating level by 2022, and, to the extent liquidity is tapped, the time it takes to replenish critical reserves. Fitch recognizes that near-term metrics could breach indicative rating thresholds in 2020 and 2021. The focus will be less on any one metric and more on the ability to withstand this crisis and revert within two to three years to a more stable credit profile that is consistent with the current rating.

It bears repeating that while a number of the precepts listed above vis-a-vis infrastructure assets are conventional thinking, the scenario that might play out here could be much worse than anything previously contemplated – in particular, the rapid pace of decline. As a result, tenets of the past that infrastructure is stable and will only be mildly impacted – which was true even in the GFC – may be tested. Only time will tell, so the scenarios that Fitch considers, including its Rating Case, may well imply a higher percentage of rating actions than have been seen before.

Certain transactions where the risks are very apparent will warrant quick action by Fitch, with limited discussion with issuers. In other instances, there will be more flexibility for discussions with issuers and their expert advisors who are also critical to Fitch's analytical process. Fitch is mindful that, besides the credit impacts of this crisis, issuers have other pressing challenges to confront, including dealing with employee, customer and public life and safety. Our analysts will work with issuers whenever possible to ensure they have timely notification, so they are available to review and discuss our decisions and commentary. However, it is also important to note that Fitch has obligations to investors that warrant timely communication of our decisions, i.e. by the next day, so we ask for issuer's understanding and accommodation of our process.

Fitch will maintain an ongoing dialogue with issuers, as we monitor the evolution of this crisis and provide periodic credit commentary to investors.

Contact:

Cherian George
Global Head
Infrastructure and Project Finance
+1-212-908-0519 (office)
+1-917-593-0644 (mobile)
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

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

Additional information is available on www.fitchratings.com

Congress Passes Second Coronavirus Response; State and Local Priorities in the Mix for Next Stimulus Package.

On March 5, Congress quickly cleared the first legislative response to coronavirus in the form of $8.3B in emergency supplemental spending. The funding in the supplemental was more federally focused and geared towards ramping up resources at the agencies (i.e. Center for Disease Control and Prevention (CDC)) serving as the first lines of defense against the pandemic. During the past week, the House passed HR 6201 (Families First Coronavirus Response Act) to provide broader relief to those impacted by the virus.

Among the provisions included in the measure are: two weeks of emergency paid leave for sick and quarantined workers, tax credits for employers to provide up to three months of paid time off due to extended absences from work due to the virus, $1B in grant funding to help states manage and expand unemployment insurance programs during the crisis, funds to provide free coronavirus testing; and funding for enhanced food security initiatives like student meals, seniors' nutrition and food banks, Supplemental Nutrition Assistance Program (SNAP) and additional funding for Medicaid.

While the measure was initially adopted by the House early March 14, a subsequent bill containing "technical corrections" was adopted on March 16. Of note to GFOA members, a prohibition was included to prevent state and local governments from benefiting from the credits available to some private employers to offset the costs of the new mandates requiring expanded sick leave and family medical leave. GFOA, along with other organizations representing state and local governments, sent a letter to leaders to request the provision be removed.

The provision was retained and the Senate approved the bill on March 18. Congressional leaders and White House officials have already started negotiating another measure to further address the economic impact of the virus.

As the next stimulus response is debated, GFOA urges members to reach out to their congressional delegation through their LOCAL offices – as Capitol Hill phone lines are very busy to:

- Remind them that state and local employers must pay payroll taxes under 26 USC 3111, and must now meet new sick leave and family medical leave requirements, and
- Urge them to treat state and local employers (including those exempt from 26 USC 3111) on par with private employers by allowing them to qualify for the payroll credits for the new requirements for paid sick leave and paid family leave.

Further, as the next stimulus response is expected to focus on efforts to counter the current economic downturn, it could potentially include GFOA priorities like reinstating advance refunding and increasing the bank qualified limit. Click here for resources on GFOA's priorities for finance tools to help spur infrastructure investment. To review a recent Public Finance Network (PFN) letter on the stimulus efforts in Congress, click here.

For this next stimulus measure, GFOA urges members to reach out to their congressional delegation and ask them to include language to:

- *Restore advance refunding of tax-exempt bonds* (HR 2772) so states and local governments and other qualifying entities can free up billions of dollars they can reallocate and spend on other

projects which in turn, strengthens local infrastructure networks, and
- *Increase access to capital for small borrowers* (HR 3967) by increasing the bank qualified borrowing limit from $10 million to $30 million, and having it apply at the borrower level so the small issuers (both governmental and nonprofit) who may be hardest hit during the downturn can access capital for immediate project needs.

GFOA will continue to monitor and report on the legislative developments as they occur. Click here for GFOA's Resource Center for Coronavirus response.

SIFMA Statement on the Municipal Bonds Emergency Relief Act.

Washington, D.C., March 20, 2020 – SIFMA today issued the following statement from President and CEO Kenneth E. Bentsen, Jr. on the Municipal Bonds Emergency Relief Act.

"SIFMA applauds the introduction of the Municipal Bonds Emergency Relief Act, which aims to support the municipal bond market during this volatile time. The municipal bond market is one of our nation's most remarkable financial institutions, providing a mechanism whereby more than 50,000 state and local government units can raise money for public purposes that benefit communities and ensure their sustainability. We appreciate the attention paid to this important sector of the markets and thank Senator Menendez for introducing this legislation to help states and localities use these financing tools to address the current crisis."

Fed Expands Money Market Liquidity Facility to Municipal Market.

WASHINGTON — The Federal Reserve Board on Friday said it was expanding its program of support to enhance the liquidity and functioning of state and municipal money markets.

Loans will now be available "to eligible financial institutions secured by certain high-quality assets purchased from single state and other tax-exempt municipal money market mutual funds," through the Money Market Mutual Fund Liquidity Facility the Fed set up on Wednesday, the U.S. central bank said in a statement.

By Reuters

March 20, 2020

(Reporting by Howard Schneider and Lindsay Dunsmuir; Editing by Franklin Paul)

As Ridership and Revenues Plunge, Transit Agencies Seek Financial Aid.

The coronavirus has far fewer people riding buses and trains. Tax revenues going towards transit are in line to take a hit as well.

Public transit agencies across the U.S. are looking to the federal government for billions of dollars of financial help as the coronavirus outbreak causes ridership and fare revenues to plummet.

Large transit agencies in New York City, San Francisco and Washington, D.C. all issued dire warnings about their finances in recent days, describing tens of millions of dollars in anticipated monthly losses that they say will pressure their budgets.

“As more people stay home following the advice of medical experts, the MTA is now facing financial calamity,” said Patrick Foye, who leads New York’s Metropolitan Transportation Authority, which operates the subway, trains and buses in the New York City region.

Foye made a plea to his state’s congressional delegation in a letter sent earlier this week.

MTA ridership has been down about 60% on subways and 49% on buses, the letter says. The authority projects that its finances could take an over $4 billion hit by the end of 2020. That calculation doesn’t include an expected drop in state and local taxes dedicated to the MTA.

Foye is asking for about $4 billion in federal aid to cover losses of $3.7 billion, assuming ridership trends this week continue for six months, along with coronavirus-related expenses.

Bus and subway ridership, like many other normal day-to-day activities across the country, has collapsed as government officials have ordered businesses closed and events cancelled and told people to stay home as much as possible to help slow the virus’ spread.

Transit operators have continued to run service, in part, so that employees like medical professionals, child care providers, first responders, utility employees and those involved in the transportation of goods can continue to get to work.

But ridership from those workers alone can’t keep fare revenues afloat near usual levels.

The nation’s 14 largest mass transit systems rely on fares for about 30% of their operating revenue, while government subsidies provide another 23% and taxes make up about 40%, according to a brief that credit rating agency Moody’s Investors Service published on Thursday.

Like fare revenues, state and local tax collections are also expected to fall as the coronavirus, and efforts to bring the disease under control, put a severe drag on the economy.

There’s a huge degree of uncertainty over how bad the toll will be for public budgets, as nobody knows how long the health crisis will continue and how severe the economic damage will be.

But the American Public Transportation Association says it anticipates a 75% drop in public transit farebox revenue over the next six months for a total loss of $6 billion. Additionally, the group estimates that sales tax revenues dedicated to transit will fall by about $4.8 billion.

Citing these revenue losses and additional costs tied to the virus, like the extra cleaning of facilities and vehicles, APTA is calling on Congress to provide $12.8 billion for public transit.

About 220 elected officials, transit agencies, advocacy groups and others signed a letter sent to congressional leaders on Wednesday urging lawmakers to allocate a similar sum, at minimum.

“Some agencies may have more slack than others,” said Scott Goldstein, policy director for Transportation For America, the group that drafted the letter. “But every agency is at risk.”

Transportation For America is warning against a “spread-the-peanut-butter” approach to distributing funding, where smaller amounts are distributed to a large number of places. Instead, the group argues that aid should be targeted toward places that need it most.

“If your funding source is a local sales tax that evaporates, that may have an effect on how much you need,” Goldstein said.

He added that even before the coronavirus took hold, many transit agencies around the U.S. had stretched budgets, maintenance and capital project backlogs and underfunded expansion plans. “A lot of them are struggling,” he said. “This is just adding fuel to that fire.”

Transportation for America and others are making a case that current “formula funding” programs, which the federal government use to distribute money that flows to transit agencies, are ill-suited for helping to solve the financial difficulties these agencies are now facing.

One issue is that those funds are typically directed towards capital expenses rather than operating costs.

Last week, the Federal Transit Administration did announce that it would give agencies in states where the governor has declared an emergency related to the coronavirus greater flexibility to use federal formula funds for operating costs, in addition to capital expenses.

The FTA also raised the cap on what share of those expenses could be covered with federal funds to 80% from 50%.

Goldstein said that these changes are a good initial step. But he also pointed out that using funds that were earmarked for capital projects to pay for emergency operating costs isn’t a real solution. In general, he said, transit agencies are already short on funding for capital costs—like buying new buses, or making station upgrades

Foye, with the MTA, said in his letter that, “flexing federal funds currently allocated for capital projects cannot be the solution.”

The U.S. Department of Transportation has found that an estimated 40% of buses and 23% of rail transit assets are in marginal or poor condition, with a backlog of deferred maintenance and needed equipment replacement that is in the ballpark of $98 billion.

“What we need is additional funding,” Goldstein said. “And we need it for operating.”

Congressional lawmakers and the White House are currently considering plans for massive federal stimulus measures, with the aim of bolstering the nation’s economy as the virus outbreak has effectively shut down or dramatically slowed many sectors.

There’s talk of a relief package that could be in the $1 trillion range.

Senate Majority Leader Mitch McConnell on Thursday unveiled his plan, which would include cash payments for many Americans, along with billions in “loans and loan guarantees” for industries like the airlines and cargo air carriers.

It’s in this context, that transit agencies are seeking aid for themselves.

Paul Wiedefeld, general manager and CEO of the Washington Metropolitan Area Transit Authority, said in a letter sent to congressional lawmakers from the nation’s capital region, that the agency is expecting losses of about $52 million a month.

At the same time, WMATA—which runs the subway system that serves the D.C. area—has over the past two months or so spent $17 million on costs like special equipment to protect workers from the

virus, and additional cleaning of vehicles and equipment, he said.

“Traditional transit formulas are not designed to address our unique circumstances,” Wiedefeld wrote. “We need immediate operating funding.”

In New York, Foye noted that the MTA had already committed to finding $2.8 billion in savings in the years ahead. “No agency of our size can find additional billions in savings equivalent to the damages we have and will sustain as a result of this pandemic,” he added.

Leaders for San Francisco’s Bay Area Rapid Transit system, which moves over 400,000 people on a typical weekday, are describing a similar situation. BART’s Board President Lateefah Simon and General Manager Bob Powers have both been pushing state, local and federal officials to provide the agency with emergency funding.

Much of the Bay Area is now under a “shelter-in-place” order, intended to help slow the spread of the virus by drastically cutting down on the number of people going outside of their homes.

By Wednesday, BART ridership had fallen to about 48,000, down by around 365,000 or 88% compared to a February four-week average.

The agency says that a sustained ridership loss of 85%, combined with a slump in economic activity affecting other revenues, could erode its monthly income by about $55 million.

BART says that it has looked at methods to cut costs, but that most of its operating expenses are related to labor. Options for reducing these costs are limited, the agency says, as it continues to provide service and maintains a ramped-up cleaning program.

On Thursday, the agency did say it would temporarily curtail service hours. Beginning Monday, it plans to stop running weekday trains at 9 p.m., instead of midnight. Weekend hours will be dialed back as well. BART says it is also taking other cost-saving measures, like placing restrictions on overtime, hiring and employee travel.

“This is a financial crisis for BART,” Simon, the agency’s board president, said in a statement. “This level of catastrophic revenue loss is not sustainable and threatens future service.”

ROUTE FIFTY

BY Bill Lucia

MARCH 19, 2020

Muni Market Support for Federal Reserve Intervention Grows.

- **Groups call on central bank to buy more munis amid selloff**
- **Congressional approval needed to purchase long-term muni-bonds**

The Federal Reserve is wading into the $3.9 trillion municipal-bond market. But the central bank still has more levers it could pull in the asset class that’s been stung with the worst monthly rout on record.

Last week, the Fed expanded its emergency lending program to provide liquidity to money market

funds so it would include purchases of short-term municipal bonds, and on Monday, it tacked on support for variable-rate demand notes. Despite the rare intervention, the chorus of calls for more help is getting louder. In the last week, lawmakers, state officials and lobbying groups have all advocated for the unusual move of the central bank buying municipals, at least temporarily.

The state and local debt market is in the midst of its worst rout in history due to a wave of selling by mutual funds and exchange-trade funds that's led to a liquidity crunch. For issuers, the soaring borrowing costs could make it more expensive for them to raise money in both the short- and long-term. Meanwhile, the coronavirus outbreak is wreaking havoc on government finances as revenue is falling at the same time costs are skyrocketing.

"States and issuers are being faced with other matters right now — it'd be nice not to deal with this one," said David Erdman, who handles debt sales for the state of Wisconsin.

The Federal Reserve is authorized to buy short-term municipals maturing in six months or less. But lobbying groups like the Bond Dealers of America, which represents banks and dealers, have said they would support the central bank going further than that and buy longer-dated securities temporarily. But that would likely require congressional or Treasury funding to backstop the Fed against credit risk.

Quantitative Easing

"Given the significant role that states are playing at the forefront of the response to the Covid-19 virus, we want to make sure the resources are available financially for states as this progresses," said Shawn Wooden, who oversees debt sales for the state of Connecticut. Wooden is among a group of Democratic treasurers who last week called on the Fed to intervene.

Allowing the Fed to buy municipals through quantitative easing is likely "quite difficult" because it would require Congress to change its charter, Morgan Stanley strategists said in a report last week. Lawmakers' effort to pass a stimulus bill — which a lawmaker said would expand the Fed's ability to buy municipals — sputtered over the weekend.

But the Morgan Stanley strategists said that the Fed still had the authorization to buy revenue anticipation notes, which are sold by governments waiting for tax collections to come in. They said it would give governments access to liquidity in a "worst-case scenario."

The Fed on Monday moved to address a municipal-bond market niche that's been hit hard with much higher borrowing costs for issuers. The bank will include variable-rate demand notes as eligible collateral as part of its lending program to money-market funds, which may help reduce yields on those securities, according to Barclays Plc. Yields on a closely-watched index of variable-rate debt hit 5.2% last week, the most since 2008.

Still, the entry of the Fed could be a slippery slope in a market with millions of bond CUSIPs and varying credit ratings, said Kyle Gerberding, director of trading for Asset Preservation Advisors.

"Which ones do they buy? Which ones do they not?" he said.

Citigroup's Vikram Rai said he believed that the Fed's involvement would help as banks face limits on how much more they can step in to alleviate the selling pressure. Dealer inventories of municipals excluding variable-rate debt rose to $14.5 billion as of March 11, up from just $11.4 billion in mid-January, according to the most recent Federal Reserve Bank of New York data.

"It seems like an extreme suggestion, but we're in uncharted waters," Rai said. "This is the only way to temper the volatility in the market."

Bloomberg Markets

By Amanda Albright

March 23, 2020, 10:49 AM PDT

— With assistance by Craig Torres

Fed Could Snap Up Municipal Debt Under New Senate Proposal.

- **Bill would amend the Federal Reserve Act for emergencies**
- **Measure would allow Fed to buy municipal bonds of any maturity**

A Senate bill introduced Friday would allow the Federal Reserve to purchase municipal debt, in an effort to ease the economic strain of the coronavirus pandemic on state and local governments.

The measure from Senator Bob Menendez, a New Jersey Democrat on the Senate Banking Committee, would amend the Federal Reserve Act to allow the Fed to buy municipal bonds under "unusual and exigent circumstances." The rule would be triggered by events like the rapid spread of a virus, other health emergencies or crises.

"States and localities are on the front lines in the fight against COVID-19 and need assistance from the federal government to be able to finance the increasing costs of the response to this health emergency," Menendez said in a statement. "The Municipal Bonds Emergency Relief Act would do that by allowing the Federal Reserve to provide support to state and local governments for this crisis and similar future emergencies."

The bill, which does not have any Republican cosponsors, would allow the Fed Board to authorize Federal Reserve banks to purchase municipal bonds on the open market. Five or more members of the board would have to vote to enact the procedure for it to work.

The Fed is already partially authorized to buy municipal bonds. Under Section 14 of the Federal Reserve Act, it can buy short-term municipal debt. This would expand that authority to debt of "any maturity."

Stemming Market Runs

The Fed on Friday amended the terms of a money market facility it launched earlier this week so that it could accept municipal debt of 12 months or less. The move is aimed at stemming runs in the market for municipal commercial paper. It isn't aimed at solving the liquidity problems in the market for longer-term muni debt.

Menendez was not satisfied with the Fed's move because while it would help municipalities with highly rated debt like New York City and others, it wouldn't help cities such as Newark with lower-rated debt, according to a person familiar with his thinking.

"Glad the Federal Reserve is moving in the right direction, but much more needs to be done," the senator said in a tweet. "Congress must pass my Municipal Bonds Emergency Relief Act to extend this help to all cities and states."

The global health crisis has hammered municipal bonds as states and localities strain resources to

prepare a medical response, try to help local businesses and suffer revenue losses as they ask people to stay at home.

Municipal bonds are headed for an 8% drop in March, their worst month of performance since 1981, according to Bloomberg Barclays indexes.

Bloomberg Markets

By Daniel Flatley

March 20, 2020, 6:41 AM PDT Updated on March 20, 2020, 10:28 AM PDT

— *With assistance by Craig Torres*

Fed Could Provide Massive Support for Business, States in Bill.

Congress could hand the U.S. Treasury at least $425 billion to backstop potentially much larger support by the Federal Reserve for business and municipal borrowers as part of an economic aid package being hammered out by the Trump administration and Congressional leaders.

The latest draft of the Republican-written bill, which GOP lawmakers are trying to finalize and pass Monday, would authorize the Treasury to use $425 billion "to make loans, loan guarantees, and other investments in support of programs or facilities established by the Board of Governors of the Federal Reserve System for the purpose of providing liquidity to the financial system that supports lending to eligible businesses, states or municipalities."

Earlier Sunday, Treasury Secretary Steven Mnuchin said the bill would provide up to $4 trillion in liquidity through broad-based lending programs operated by the Fed.

Lever Up

Details were unclear, but some analysts took the view that the money identified to support Fed programs would seed much larger assistance from the U.S. central bank.

"This is money the Fed can lever up," said Michael Feroli, chief U.S. economist at JPMorgan Chase & CO. in New York. "It's a very positive step. I hope the $4 trillion is enough but there's no guarantee."

Senate Banking Committee Chairman Mike Crapo told Bloomberg News that the legislation would expand the Fed's authority to include state and local governments as entities it can lend to, and buy debt from, to assist them.

Crapo said he supports the measure and would expect other Republicans to do so as well, but also noted that a supplemental appropriations bill would provide direct support to states.

Democrats on Sunday were not yet on board.

Emergency Lending

Last week, the Treasury backstopped two new emergency lending facilities rolled out by the central bank with a combined $20 billion. That was seen as enough to support up to approximately $1.7

trillion of eligible short-term securities.

The Fed has come under pressure from lawmakers and some former central bankers to extend support beyond shorter-dated debt markets and purchase long-run corporate and municipal bonds.

Companies, states and cities have found it increasingly difficult to borrow money as investors flee for safety amid the expanding coronavirus pandemic and the economic havoc its creating.

Cash Drain

”The cash drain on households and businesses, and state and local governments, is going to punch a massive hole in the global glut of savings, and this is an aggressive effort to fill that gap,” said Lou Crandall, chief economist at Wrightson ICAP.

Federal Reserve spokeswoman Michelle Smith declined to comment on what the legislation signaled on future Fed moves.

It’s unclear whether the Fed would require separate congressional approval for buying long-dated corporate and municipal bonds. Eric Rosengren, president of the Boston Fed said March 6 the Fed would need lawmakers’ consent to make such direct purchases.

But that might be open to debate.

Joseph Gagnon, a former Fed official now at the Peterson Institute for International Economics in Washington, has said he believes the Fed can extend credit to any entity as long as the collateral received in exchange is deemed adequate.

Bloomberg Economics

By Christopher Condon, Rich Miller, and Colin Wilhelm

March 22, 2020, 1:56 PM PDT

— With assistance by Saleha Mohsin, Ryan Beene, and Daniel Flatley

---

Muni-Bond Liquidity Crisis Hits Governments With Rates Up to 11%.

- **Sell-off in variable-rate bonds as managers meet redemptions**
- **Shades of 2008 crisis, with billions of bonds resetting higher**

The sell-off sweeping through the municipal-bond market is hitting cities, public-transit systems, hospitals and local governments with spiraling interest bills on floating-rate debt, dealing a new financial hit just as they contend with the economic toll of the coronavirus pandemic.

The jump is a result of the rapid pullback from the market over the last two weeks, which has left mutual-fund managers dumping the most liquid securities to raise cash to cover investors’ withdrawals. The variable-rate bonds are among the easiest to offload because they can always be sold at full face value to Wall Street banks, which have been forced to reset the interest rates sharply higher to avoid being stuck with unwanted inventories.

“If you’re a portfolio manager and you need cash — or you think you will need cash and you want to

get ahead of the curve, you're going to sell whatever is the most liquid," said Patrick Luby, who tracks the municipal market for CreditSights Inc.

The pressure has driven up the yields on tens of billions of dollars of bonds by the most since the market froze up during the 2008 credit crisis. Those on debt issued by New York's Metropolitan Transportation Authority, which is seeking a federal bailout after subway and train travel tumbled, jumped to 9% when they reset Thursday, up from around 1% last week, according to data compiled by Bloomberg. Dozens of other bond issues have seen similar increases, including those sold by Indianapolis, the Columbus, Ohio airport and New York's water system. Those issued by Maryland's industrial development authority for Occidental Petroleum Corp. hit 11%.

The hikes come as Wall Street's municipal-bond desks are dealt blow after blow, with state and local debt headed for the worst monthly rout since 1984, according to Bloomberg Barclays indexes. With investors pulling money, managers are racing to raise cash.

Variable-rate municipal bond are one of the easiest investments to unload because they can always be sold at 100 cents on the dollar as frequently as every day, allowing fund managers to avoid locking in losses if they instead sold longer-dated securities that have fallen steeply during last two weeks. Banks are required to buy the securities if there aren't enough buyers, giving them a strong incentive to raise the rates so they don't have to hold the debt themselves.

The rising rates echo what happened in 2008, when much of the variable-rate municipal market unraveled after the real estate bubble burst. The market for so-called auction-rate securities collapsed completely as investors dumped them en masse, while the yields on other bonds surged.

The sell-off is coming just as banks' inventories of the securities usually swell around this time of the year as Americans sell them in order to pay their tax bills.

Bloomberg Markets

By William Selway and Danielle Moran

March 19, 2020, 9:39 AM PDT

BDA Urges Fed to Take Action to Assist Municipal Market.

Today, March 18, 2020, following feedback received from membership, the BDA submitted a letter to the Federal Reserve Chairman Jerome Powell addressing particular needs of the municipal markets to offset the negative impacts of the Coronavirus and in response to the announcement of the establishment of a Primary Dealer Credit Facility (PDCF).

The letter, which can be viewed here, implores the Fed to:

- Expand the PDCF to include non-Primary Dealers of municipal securities; and
- Expand the CPFF to include municipal VRDNs.

The BDA plans to continue conversations with the Fed and Treasury, as well with Member of Congress in order to direct solutions to the volatility being seen in the municipal market.

The BDA will provide updates as they become available and plans to hold regular member calls to

discuss solutions going forward.

Bond Dealers of America

March 18, 2020

House Committee Considers Muni Market Support.

The House Financial Services Committee released an outline of Chair priorities for next steps in stimulus response to the Coronavirus outbreak. Included in the outline were two municipal bond provisions aimed to help the market by supporting issuers. While all details are yet to be made public, the draft calls for:

- **Support State, Territory, and Local Government Financing:** This provision would authorize a program that requires the Federal Reserve to support state, territory, and local debt issuance in response to the Coronavirus outbreak given the critical role these governments are playing.
- **Waive Matching Requirements for Municipal Governments:** This provision would waive the requirement that state, territory or local governments first obtain matching funds prior to receiving certain federal grants.

The Senate is also taking steps towards a vote on the next round of stimulus. While the current Senate draft does not include any municipal bond related provisions, the BDA continues to work with our partners on Capitol Hill to ensure they are addressed going forward.

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

Update – 3/20/2020 – Fed Expands Money Fund Program to Include Municipal Funds

Bond Dealers of America

March 20, 2020

Municipalities Face Short-Term Cash Crunch, Pushing Up Borrowing Costs.

The municipal bond market may be exempt from taxes, but it hasn't been sheltered from a record-setting investor cash grab.

A muni-market selloff that started last week is snowballing, pushing up state and local authorities' cost of borrowing over a one-week period. Investors pulled $12.2 billion from municipal bond funds over the week ended March 18, the most of any week on record, according to Lipper. The second-largest outflow was $4.5 billion.

Interest rates have spiked to 5.2% on floating-rate municipal securities called Variable Rate Demand Notes, or VRDNs, up from 1.3% last week. That short-term rate—the cost of borrowing for one week—was higher than municipalities' longer-term rates. The 30-year benchmark municipal bond yield was 3% on Thursday afternoon.

Continue reading.

Barron's

By Alexandra Scaggs

Updated March 19, 2020 4:59 pm ET / Original March 19, 2020 4:14 pm ET

The Fed Is Now Buying Munis, More or Less.

The Federal Reserve is expanding its program to bolster money-market funds by extending its support to municipal debt, as well.

The Fed's original money-market lending program, introduced late Wednesday, was created to finance banks' purchases of short-term corporate securities known as commercial paper (specifically from money-market funds). After this latest expansion, the Fed will also finance similar bank purchases of municipal debt maturing in less than one year.

In a typical transaction, a bank will buy short-term municipal bonds from a money-market fund or funds, and then pledge those bonds to the Fed as collateral for a cash loan. As of today, the interest rate on that loan would be 0.5%. These Fed loans will end at the same time the municipal bonds reach maturity. So the program is, in effect, the Fed buying the bonds from banks, in exchange for regular interest payments from those banks.

Continue reading.

Barron's

By Alexandra Scaggs

March 20, 2020 12:13 pm ET

Move by Fed May Help Shore Up Short-Term Borrowing for States and Localities.

The municipal bond market is experiencing a massive crunch as investors react to the coronavirus pandemic.

The Federal Reserve took action this week that could help bolster state and local governments' access to short-term borrowing as the coronavirus crisis pressures their finances.

For some states and localities, short-term debt is an important source of cash for covering expenses at times when tax revenues are not rolling in. But the virus outbreak has been driving turmoil in the municipal bond market, threatening the flow of this type of lending.

Demand for municipal debt has collapsed as the disease outbreak disrupts nearly every corner of the U.S. economy. The pandemic-driven downturn is also stoking worries that state and local tax revenues could take a sizable hit, while at the same time governments spend big to combat the disease.

“Basically there are no buyers for municipal bonds at both the long end and the short end of the curve,” said Michael Belsky, executive director of the Center for Municipal Finance at the University of Chicago’s Harris Public Policy school.

Fleeing investors caused the roughly $3.8 trillion municipal bond market to hemorrhage a record $12.2 billion from municipal-bond mutual funds during a week’s time ending Wednesday.

Some state and local government advocates are making a case that the federal government should intervene deeper into the municipal bond arena to help states and localities weather the pandemic. There’s at least one proposal in the U.S. Senate to head that direction.

Emily S. Brock, director of the federal liaison center for the Government Finance Officers Association, applauded the latest move by the Fed. But she added: “We do need to open up the spigot a little bit wider in order to get that shot of adrenaline in our space.”

States, cities and other local government entities around the U.S. commonly issue long-term debt to finance things like school construction and highway and mass transit projects. Bonds like these are usually paid off over many years.

But some also borrow on a short-term basis to maintain adequate financial liquidity. Tax payments can come in bursts at different times of year, while on the other side of the ledger governments must have consistent funding on hand to cover wages and other operating costs.

“There’s a mismatch,” said Bart Hildreth, a budgeting and finance professor at Georgia State University’s Andrew Young School of Policy Studies. “You have cash flow deficits during the year.”

To deal with this dynamic, states and localities might borrow short-term with the anticipation of collecting tax revenues in the months that follow and then using that money to repay the debt.

Unlike a 20-year bond that might be issued to build a bridge, this sort of short-term “cash flow borrowing” tends to involve debt that matures within the course of a fiscal year.

“It’s a pretty regular feature of the borrowing plans of the moderate- to large-sized governments,” Hildreth said. “Same thing with states.”

But a concern now is that the upheaval in the municipal bond market is causing the investor cash that would normally be available for short-term state and local borrowing to dry up.

“Nobody’s purchasing,” said Brock. “All of the supply is being held on the dealers’ books. And so we have a bit of a challenge.”

This is where a move the Fed announced on Friday could help. Earlier in the week, the central bank announced that it was establishing a new Money Market Mutual Fund Liquidity Facility.

The general idea with this entity is to channel money towards money market mutual funds, supporting the flow of credit, and also keeping the funds functioning smoothly while the economy is in flux and as they meet investor demand for withdrawals. The funds are a common investment for households and businesses.

Under the program, the Federal Reserve plans to offer loans to banks and other financial institutions that purchase certain assets from the funds as collateral. What the Fed did on Friday is expand the list of eligible collateral to include highly-rated, short-term municipal debt, with a maturity of one year or less.

Tim Blake, managing director of public finance at Moody's Investors Service, said a main benefit for state and local governments from the Fed facility is that it could provide investible money that the money market funds could use to purchase short-term state and local debt.

That could be especially important at a time when states and localities are facing huge uncertainties over how the coronavirus will affect their costs and revenues.

"There are probably going to be many government issuers and not-for-profit issuers that are seeing significant revenue declines in the coming months, and the need for some borrowing," he said.

"This would allow the funds to purchase cash flow notes issued by governments," Blake added.

Belsky, at the University of Chicago, said that, "basically the federal government is becoming the investor of last resort."

Hildreth noted the Federal Reserve did not extend similar programs put in place in response to the Great Recession to cover short-term municipal debt. "Many of us thought they should have done it back then," he said. "It shows that they have assessed the situation more severely this time that state and local governments are facing."

But how effective the program will be in aiding state and local governments will depend partly on how banks respond.

"It's really whether they need to use that asset or not," said Natalie Cohen, president and founder of National Municipal Research. "How meaningful it's going to be is questionable."

Brock suggested there are ways the federal government could go further to help state and local governments through the municipal bond market. For instance, if the federal government were to somehow hold municipal debt of all types and maturity durations, or if it purchased what are known as Variable Rate Demand Notes.

This week, U.S. Sen. Bob Menendez, a New Jersey Democrat who serves on the Senate Banking Committee, introduced a bill that would allow the Federal Reserve's board to authorize federal reserve banks to directly buy and sell muni bonds of any maturity under "unusual and exigent circumstances."

The senator said that his legislation would provide state and local governments with federal support in financing the costs tied to the coronavirus outbreak, and other future emergencies.

But Tom Kozlik, head of municipal strategy and credit with Hilltop securities, said in a brief issued on Friday that there is not enough information available yet to know if the bill would solve the liquidity crunch facing the long- and short-term municipal bond market.

"The devil could be in the details here," he wrote.

Looking ahead, Belsky pointed out that many of the nation's public works projects are financed using municipal bonds. If the nation slips into a full-blown recession due to the coronavirus, he said, infrastructure investment could be key to kickstarting a recovery.

Route Fifty

By Bill Lucia,

MARCH 21, 2020

Bill Lucia is a senior reporter for Route Fifty and is based in Olympia, Washington.

NABL Sends Letter to Congress/Treasury on COVID-19 Economic Stimulus Package.

In response to the COVID-19 pandemic and the economic stimulus package moving through Congress, NABL has submitted a letter to Congress, as well as to Steven Mnuchin, Secretary of the U.S. Treasury.

In the letter, NABL asks Congress and the Treasury to adopt certain bond-related proposals that will allow state and local governments to access much needed capital now, at a time when support to our communities is of paramount and immediate concern. Additionally, the tools we discuss will position state and local governments to mitigate damages affecting our nation.

You can find the letter here.

IMMEDIATE MEMBER REQUESTS:

(1) Please send the NABL letter to your Senator and Congressperson. It is important they hear from their constituents especially as decisions are happening so fast. Find your Senator here and your Congressperson here. You can either deliver the letter as an attachment (if their contact form allows), or hyperlink the letter, available on NABL's website here.

(2) Senator Menendez/Senator Perdue Municipal Bonds Emergency Relief Act. We are asking our members to encourage your Senators to support the inclusion of the Municipal Bond Emergency Relief Act in the final package currently under construction. This bill would encourage the Federal Reserve to invest in municipal securities immediately. It is important you convey: (a) the liquidity crisis in the tax-exempt market, and (b) how much it would help if the Fed was authorized to acquire municipal bonds.

For any questions, please contact Jessica Giroux, Director of Governmental Affairs at jgiroux@nabl.org, (518) 469-1565.

Yields on Transportation-Related Muni Bonds Are Climbing. It's Too Soon to Buy.

Debt issued by entities like New York's Metropolitan Transportation Authority has fallen in price, sending yields higher, as the coronavirus crisis chokes off ridership, and revenue, but analysts say it is too soon to buy.

The MTA and other transportation-related issuers appealed for federal help this week, and Moody's said Friday it expects government support for the agency, "given MTA's unmatched essentiality to the regional and national economy, especially during a post-coronavirus recovery." But the credit-rating company still said it may downgrade the MTA's transportation-revenue bonds.

Municipal debt in general has sold off sharply, pushing up borrowing costs for states and local authorities and prompting the Federal Reserve to expand efforts intended to keep markets running smoothly to include short-term munis. The transportation-related corner of the market has been under particular strain.

Continue reading.

Barron's

By Leslie P. Norton

Updated March 21, 2020 3:41 pm ET / Original March 20, 2020 7:01 pm ET

Hospitals, Cities Hit by Surging Interest Rates in 2008 Echo.

- **As cash yanked from market, yields on variable-rate bonds jump**
- **The rates on tens of billions of dollars of debt surge**

On Wednesday, as a hospital system in Memphis, Tennessee, was preparing for how to combat the spreading coronavirus, the havoc the pandemic was causing on Wall Street rippled down with its own financial hit.

Investors were rapidly hoarding cash as the economy grinds to a near halt, creating an exodus from the corner of the municipal-bond market where the health-care provider had raised cash.

With short-term yields surging, U.S. Bank more than doubled the interest rate on $124 million of variable-rate bonds issued by Methodist Le Bonheur Healthcare to 5% — threatening to add almost $4 million a year to its annual debt payments.

The liquidity crisis that's racing through financial markets is delivering similar blows to local governments, hospitals and non-profits nationwide. At least $34.6 billion of municipal bonds with yields that reset daily have seen their interest rates surge by 2 percentage points or more in the last two days, according to data compiled by Bloomberg. And an index of tax-exempt debt with variable interest rates reset to yield 5.2% on Wednesday, the most since 2008.

"There's a tremendous amount of fear and concern in the market right now, and I think that when you see that panic signal going off, it's not a surprise that clients are rushing to cash," said Kristian Lind, a senior portfolio manager for Neuberger Berman.

The interest-rate hikes come as Wall Street's municipal-bond desks are dealt blow after blow, with state and local debt headed for the worst monthly rout since 1987, according to Bloomberg Barclays indexes. With investors pulling money out of mutual funds, managers are being forced to dump securities to raise cash.

Variable-rate municipal bond are one of the easiest investments to unload because they can always be sold for 100 cents on the dollar as frequently as every day. Banks are required to buy the securities if there aren't enough buyers, giving them a strong incentive to raise the rates so they don't have to take unwanted debt into their inventories.

Kristin Kelly, a spokesperson for U.S. Bank, which serves as what's known as the remarketing agent on the Methodist Le Bonheur's debt, declined to comment. Sarah Farley, a spokeswoman for the

health-care provider, did not have an immediate comment.

The rising rates echo what happened in 2008, when much of the variable-rate municipal market unraveled after the real estate bubble burst. The market for so-called auction-rate securities collapsed completely as investors dumped them en masse, while the yields on other bonds surged to 8%.

An index of variable-rate munis spiked higher as investors hit exits
Brian Mayhew, the chief financial officer of the Metropolitan Transportation Commission in San Francisco, watched that debacle foist spiraling bills on his agency and is now seeing it unfold again.

He said he's been told to expect a "shock" when the rate resets on his agency's bonds, whose interest payments are about $4 million a year. A 1 percentage point increase in its interest rate would increase costs by about $350,000 a month, he said.

The higher rates are "real money," said Mayhew.

The sell-off is coming just as banks' inventories of the securities usually swell around this time of the year as Americans sell them in order to pay their tax bills. Lind, the Neuberger Berman portfolio manager, said the financial market havoc has created a "perfect storm" that's giving banks a strong incentive to increase the interest rates to lure buyers back.

"Whoever can set their rates the cheapest is most likely going to be sitting on less inventory between now and tax time," he said.

Abrupt Shift

The Memphis health care system is among the dozens that have been affected. Bonds issued by the state of Oregon issued for veterans' projects were reset to yield 5% on Wednesday, up from 1.92% on Monday. Bonds issued for an art museum in Kansas City, Missouri, which had to shut its doors until April due to the coronavirus, also saw its bonds reset to 5%, up from 1.92% on Monday.

The tax-time uptick in yields is usually a short-lived phenomenon, and this time may be no different. But it's an abrupt shift for borrowers that had been paying near zero interest rates for years.

Mayhew joked that he would consider buying his tolling agency's debt because the shift higher in yields is likely to be short lived.

"I don't think we're going to hate the whole market if we get a couple of bad months," Mayhew said.

Bloomberg Markets

By Amanda Albright and Danielle Moran

March 18, 2020, 10:47 AM PDT Updated on March 18, 2020, 1:31 PM PDT

Fitch Rtgs: Coronavirus Pressure Builds for NFP Hospitals, Health Systems

Fitch Ratings-Austin/New York-19 March 2020: Not-for-profit (NFP) hospitals and health systems, particularly those that are higher rated, should have sufficient financial cushion to absorb an increase in operating costs and the effects of a shift in volumes associated with the spread of the

coronavirus without meaningfully affecting credit profiles over the short term, says Fitch Ratings. While we do not initially expect sector-wide rating changes, smaller single-site facilities with lower liquidity levels are at heightened credit risk. Beyond the near term, risks associated with the economic disruption caused by the outbreak are expected to increase pressures on operating margins for all providers.

For the majority of rated credits, Fitch expects that the coronavirus will cause delayed earnings as elective procedures are temporarily suspended, but these will resume after the crisis abates.

Lower rated, typically smaller, single site facilities, and those credits with comparatively lower liquidity levels, particularly in areas with a high concentration of people who are 65 and older, are more vulnerable to near-term pressures. Credits such as these will be far more constrained at their current rating level as they are unable to easily absorb declining reimbursement as more lucrative elective surgical cases are replaced by medical volumes. They will also be challenged to manage the rising expense pressure due to the influx of coronavirus volumes that will require additional staffing and supplies, potentially at a significant premium.

Hospital staffing levels may become a greater concern if a significant number of staff become subject to isolation or furlough. This could not only reduce hospital capacity but also increase costs in the form of premium staffing, such as agency employment and overtime. The sector's ability to begin quickly testing for the virus in order to more rapidly identify and quarantine an infected patient or rule out infections among staff will be critical for containment and will help hospitals managing their care resources.

All hospitals have protocols in place for viral outbreaks, and prior epidemics, such as Influenza A H1N1, and natural disasters that have significantly challenged operations have typically not affected hospital credit. However, while the healthcare sector has responded extremely well to past crises, the scale of the coronavirus pandemic is unprecedented. Severe disruptions to operations and longer-term economic pressures could affect provider and consumer decisions for years to come. With this outbreak, hospitals will very likely end up at peak capacity levels or beyond for an undetermined amount of time, with high demands for specific services such as intensive care unit beds and ventilators. The mortality rate of the coronavirus at least initially appears to be much higher than that of ordinary influenza and the duration and severity of the epidemic in the US remains uncertain. The crisis in Italy has shown how health systems can quickly become overloaded and struggle to triage healthcare needs.

While the immediate effects of the outbreak will be challenging but manageable for higher rated hospital credits, medium- and longer-term risks will weigh on the sector, particularly if the outbreak continues throughout 2020 and macroeconomic conditions deteriorate for a prolonged period. Lower-rated hospitals with lower liquidity buffers that take a significant financial loss over the next few months will be limited in their ability to respond to any operational issues, particularly in light of significant declines in unrestricted liquidity levels with recent market activity.

Over the medium term hospitals may face sustained increases in supply costs, ongoing spending for future preventative measures, and delays in expansion projects, which would lead to deterioration in operating margins and pressure ratings. Longer-term rating concerns relate to the virus' negative economic effects on local economies, which in turn could lead to reduced volumes and a weakened payor mix well after the initial effects of the coronavirus are managed. This is particularly a risk for smaller, less diverse economies, particularly locations dependent on travel, tourism and entertainment, oil production, and hospital districts that depend on tax revenues.

This is an exceptionally fluid situation at the moment, and Fitch will continue to monitor incoming

information and update the market with opinions, analysis, and rating actions as appropriate.

Contacts:
Kevin Holloran
Senior Director, US Public Finance Healthcare
+1 512 813-5700
Fitch Ratings, Inc.
111 Congress Avenue
Suite 2010
Austin, TX 78701

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

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

Fed Backstops Corner of Municipal Debt Markets Amid Calls for Support.

The Federal Reserve said it would backstop money market funds that invested in municipal bonds, making sure they can meet redemptions.

WASHINGTON — The Federal Reserve tiptoed into the market for municipal debt on Friday, a small move that economists, lawmakers and state treasurers say should be expanded as the coronavirus places huge financial pressure on local governments.

The Fed will now let banks tap cheap loans by pledging short-term, highly rated municipal debt as collateral. That gives banks an incentive to buy local debt from money market mutual funds, creating demand for securities that had become hard to trade amid broader financial turmoil.

The move could keep the mutual funds, popular investments among ordinary workers and companies, from crashing as investors cash out. The funds will now be able to sell off their municipal bond holdings to satisfy those redemptions. It could also help soothe the market for local bonds — used to finance everything from sewer projects to public transportation — where interest rates have surged as investors flee amid coronavirus economic fears.

But it is a limited fix. The setup is probably too narrow to pave the way for state and local governments to issue bonds they might need to raise money going forward, economists said. Democratic lawmakers, a group of state treasurers, and interest groups have all urged the Fed to help municipalities more directly.

“They are trying to fix a market liquidity issue,” Skanda Amarnath, research director at Employ America, a Fed-focused advocacy group, said of the central bank’s move. “You aren’t actually addressing the issue of getting the funds to the entities.”

Friday's announcement expanded an emergency lending program that the Fed had announced this week. The central bank said in a release late Wednesday that it would establish a so-called Money Market Mutual Fund Liquidity Facility, backed by $10 billion from the Treasury Department. That program was intended to prevent runs on the funds, which many investors use as a short-term place to stash cash for a small return.

The initial program looked much like a version the Fed used in 2008. The municipal debt addition will "enhance the liquidity and functioning of crucial state and municipal money markets," the Fed said in its Friday statement.

The central bank has been coming out with new programs daily to keep markets functioning. From Wall Street to Main Street, Americans are hoarding cash as the coronavirus upends businesses and threatens to plunge the nation into a deep recession.

On Friday alone, it pumped up its efforts to keep dollar funding flowing overseas, increased its daily interventions in the market for short-term loans among banks and ramped up the pace of its mortgage-backed security purchasing schedule. All of those measures were squarely aimed at reducing pressures at the core of the financial system.

Among other things, the credit crunch means there are relatively few buyers for municipal bonds. As a result, yields on those securities have skyrocketed.

The timing couldn't be worse for the municipal market to dry up. State and local governments have immense funding needs as they try to respond to the public health emergency posed by the virus, and tax revenues are expected to fall as workers lose their jobs.

Some lawmakers have been calling on the Fed to help. Representative Maxine Waters, the California Democrat who leads the House Financial Services Committee, has even proposed requiring the Fed "to support state, territory and local debt issuance in response to the coronavirus outbreak." Senator Bob Menendez, a New Jersey Democrat, has proposed legislation that would let the Fed snap up local bonds of all maturities.

The central bank could legally buy very short-term municipal debt outright, based on the powers it is granted under the Federal Reserve Act. But it has avoided that path, partly because of the political implications. Doing so would amount to government finance, something central banks globally avoid.

"Munis are a whole different ballgame," said Ernie Tedeschi, policy economist at Evercore ISI. "Now all of the sudden you run into problems about favoritism, regionalism and picking winners and losers."

A group of state treasurers sent the Fed's chair, Jerome H. Powell, a letter on Friday requesting that it use that authority anyway. The Democratic Treasurers Association wrote that "states are taking unprecedented actions to expand health care capacity" and that "at the same time, tax revenues are reducing and financial market turbulence could freeze the municipal bond market."

"We are seeking the Federal Reserve's support to ensure that financing constraints do not hinder the necessary response," they said.

The New York Times

By Jeanna Smialek

March 20, 2020

Fed Backstop for U.S. Muni Market May Ease Some Rate Pressures.

CHICAGO — The battered U.S. municipal bond market could get a limited boost from the Federal Reserve's announcement it was expanding its money market support program to include short-term muni debt as collateral, analysts said on Friday.

Yields in the $3.8 trillion market where states, cities, schools and other issuers sell debt, have climbed dramatically amid a selling frenzy by investors scrambling for cash as coronavirus fears wreak havoc on markets.

Loans will now be available "to eligible financial institutions secured by certain high-quality assets purchased from single state and other tax-exempt municipal money market mutual funds," through the Money Market Mutual Fund Liquidity Facility the Fed set up on Wednesday, the U.S. central bank said in a statement.

The move is limited to highly rated muni debt with maturities that do not exceed 12 months.

Even so, the iShares National Muni Bond ETF , which tracks overall municipal bond sector, jumped almost 4% after the news and was last up about 0.9%.

Greg Saulnier, a Municipal Market Data (MMD) analyst, said while help was desperately needed, there was no immediate change in the tone of the overall market, where yields on MMD's top-rated, tax-exempt benchmark scale were poised on Friday to add to Thursday's 50 basis-point hike.

"I don't know how much impact that's going to have on stabilizing the rest of the market," he said, noting the Fed was only targeting short-term debt.

But Matt Fabian, the head of market and credit research at Municipal Market Analytics, welcomed the move as a way to help stabilize municipal bond liquidity.

"It will greatly reduce the pressure on the muni money markets to cover investor redemptions while not tanking the value of the underlying municipal bonds they hold, specifically short maturity bonds and notes," he said in an email.

He added that most of the market's liquidity pressure "is exactly in this part of the curve, because investors are converting many of their financial assets to cash without regard to what those assets are," he added.

Investors pulled $4.28 billion from tax-exempt money market funds in the week ended March 18, according to Lipper. An astounding $12.2 billion fled muni bond funds.

Dan Solender, director of the municipal bond group at Lord Abbett, said short-term borrowing costs could fall.

"Right now many of these money market securities are stuck on dealer/bank balance sheets and they keep moving rates higher to try to entice buyers," he said in an email. "So it will help to clear up some balance sheet space, which could be used to buy longer municipal bonds, but it remains uncertain how much of an impact that would have."

MMD's one-year, short-term spot rate has risen from 0.70% on March 10 to 2.02% at Thursday's close.

By Reuters

March 20, 2020

(Reporting by Karen Pierog; Editing by Alden Bentley and Tom Brown)

Muni Market Goes Topsy-Turvy. The Federal Reserve Has Stepped In to Help.

It's not every day that closed-end municipal bond funds with relatively low leverage start trading at a 10% discount to their net asset value. For anyone who has watched markets over the past week, however, it is clear that these aren't normal times.

Investors fled municipal bond funds en masse during the week ended March 18, with the $12.2 billion outflow setting a record.

That rush into cash caused the muni market's yield curve to invert—in other words, it pushed short-term municipal bond yields above longer-term yields, as managers tried to sell more-liquid securities. The benchmark bond yield for a AAA-rated three-month muni bond, for example, climbed by 0.6 of a percentage point to 2.84% by early Friday. The five-year AAA bond, in contrast, was yielding 2.66%.

Continue reading.

Barron's

By Alexandra Scaggs

March 20, 2020 4:26 pm ET

Fed Backstops Corner of Municipal Debt Markets Amid Calls for Support.

The Federal Reserve said it would backstop money market funds that invested in municipal bonds, making sure they can meet redemptions.

WASHINGTON — The Federal Reserve tiptoed into the market for municipal debt on Friday, a small move that economists, lawmakers and state treasurers say should be expanded as the coronavirus places huge financial pressure on local governments.

The Fed will now let banks tap cheap loans by pledging short-term, highly rated municipal debt as collateral. That gives banks an incentive to buy local debt from money market mutual funds, creating demand for securities that had become hard to trade amid broader financial turmoil.

The move could keep the mutual funds, popular investments among ordinary workers and companies, from crashing as investors cash out. The funds will now be able to sell off their municipal bond holdings to satisfy those redemptions. It could also help soothe the market for local bonds — used to finance everything from sewer projects to public transportation — where interest rates have surged as investors flee amid coronavirus economic fears.

Continue reading.

The New York Times

By Jeanna Smialek

March 20, 2020

Fed Includes Municipal Debt in Money-Market Lending Backstop.

Fed also will provide daily swap line operations with five other central banks

The Federal Reserve on Friday expanded a lending operation that will accept municipal debt as collateral amid funding strains that could intensify as cities and states combat the coronavirus pandemic.

The changes apply to a lending facility to backstop the $3.8 trillion money-market mutual-fund industry unveiled on Wednesday. The Fed originally limited the program to the $800 billion in prime money-market funds, which invest in very short-term corporate debt, but on Friday extended it to certain municipal money-market mutual funds. Municipal bond money-market funds contain $134 billion, according to the Fed.

The Fed said it will also accept highly-rated municipal debt of less than 12 months as collateral for the facility. While that might help alleviate some strains in muni-debt markets, the bulk of stresses have been in longer-dated securities that aren't eligible for the facility.

Continue reading.

The Wall Street Journal

By Nick Timiraos and Heather Gillers

Updated March 20, 2020 1:37 pm ET

Fed Expands Emergency Program to Include Muni Funds After Rout.

- **Move seen as 'starting point' for battered muni bond market**
- **Fed could expand program to include variable-rate debt**

The Federal Reserve said Friday it had expanded its emergency program to provide liquidity to money market mutual funds, allowing the purchase of assets from single-state and other tax-exempt municipal money market funds.

Shares of BlackRock Inc.'s iShares National Muni Bond ETF, the biggest municipal-bond exchange-traded fund, traded higher after the announcement.

"Thank you to @federalreserve," U.S. Treasury Secretary Steven Mnuchin said in a tweet. "Today I approved the expansion of the Money Market Mutual Fund Liquidity Facility to include municipal

securities. This will create additional liquidity to support the states and municipalities!”

Continue reading.

Bloomberg Economics

By Christopher Condon, Danielle Moran, and Amanda Albright

March 20, 2020, 8:00 AM PDT Updated on March 20, 2020, 10:36 AM PDT

BlackRock, Nuveen Unwind Leveraged Muni Trades Roiled by Havoc.

- **Mutual funds unwind $1.2 billion tender-option bond trusts**
- **Move contributes to flood of debt hitting the market**

Large municipal-bond funds run by BlackRock Inc., Nuveen, Pacific Investment Management Co. and Invesco Ltd. are unwinding a leveraged investment strategy that backfired this month, contributing to the flood of debt that’s been unloaded during a record-setting sell-off.

Last week, fund companies began liquidating about 75 so-called tender-option bond trusts holding $1.2 billion worth of state and local government debt, according to data compiled by Bloomberg. The trusts issue floating-rate notes to money-market funds and use the cash to buy higher-yielding long-term bonds. Mutual funds seek to pocket the difference in yield between the two.

But the strategy is backfiring because yields on short-term debt have skyrocketed as investors pull cash out of money-market funds and banks struggle to resell the notes. A weekly index of tax-exempt debt with variable interest rates spiked to 5.2% on Wednesday, the most since 2008 and almost 2 percentage points more than yields on 30-year top-rated municipal debt.

To pay off short-term notes, mutual funds are selling municipal bonds held in the trusts as collateral. That has been putting more pressure on the market, which this month has suffered its biggest losses in at least four decades amid concern about the economic and financial fallout from the coronavirus.

“There comes a point where the rate gets too high and there’s no money left for the investor,” said Chad Farrington, a managing director at DWS Investment Management. “If funding costs get to certain level you must reduce the leverage.”

On Monday, in an effort to relieve funding pressure in the muni market, the Federal Reserve agreed to purchase short-term securities from tax-exempt money market funds, including the variable rate demand obligations that make up almost 75% of short-term tax-exempt bonds, according to Citigroup Inc. While that appears to have eased some of the liquidity strains, with prices broadly unchanged Monday, short-term yields haven’t come down.

The jump in short-term rates came as investors pulled $5.3 billion out of tax-exempt money-market funds the week ending March 18, according to the Investment Company Institute. That pullback caused dealer inventory of variable demand notes to swell to $5.7 billion on March 11, a 80% increase in two weeks, according to the Federal Reserve Bank of New York. The funds sold them back to banks that act as remarketing agents and liquidity facilities. When fresh data comes in this week, the inventory will likely be much higher.

The leverage employed by mutual fund companies has amplified losses in the closed- and open-end

funds as rates climbed during the sell-off.

As of Friday, returns on 15 BlackRock closed-end muni funds that use tender-option bonds and preferred shares as leverage have dropped more than 20% this month and one, the BlackRock Maryland Municipal Bond Trust, has lost 30%, according to data compiled by Bloomberg. Five of Nuveen's closed-end funds have lost more than 20% and one has lost 30.5%. Nuveen's open-end High Yield Municipal Bond Fund, which also employs tender-option bonds, has dropped 21.7% this month.

Invesco and Pimco's muni closed-end fund share prices declined 15% to 25% this month.

Those drops are far bigger than the overall municipal market's. The Bloomberg Barclays index of investment grade munis has declined 10.3% this month, the biggest drop since at least 1980, and high-yield municipal bonds have fallen 19.1%.

Spokespeople at BlackRock, Invesco and Pimco declined to comment. A spokesperson from Nuveen didn't immediately return phone and email messages requesting comment.

The tender-option bond market is about $50 billion, less than a quarter its size before the 2008-2009 financial crisis, when hedge funds that used the securities were forced into fire sales. At the time, investors shunned the debt because it was guaranteed by bonds insurers like MBIA Inc. and Ambac Financial Group Inc., which were stripped of their AAA ratings because of losses tied to toxic mortgages.

The tender-option bond programs work like this: A fund deposits highly-rated bonds in a trust, which then issues two securities — a floating-rate bond backed by a bank that is typically sold to a money market fund and another security, known as an "inverse floater," retained by the mutual fund. The fund receives the "residual" income of the underlying bonds in the trust after paying interest on the floating-rate bonds and trust administration fees.

As short-term interest rates rise, the inverse floater produces less income and in extreme cases may pay none. The mutual fund has the ability to unwind the trust by paying off the short-term bonds and turning over the residual. The long-term bonds that were placed in the trust may be used to pay-off the floating-rate notes, which could push market prices down further.

Bloomberg Markets

By Martin Z Braun

March 23, 2020, 10:47 AM PDT

— With assistance by Matthew Himel, and Natalia Lenkiewicz

Bond ETFs Will Never Be the Same After Coronavirus.

Instant price discovery and liquidity have come at the expense of unprecedented losses.

Fixed-income exchange-traded funds have always been, and will continue to be, a contentious subject. Just the idea of a liquidity mismatch between the products and the underlying securities raises tough questions. Which is the more accurate reflection of a market: the benchmark index full

of bonds that don't trade or the ETF that does?

As with most things, the truth probably lies somewhere in the middle. But for now, bond ETFs across the world are trading at staggering discounts to their net asset values in what some have dubbed an "illiquidity doom loop." More recently, that spiral has ensnared even funds that invest in some of the most stable fixed-income securities in the world. It's one thing if the largest high-yield municipal-bond fund is going berserk — as I wrote last week, that could be chalked up in part to steeply repricing a few securities tied to senior-living facilities. It's quite another for supposedly safe assets to get hammered. For better or worse, fixed-income ETFs can never be looked at quite the same way going forward.

A Bloomberg News article on Friday spotlighted the $6.2 billion iShares Short Maturity Bond ETF (ticker: NEAR). As the name suggests, it holds very short-term corporate debt, with an average duration of less than a year. Some of its biggest holdings include debt from Charter Communications Inc., Ford Motor Co., General Electric Co. and CVS Health Corp., all of which matures within the next eight months. Some of these businesses have had their struggles, yes, but they're not going belly-up imminently, even with the coronavirus outbreak.

Continue reading.

Bloomberg Opinion

By Brian Chappatta

March 23, 2020, 3:00 AM PDT

Record Exodus From Muni-Bond Funds Fuels Worst One-Day Rout.

- **Outflow is nearly triple previous record of $4.5 billion**
- **Pullback comes as sell-off sends yields surging at record pace**

Investors pulled a record $12.2 billion out of municipal-bond mutual funds in the week ended Wednesday on concern about the widening impact of the coronavirus pandemic, triggering waves of forced selling by money managers that sent yields surging at the fastest pace ever.

The exodus, almost three times larger than the previous record, was the third straight weekly outflow as fears over the pathogen tipping the U.S. economy into recession deepened. Investors also yanked a record $5.3 billion out of high-yield municipal bond funds, which hold securities most at risk from a worsening economy. Last week, those funds lost $1.7 billion.

But even the safest municipal securities have been punished, creating deep liquidity strains as buyers run for the exits en masse as the virus-induced slowdown threatens to hammer public transit systems, cities, airports and others that borrow in the $3.9 trillion market. On Thursday, benchmark 30-year yields soared by 50 basis points to 2.99%, matching the record-setting jump from a week ago.

"It's been an incredible reversal in a short amount of time," said Brian Musielak, director of fixed-income portfolio management at Commerce Investment Advisors, who said he was shocked by the size of the outflow and the day's performance.

Fear-driven sell-off creating liquidity strains

Investors earlier this month began pulling money out of municipal-bond mutual funds for the first time in more than a year, ending a streak of 60 consecutive weeks of inflows that was just four weeks shy of tying a record. The individual buyers who are the municipal market's biggest investors often move in unison, pouring in cash when prices are rising and pulling it out when they decline.

The turmoil caused by the coronavirus pandemic has been widespread. Investors withdrew an unprecedented $35.6 billion from U.S. funds that buy up investment-grade debt, according to Lipper. The Down Jones Industrial Average has fallen 31% in the last 30 days and all but wiped out gains made since President Donald Trump was elected in November 2016.

Nuveen, one of the biggest muni bond fund managers, put $740 million of its municipal portfolio up for sale Thursday, according to people familiar with the matter. The sale comes as mutual funds are under heavy pressure to cover withdrawals.

The rout marks a dramatic reversal for a market where prices reached record highs earlier this year as a steady flood of cash poured in. That dynamic has abruptly changed as investors retreat, creating a liquidity crunch just as analysts are now trying to gauge how the virtual shutdown of the economy will ripple down to local governments. The concerns have effectively locked states and cities out of the financial markets, with Wall Street banks shelving all the biggest bond offerings because of the turmoil.

"It's amazing how things turn on a dime," said Jeffery Timlin, a managing director at Sage Advisory Services, who said just a month ago there weren't enough bonds to meet demand. Now he said mutual funds and exchange-traded funds have become "forced sellers."

"It creates a negative feedback loop," he said. "Some selling begets more selling begets more selling. Everybody is scared and nobody wants to buy."

Bloomberg Markets

By Romy Varghese and Amanda Albright

March 19, 2020, 12:45 PM PDT Updated on March 19, 2020, 2:28 PM PDT

NMZ: Beware The Virus's Impact On High-Yield GO And Revenue Bonds

Summary

- The Nuveen High-Yield Municipal Bond Fund NMZ is likely to be hit hard by the economic impacts of the COVID pandemic.
- The CEF is exposed to low-rated transportation and healthcare bonds that may be hit the hardest.
- NMZ also has high exposure to struggling city governments that are likely to face steeper financing costs and lower tax revenue.
- To make matters worse, NMZ primarily holds volatile long-term bonds and is leveraged roughly 1.5X.

Continue reading.

Seeking Alpha

by Harrison Schwartz

Mar. 16, 2020

Sleepy Municipal-Bond Market Goes 'Dystopian.'

With Barclays Center gone dark, about the only action left involving the arena can be found in, of all places, the bond market. Because it could be a long while before there's another Nets game or concert, bonds backed by luxury-suite sales, sponsorships, concessions and other income streams at Barclays have slumped by 6%—a startling move in the normally somnambulant world of municipal bonds.

In fact, New York municipal bonds of all stripes are getting thumped as investors brace for the full economic impact of Covid-19.

"The word I use is dystopian," said Matt Fabian, a partner at Municipal Market Analytics, an independent research firm.

Muni bonds are ordinarily among the market's safest investments, with a default rate of 0.18%, and New York's bonds are considered best-in-class. The credit ratings for New York City and the state are both one notch below AAA, according to Moody's, which on Feb. 20 praised the state for taking "proposed strong measures to correct its unfavorable spending trend."

That was before the coronavirus struck, though. Gov. Andrew Cuomo last week described the economic cost of the outbreak as "incalculable." Mutual funds such as the Pimco New York Municipal Income Fund II have fallen below their net asset value—a sign investors fear a surge in defaults in a market used to pay for schools and fire and police departments.

"Look around the municipal bond market and you'll see issuers with high expenses, budget issues and big pension obligations," said Ed Grebeck, CEO of debt-strategy firm Tempus Advisors. "I think the market is due for a reckoning."

Plenty of people have incorrectly forecast doom before, but it's also true that during the past several years the $3.8 trillion muni bond market has gone to help pay for more speculative developments such as ballparks, nursing homes and convention centers. The bonds are regularly used to pay for college dormitories, and now that universities have sent students home, those bonds look riskier.

That said, defaults are highly unlikely among big New York muni-bond issuers, such as the Metropolitan Transportation Authority or the Port Authority. Fares or tolls could be raised, and the government surely would step in to provide financial support if necessary. In the case of the Barclays Center, Moody's says it has strong reserves and long-term contracted revenue, so it can pay bondholders even if the arena remains dark for a while.

But some of the new generation of muni-bond borrowers might have no choice but to default.

For instance, American Dream, the big new mall in East Rutherford, N.J., was paid for in part with $1.1 billion in municipal bonds. The mall, which had not fully opened yet, shut its doors Monday to help slow the spread of Covid-19. Fabian predicted the mall's owners soon will be negotiating to

restructure bond payments. He reckons owners of other struggling muni bond–backed enterprises will follow.

“You’ll probably see businesses blaming things on the virus that aren’t the virus’s fault,” Fabian said.

Crain’s New York Business

by Aaron Elstein

March 17, 2020 01:16 PM

Navigating The Muni Market In Today's Environment.

Summary

- In our view, it’s premature to predict the full impact of the coronavirus outbreak on society and the US and global economies until the impacts of the COVID-19 pandemic are behind us.
- After returning 4.62% for the year-to-date (YTD) through February, the Bloomberg Barclays High Yield Index returned -8.67% during the week of March 9, leaving YTD returns at -4.68% as of 3/13/20.
- We have focused on purchasing high-quality bonds over the last several years, even in our high-yield portfolios, as quality spreads have been narrow.

Continue reading.

Seeking Alpha

By Sheila Amoroso, Senior Vice President, Director, Municipal Bond Department, Franklin Templeton Fixed Income; Christopher Sperry, CFA, Vice President, Portfolio Manager, Franklin Templeton Fixed Income; Daniel Workman, CFA, Vice President, Portfolio Manager, Franklin Templeton Fixed Income; and Francisco Rivera, Vice President, Municipal Bond Department, Franklin Templeton Fixed Income

Mar. 18, 2020

Muni Bond and Other ETFs Are Trading at Big Discounts. Here’s Why, and What to Do.

Municipal bond exchange-traded fund investors probably had no clue what hit them on Monday. Muni bonds are supposed to be staid, steady-eddy investments, and are largely owned by high-ne--worth retail investors seeking tax-free income. Because they tend to be particularly buy-and-hold investments, they can be illiquid. And that can be a big problem, as some investors found out this week.

On March 16, the bonds in the $1 billion SPDR Nuveen Bloomberg Barclays High Yield Municipal Bond ETF (ticker: HYMB) portfolio fell 0.7%—pretty good, considering the stock market’s 12% loss. But the ETF itself plummeted 9.5%, far more than the bonds themselves fell.

The truth is, when markets become volatile, many ETFs, especially those invested in illiquid market sectors, behave more like closed-end funds, trading at premiums and discounts to their underlying portfolio values or net asset values (NAVs) to use a Wall Street term. This can happen in supposedly safe investments, like the $14 billion Pimco Enhanced Short Maturity Active ETF (MINT). Pimco's MINT has long been thought of as an alternative to a money market fund; it invests in similar securities that yield a bit more. But MINT was trading at a 0.39% discount—the equivalent of "breaking the buck," a sacrosanct imperative of money funds. In more egregious cases, such as In the SPDR Nuveen ETF's case, the price dislocation was so bad it ended the day trading at $45.84 a share—an 18.6% discount to its $56.34 NAV, according to Morningstar Direct. That is dramatic in any case, but especially for a large ETF that rarely had a discount of more than 1 percentage point in the past three years.

Continue reading.

Barron's

By Lewis Braham

March 18, 2020 12:41 pm ET

Tax-Exempt Weekly Rates Beat 10-Year Muni Bond Rates. Time To Dump Long Bonds?

Given the announcement that the U.S. Federal Reserve cut rates to nearly 0%, first thing this morning I started looking for the market reaction, particularly in short rates in high grade municipal paper. My terminal blinked that available tax-exempt variable rate debt obligations (called VRDO among the professional muni crowd) was at $17 billion.

That caught my attention. That market was an estimated $135 billion, so when more than 10% of outstanding paper is sitting on the desks of banks like JPMorgan Chase, Bank of America, Morgan Stanley and Barclays, that says something. VRDOs generally come in $100,000 denominations. Resets can be as short as daily and as long as monthly. They are listed by broker/dealers, but they are on e-trading platforms as well, such as ClarityBidRate. The fact that just the prior week the available supply number was under $11 million made it more poignant.

Continue reading.

Forbes

by Barnet Sherman

Mar 18, 2020

Fitch Rtgs: Coronavirus Curbs Will Pressure US Sports Facility Revenues

Fitch Ratings-New York-10 March 2020: Sporting event postponements, cancellations and/or reduced attendance in the US as a result of coronavirus concerns will lead to revenue and

profitability declines and a drain on liquidity at affected stadiums, arenas and facilities, says Fitch Ratings. League-level ratings, including the National Basketball Association's (NBA) 'A-' with a Stable Outlook, are supported by longer-term media rights contracts, which should provide better near-term protection from coronavirus concerns compared with facility ratings. The majority of Fitch-rated facilities have sufficient liquidity to absorb short-term revenue disruptions in the form of six-month debt service reserves and moderate balance sheet cash. Revenue declines may affect credit if a material number of games are cancelled or played without audiences. Team level liquidity and ownership support will be critical for ratings in the event of prolonged disruptions.

The Indian Wells tennis tournament in Riverside County, CA is the first major sporting event in the US to be postponed and South by Southwest (SXSW), a large concert festival, is the first major concert event to be cancelled. Given the spread of the virus, it is more likely leagues or governments may decide to play without audiences or reschedule or cancel games, similar to measures taken in other countries. International and domestic professional sports leagues specified best practices for interactions between players and fans and restrictions on media and other non-team personnel in locker rooms.

The NBA and the National Hockey League (NHL) have less than a quarter of the season remaining, fewer than 20 games per team, but rescheduling remaining games could be difficult given limited dates and potential travel restrictions. The playoffs are an important part of team and facility profitability, and are slated to begin soon for the NBA on April 18 and the NHL on April 8. The leagues control the schedule and could make adjustments if circumstances rapidly change. Major League Soccer's (MLS) season is just kicking off while Major League Baseball's (MLB) regular season launches in just over two weeks.

Certain universities already ordered games to be played behind closed doors. The National Collegiate Athletic Association's (NCAA) college basketball tournament, known as 'March Madness', consisting of 68 teams playing throughout the US, starts on March 17. It remains an open question as to whether colleges will limit travel or involvement for the tournament.

Fitch-rated US facilities have multi-year naming rights agreements, sponsorships and premium seating and suites contracts and other contractual revenues providing a steady revenue stream. However, some of these contractual revenue streams include provisions for a minimum number of events and could be adversely affected by a reduction in games and/or games played without fans. All major sports venues have business interruption insurance covering a portion of lost revenue but it is not clear if coronavirus-related losses would be considered insured business risks. Fitch will evaluate each facility on a case-by-case basis in the coming weeks.

Empty venues would also leave teams vulnerable to a loss of game day food and beverage concession sales, parking sales and game day tickets sales, which would lead to an overall decline in net income. While a loss in game day revenues may be somewhat offset by a reduction in game day operating expenses, this will be minimal as most arena management and concession contracts are set for the entire season, leaving little expense flexibility.

The majority of revenue at the league level is from long-term TV deals. If games were played behind closed doors, this may drive an increase in TV viewing levels and could potentially drive an increase in certain TV subscription packages but this is likely to be a short-term effect. Particularly as TV contracts are longer-term, a brief increase in viewership is unlikely to provide the league with higher bargaining power when renegotiating TV contracts.

If the current shocks to the economy precipitate a more prolonged global recession, the discretionary nature of consumer spending on sports entertainment presents some risks to the

industry. However, the research behind Fitch's report 'Sports: 10 Years in Infrastructure' suggests the sector fared quite well during the 2008 recession.

Contacts:
Chad Lewis
Senior Director, Infrastructure and Project Finance
+1 212 908-0886
Fitch Ratings, Inc.
Hearst Tower
300 W. 57th Street
New York, NY 10019

Andrew Joynt
Senior Director, Infrastructure and Project Finance
+1 212 908-0594

Henry Flynn
Associate Director, Infrastructure and Project Finance
+1 646 582-4580

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

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

---

Fitch Rtgs: Coronavirus Poses Risk to US University Operations, Enrollment

Fitch Ratings-New York/Chicago-12 March 2020: US colleges and universities may experience operating and enrollment pressures as the spread of COVID-19 leads to campus shutdowns, says Fitch Ratings. Most universities have a risk management plan in place to address infectious outbreaks. Institutions with limited liquidity, as measured by available funds/expenses, a greater reliance on endowment draws to fund operations, and heavy dependence on tuition revenues are, on the whole, more susceptible to operating risks and small shifts in enrollment, with less flexibility to absorb revenue volatility before financial strength is affected. Institutions with greater operating margins and cash flow flexibility should be in a stronger position to weather uncertainty.

Operating risk could result from prolonged student, faculty or staff access restrictions, namely campus closures, lower dorm occupancy, or closures of branch campuses abroad. Campus closures lasting a few weeks should not affect operating performance but revenue and operating pressures will build the longer campuses are shut down. Fees from auxiliary services have grown in relative importance and a decline in fee revenue from services, such as housing, dining and parking, could affect margins if material or sustained into the fall 2020 academic period. Universities are not typically obligated to refund auxiliary fees, which are paid up front, once the academic period begins. Some universities may chose do to so on a prorated basis if those services are no longer being provided to students. Athletics-related revenue may also be pressured as ticket sales decline or games are cancelled, although most universities do not depend heavily on revenue from sporting events.

Reliance on online classes will increase over the next few months and likely contribute to the increase in online education over the longer term. We expect online and other non-traditional programs to expand and continue to affect competitive positioning on margins. The US Department of Education relaxed some of its regulations to support necessary changes in course delivery. Enrollment may decline at universities where online learning platforms are not robust during campus shutdowns

International students make up about 5.5% of all US enrollment, although they contribute disproportionately more in net tuition revenue as international students pay full tuition rates. Universities that have a material international student population may see reduced enrollment and student revenue pressure in the 2020-2021 academic year. While doctorate-granting and research institutions have more international students, the risk is mitigated somewhat by these universities' diverse revenue bases and typically stronger financial profiles. For domestic students, pressure may exist to choose an institution closer to home. Colleges will be closely monitoring the 'summer melt' this year as an inability to budget for shortfalls could aggravate operating pressures. The most selective institutions will likely fare better overall, as they have capacity to flex into a larger pool of applicants.

Market declines will negatively affect endowments but is unlikely to have a significant impact on ratings. Our ratings generally ignore investment gains/losses and draws are structured to remain smooth against a rolling asset base value. Endowments most susceptible to market swings tend to be the largest and most permanently restricted but these are typically held by highly-rated universities that do not rely on endowment draws.

Public university funding is one of the first things cut when states' budgets are pressured and current overall funding remains below pre-recession levels. The implications for state budgets relating to the coronavirus are still developing with the potential for revenue losses tied to reduced economic activity and increased spending for prevention and treatment measures. The depth and breadth of these effects, which remain unclear, will determine whether states materially reduce public university funding.

Contacts:
Emily Wadhwani
Director, US Public Finance Higher Education
+1 312 368-3347
Fitch Ratings, Inc.
One North Wacker
Chicago, IL 60606

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

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

---

Fitch Ratings: Coronavirus Effects for U.S. States and Locals Still Developing

Fitch Ratings-New York-12 March 2020: The vast majority of U.S. state and local governments are

well-positioned to absorb the near-term credit implications from the coronavirus outbreak, but the situation remains uncertain and is evolving rapidly, according to Fitch Ratings.

Local government fund balances are generally robust and state governments typically benefit from exceptional inherent budget flexibility. Some governments, as reflected in lower Issuer Default Ratings (IDRs), are more vulnerable to budget strain from unexpected stress events such as the coronavirus pandemic. Ongoing market declines could increase pension liabilities and contribution needs over time. Capital markets access is generally not a concern given that states and locals typically amortize debt annually and use it primarily for deferrable capital projects. Fitch is assessing whether specific governments face near-term credit risk in this evolving situation. Fitch is reviewing economic and fiscal data, and is in regular touch with issuers.

The high IDRs for most states and locals reflect Fitch's view that they can absorb deterioration in the fiscal and economic environment without immediate effects on credit quality. For cities, counties, and school districts, Fitch's review of comprehensive annual financial reports finds that median available general fund balances were between 20%-30% of fiscal 2018 spending, reflecting the long period of economic expansion most governments have benefitted from.

Nearly all states have robust ability to adjust revenues and expenditures (including downloading costs to locals which are generally positioned to absorb them as noted above), and can tap into various balances on at least a short-term basis. States' median available governmental fund balance as a percentage of fiscal 2018 spending was a solid 8%, as states have likewise benefitted from the long period of economic expansion and generally rebuilt sizable budgetary reserves..

Coronavirus has led to increased spending by states and locals for prevention and treatment measures which are likely to escalate, and it will reduce economic activity and government revenues. Their potential depth and breadth will drive any rating changes. A severe downturn could pressure state and local governments' resilience and trigger more widespread rating implications.

Most states and some locals are susceptible to sometimes meaningful revenue declines absent policy action in the face of a significant financial market and/or economic downturn. States rely primarily on a mix of sales and income taxes, while local governments rely primarily on property taxes and to a lesser extent sales or income taxes. Governments most reliant on discretionary economic activity or directly engaged in healthcare delivery are more at risk. Dedicated tax bonds with more narrow revenue pledges are also at higher risk, though ratings incorporate an assessment of the resilience of these structures to deep historical declines, including through the Great Recession.

Fitch anticipates focusing on several factors over the coming weeks and months including:

–Tourism and visitor-related revenue such as hotel and lodging taxes;
–Sales and use taxes, or similar broad consumption levies such as general excise taxes;
–Severance taxes and other natural resource-related revenues, particularly for oil;
–Personal and corporate income taxes;
–The scope of direct government coronavirus spending;
–Labor market indicators including unemployment insurance filing claims, non-farm payrolls, and unemployment rate;
–Scope of travel or movement restrictions that limit economic activity;
–Federal measures including healthcare funding, direct consumer stimulus or industry-specific support;
–Effects of market volatility on pension systems, including annual contributions and liability burdens.

Fitch has observed anecdotal instances of coronavirus beginning to affect state and local

governments with a small sample listed below. Fiscal effects are only just unfolding and Fitch anticipates more actions:

–Hawaii's Council on Revenues recently revised the general fund revenue forecast downward by approximately $300 million over this fiscal year and next, primarily due to coronavirus effects;
–New York's governor recently requested the state comptroller "perform a risk analysis" of the state's revenue forecast, accounting for economic implications of the coronavirus;
–Washington's Department of Health has requested $100 million in supplemental appropriations from the legislature for coronavirus management;
–San Francisco's city controller recently reported sharp declines in hotel occupancy and airport traffic and he estimated city revenue losses in the tens of millions of dollars.

Fitch considers announced measures within the capacity of state and local governments to absorb at current rating levels. There will be additional measures from state and local governments including revenue forecast updates, supplemental appropriations and draws on reserve funds. Many state and local governments are also in the midst of the budget enactment process for the upcoming fiscal year and enacted budgets are likely to account for coronavirus effects to the extent possible.

Plausible estimates as to the extent of the U.S. population ultimately to be afflicted with the coronavirus are wide ranging. A macro and financial market shock can have significant knock-on events, and, depending on the magnitude and duration, the effects on the housing market and other currently unanticipated factors that could affect state and local government credit quality may need to be assessed. Fitch will continue to monitor state and local governments in the context of the shifting and complex effects of the coronavirus.

Contact:

Eric Kim
Senior Director
+1-212-908-0241
Fitch Ratings, Inc.
Hearst Tower
300 W. 57th St.
New York, NY 10019

Arlene Bohner
Senior Director
+1-212-908-0554

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

Additional information is available on www.fitchratings.com

XBRL US CAFR Taxonomy Released with New Statements, Schedules and Footnotes.

Now includes Single Audit Report schedules for municipalities and other federal grantees

XBRL US announced today the public review of the third version of the demonstration

Comprehensive Annual Financial Reporting (CAFR) Taxonomy, which now includes seven financial statements, two footnotes, and two schedules from the Single Audit Report. The taxonomy will be published for a 60-day review period to give state and local governments, software providers, municipal securities analysts, and other users of government financial data, the opportunity to review the new and revised data standards and provide input on definitions, references, and the structure of the taxonomy. The taxonomy and supporting materials were prepared by the XBRL US Standard Government Working Group; it is available at https://xbrl.us/xbrl-taxonomy/2020-cafr/

The new release expands on the previous version which contained the Statement of Net Position; Statement of Activities; Governmental Fund Balance Sheet; and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances.

Version 0.3 now also includes Proprietary Funds statements for Net Position; Statement of Revenues, Expenses and Changes in Net Position; and Statement of Cash Flows. The new release also contains footnotes for Pension and OPEB; as well as the Schedule of Expenditures of Federal Awards, and the Schedule of Questioned Cost, both of which are used in the Single Audit Report.

Single Audits must be filed annually by federal grantees who expend more than $750,000 in federal funds; about 15,000 of single audit filers are state and local governments. With the enactment of the GREAT (Grants Reporting Efficiency and Transparency) Act in December 2019, data standards that render data machine-readable and fully searchable, will be required for information reported in Single Audit Reports submitted by grantees by 2023.

“With the passage of the GREAT Act for grants reporting, building data standards to accommodate Single Audit information is no longer optional,” said Marc Joffe, Senior Policy Analyst at the Reason Foundation and chair, XBRL US Standard Government Reporting Working Group, “XBRL is the most effective means to not only satisfy requirements in the legislation, but to ensure a successful rollout, resulting in greater timeliness, accuracy and automation of reported government financials.”

Materials available for reviewers include the Taxonomy, in XML and spreadsheet format, and a sample XBRL instance document. Those reviewing the taxonomy will have an opportunity to post comments related to individual elements and the structure of the taxonomy.

Members of the XBRL US Standard Government Reporting Working Group include Aquorn Inc., Bond Intelligence, DataTracks, Crowe LLP, Gray CPA Consulting, Intrinio, IRIS Business Services LLC, Lehigh University, Middle Tennessee State University, Novaworks LLC, Reason Foundation, Thales Consulting (CAFROnline), Touro College, Truth In Accounting, Northern Illinois University, the University of Maryland, the University of South Florida, and Workiva. Observers to the Working Group include NASACT (the National Association of State Auditors, Comptrollers and Treasurers) and the US Census Bureau, among other organizations.

About XBRL US

XBRL US is the non-profit consortium for XBRL business reporting standards in the US and represents the business information supply chain. Its mission is to support the implementation of business reporting standards through the development of taxonomies for use by US public and private sectors, with a goal of interoperability between sectors, and promoting XBRL adoption through marketplace collaboration. XBRL US has built standards for government agencies including the Securities and Exchange Commission, the Federal Energy Regulatory Commission, and the Department of Energy, as well as industry sponsored standards for surety insurance, municipal government reporting, and corporate actions. http://xbrl.us

Review the CAFR Taxonomy and participate in the public review: https://xbrl.us/xbrl-taxonomy/202-
-cafr/

Business Wire | March 9, 2020

Muni Bonds Plummet as Few Markets Are Immune From Selloff.

The S&P Municipal Bond Index posts its biggest one-day drop in more than a decade

Municipal-bond prices plunged to record lows Thursday amid a selloff in stocks and other assets, as investors dumped even gold-plated debt.

Yields jumped 58% from Tuesday through Thursday on 30-year bonds, according to Refinitiv, the biggest three-day increase since the firm began keeping records in 1981. The S&P Municipal Bond Index experienced its biggest one-day drop in more than a decade. Bond yields rise as prices fall.

As recently as Monday, the municipal market seemed like a refuge from stock volatility. With fears growing over the spreading coronavirus, investors scooped up munis, pushing yields to a nearly 40-year low.

But prices fell drastically this week after investors pulled $1.8 billion from muni-bond mutual funds over a two-week period. The outflows, which were the first in more than a year, reflect mounting investor concern that the coronavirus will drag down even stable investments such as taxpayer-funded roads and sewers. They may also signal the unraveling of a hypercharged base of buyers that crowded into tax-exempt bond funds to escape the consequences of the 2017 tax law and pushed prices to record levels.

“Today was the weakest day on record for the muni-bond market and prices fell faster than they ever have before,” said Matt Fabian, a partner at Municipal Market Analytics. “To the upside, we’ve gotten rid of some of the pricing excesses of 2019.”

Amid the selloff, the commonwealth of Massachusetts decided to wait for the market volatility to subside. Earlier in the week, it had been planning to do a $268 million bond deal on Thursday to fund its capital plan, but public officials pulled the deal Thursday morning.

On Wednesday, when the deal was still expected to go forward, the state had added a disclosure to its bond prospectus saying the coronavirus could adversely affect the state’s economy.

“There is no way to avoid financial impact,” said State Treasurer Deborah Goldberg.

Aggravating the volatility are fundamental changes in municipal-bond ownership over the past decade. There are far fewer buy-and-hold investors while mutual and exchange-traded funds have added $353 billion in the decade ended Dec. 31, an 82% increase. If investors decide to flee from those funds, they can exhaust their cash on hand and end up selling bonds at a discount.

Broker-dealer Headlands Tech Global Markets received more than 50,000 requests for bids on muni bonds per day on Wednesday and Thursday, compared with a typical 15,000, said Chief Executive Officer Matt Andresen. The number of firms that bid on each request, which typically averages around eight, has fallen to three, he said. Often, Headlands is the only bidder.

Adam Weigold, who manages $5.5 billion in municipal-bond mutual funds at Eaton Vance, said he was surprised to see so many funds selling bonds in response to outflows, rather than using cash to reimburse investors.

“I would have thought there would have been more cash out there,” he said.

Several market professionals said the large number of traders working from home as part of efforts to mitigate community transmission of the virus may have further reduced liquidity in the market because their response times may have been slower without access to multiple screens and sophisticated trading floors.

Not everyone had a bad day. Mr. Weigold, encountered a seller asking 103 cents on the dollar for bonds that Eaton Vance’s analysts had pegged at 110 cents. He ended up taking a pass, he said, when the seller wouldn’t agree to lower the price to 101.

“For me, this is a great opportunity,” Mr. Weigold said.

The Wall Street Journal

By Heather Gillers

Updated March 12, 2020 6:16 pm ET

Publicly Traded Water Utilities Draw Investors.

Stocks of publicly traded water utilities are drawing investors who are searching for sustainable investments

Publicly traded water utilities—usually one of the more stolid corners of the already-conservative utilities sector—have been on a tear for more than a year. Institutions are increasingly on the hunt for investments that meet new environmental, social and governance, or ESG, benchmarks. Meanwhile, individual investors, particularly retirees, are joining in on the rush as they look for safety and dividends.

In the 12 months ended Feb. 27, the water-utilities sector increased 23.9%, versus 10.5% for the Dow Jones Utility Average and 4.7% for the S&P 500. The stock prices of the three largest companies in the sector— Essential Utilities (formerly Aqua America), American States Water and American Water Works —rose 30.9%, 18.3% and 28.4%, respectively.

Looking for do-good stocks

One big aspect of water companies’ appeal is a strong ESG profile. Water firms operate under environmental and governance mandates, and they provide an essential social service—which makes them look attractive in the current climate.

Investors searching for stocks that hit those standards don’t “have much they can look at in the [utilities] sector,” says Angie Storozynski, a former managing director at Macquarie Capital in New York. “Funds with strict ESG mandates cannot invest in most electric utilities because of their nukes and coal plants.”

What’s more, water utilities’ fundamentals are much more appealing, Ms. Storozynski says. “To me,

a water utility is the best kind of a utility, way better than electric or gas. Water utilities have a much longer investment horizon, lower operating risk, face lower customer-affordability pressures. They don't face technology risks."

There are also many fewer water companies on the stock market than other utilities, which means investors will crowd into a few names, driving their prices up. The whole sector consists of just nine publicly traded firms, and "there are only two publicly traded water utilities in the U.S. with a market cap above $10 billion," Ms. Storozynski says.

Reliable dividends

Dividends are another key part of water's appeal—even though on the surface their numbers don't seem to be as attractive as their peers'.

Companies in the water sector have been raising their dividends consistently—but their stock prices have risen even higher, driving down their dividend yields. The water sector's dividend yield now stands at 1.91%, compared with 2.61% for electric and 3.99% for gas, while the utilities sector as a whole yields 2.81%.

Water utilities' "dividend yields are very low versus the average for the S&P 500, and while they all consistently grow their dividends faster than the rest of the market…the total dividend-driven return for water utilities is not so big," Ms. Storozynski says.

Even so, the reliability of dividends paid by water utilities is attractive to investors, she adds.

Indeed, York Water, with an almost miniature market capitalization of about $600 million, has paid a dividend every quarter since 1816, the longest streak in U.S. stock markets, and American States Water, with a much larger market capitalization, $3.2 billion, has raised its dividend annually for the past 64 years, with an average annual total return of 15% from 2009 to 2019—not bad for a stock in a sector best known for its low risk and high regulations.

Mergers and acquisitions among publicly traded water utilities haven't been a substantial factor in recent years. Michael Gaugler, managing director for utilities and infrastructure at Janney Montgomery Scott in Philadelphia, says that there is occasional takeover chatter among the smaller names, but the potential acquirers, the larger water companies, are usually more interested in buying less expensive private or municipal water systems or systems located in a single state, to avoid multistate regulatory oversight.

He also calls water utilities a proxy for the ultrasafe but currently low-yielding 10-year Treasurys, although the sector didn't keep up with the record-shattering rise in bonds (and fall in their yields) at the end of February. Even so, "the only way this group gets, gets clobbered is if rates go the other way," Mr. Gaugler says. "And even then, it's probably a very soft landing."

The Wall Street Journal

By Nick Ravo

March 8, 2020

S&P: Market Volatility Has Varying Impact On U.S. States' Capital Gains Tax

Exposure

Table of Contents

- State Exposure Varies
- Income Inequality
- Top Taxpayers' Reliance On Capital Gains
- Top State Tax Rates
- Income Tax Dependence
- Research Methodology

Key Takeaways

- In past recessions, stock market declines haven't affected U.S. state revenue collections uniformly, and thus some states are more exposed than others.
- At the same time, some states have received windfall capital gains tax revenue in recent years as the stock market has reached new highs.
- States most at risk from a drop in capital gains tax revenue rely on a disproportionate share of income tax from their top taxpayers, have high top tax rates, and derive a high proportion of their operating revenue from income tax.
- When the cycle turns, states we see as having potentially the greatest exposure to a drop in capital gains tax include in order of risk: California, New York, Connecticut, Massachusetts, and Oregon.

Continue reading.

Corporate Equity and Municipal Debt CUSIP Request Volumes Climb Higher.

Data Through February Shows Strong Volume of Pre-Market Activity

NEW YORK, March 13, 2020 /PRNewswire/ — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for February 2020. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a significant surge in request volume for new corporate equity and municipal debt identifiers

CUSIP identifier requests for the broad category of U.S.- and Canada-issued equity and debt totaled 5,353 in February, up 23.7% from last month and 14.0% on a year-over-year basis. (Year-over-year stats and changes measure the year-to-date totals for 2020 and historical year-to-date totals for 2019.) The increase in volume was driven by a 22.9% monthly increase in request for new U.S. corporate equity identifiers and a 62.6% monthly increase in requests for Canadian corporate identifiers. Requests for new U.S. corporate debt identifiers fell 11.8% from January to February

Municipal CUSIP request volume increased in February. The aggregate total of all municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – rose 10.8% versus January totals and 23.2% on a year-over-year basis.

"Through February, we are continuing to see strong request volume across most major asset classes, but we are not yet seeing what impact the market shock created by the COVID-19 outbreak will have on issuance," said Gerard Faulkner, Director of Operations for CUSIP Global Services. "We will be monitoring this data closely in the coming weeks."

Requests for international equity and debt CUSIPs were mixed in February. International equity CUSIP requests increased 27.4% versus January and increased 31.7% on a year-over-year basis. International debt CUSIPs decreased 12.1% on a monthly basis and increased 53.7% on a year-ove--year basis.

To view the full CUSIP Issuance Trends report for February, please click here.

Public Finance Network Submits Letter on Economic Stimulus Bill.

On March 12, 2020, the Public Finance Network (PFN) submitted a letter to congressional leadership and the Trump administration imploring the government to keep the municipal market in mind when drafting a potential economic stimulus bill in response to the COVID-19 outbreak. The letter states that municipal bonds have the capacity to provide immediate relief to those affected and be implemented in a longer-term economic stimulus.

The letter requests to include temporary extension and permanent restoration of financing tools utilized by state and local governments, schools, hospitals, airports and special districts and other public sector entities to provide efficient and low-cost financing of critical investments and infrastructure. The three main policy suggestions in the letter include: restoration of advance refunding of tax-exempt bonds, restoration and expansion of the use of direct-pay bonds, and increased access to capital for small borrowers.

You can read the full letter to congressional leadership here. The same letter was also sent to Larry Kudlow, Director for National Economic Council and Steven Mnuchin, Secretary of the Treasury.

Some Muni Bonds Are Left Behind in Rush to Safer Investments.

Investors shy away from debt likely to be affected by coronavirus epidemic, such as travel and hospitality bonds

Municipal-bond prices have surged as the potential impact of the novel coronavirus has driven investors into safer assets. But not all bonds have enjoyed the rally, with investors shying away from riskier debt and from securities likely to be affected by the virus, namely travel and hospitality bonds.

Investors are paying less for debt from convention-center hotels and airports as the potential economic reach of the coronavirus becomes clearer. Overall prices on riskier bonds have fallen as well, with investors pulling money from high-yield funds and the S&P Municipal Bond High Yield Index experiencing its biggest one-day drop in more than three years Monday.

Some investors have become increasingly concerned that amid signs of a global slowdown, these less creditworthy bonds carry more risk than they are worth, analysts said.

“A whole bunch of municipal-bond credits are reliant on a well-functioning economy, are reliant on a well-functioning transportation industry,” said Nicholos Venditti, a portfolio manager at Thornburg Investment Management. “That’s a little scary.”

Overall, municipal-bond prices have continued to climb in the roughly $4 trillion muni market as investors seek out safe-haven investments, driving yields to a nearly 40-year low Friday, according to Refinitiv.

Muni bonds have been a sought-after investment over the past several years as falling supply and the increasing value of the tax exemption on municipal-bond interest have stoked demand. That leaves plenty of room for prices to fall as the market reacts to risks associated with the virus.

Yields rose between 12% and 35% from Feb. 28 to March 5 on a sampling of a dozen bonds backed by airports, airlines, a convention-center hotel and an amusement park, according to an analysis by Jon Barasch, director of municipal evaluations at financial analytics company ICE Data Services. The comparison is based on trade data and the firm's valuations of those bonds.

That contrasts with the broader municipal market, where yields fell 10% for five-year bonds over the same period and rose by a maximum of 3% for longer-maturity debt, according to ICE Data Services' Muni Yield Curve.

Beginning March 2, "the weakness became more prevalent," Mr. Barasch said. Yields rise as prices fall.

While municipal bonds are most often the liabilities of state and local governments with the power to collect taxes and fees, about $784.5 billion is issued on behalf of nonprofit or for-profit businesses, according to Federal Reserve data, typically for projects thought to have some public benefit, such as economic development.

Prices dropped on some bonds backed by airline payments last week, Municipal Securities Rulemaking Board data show. Bonds issued in October to build an aircraft-maintenance facility at Los Angeles International Airport traded at 115 cents on the dollar Thursday, down from nearly 119 cents on the dollar in mid-February. Bonds that financed a passenger terminal construction project at Houston's George Bush Intercontinental Airport, which last traded around 107 cents on the dollar in late 2018 and which analysts had valued at about 106, sold for 103 cents on the dollar on Friday.

Meanwhile, the S&P Municipal Bond High Yield Index dropped every trading day last week and fell more than three-quarters of a percent Monday, the biggest one-day drop since November 2016. The VanEck Vectors High-Yield Municipal Index ETF had its biggest price drop in at least five years Monday, a decline of more than 5%, as investors continued to pull money from high-yield munis.

Mr. Venditti said that the municipal market tends to react more slowly than the corporate-bond market, where bond prices have already fallen for many companies whose fates are linked to travel or economic growth. "Ultimately that lag may cost investors," he said.

For example, tax-exempt municipal bonds backed by United States Steel Corp. could fetch a yield of 2.394%, or an estimated 3.8% after taxes if sold today, according to an analysis of Bloomberg data by Mr. Venditti. That compares with an expected yield of 10.801% on the company's corporate debt.

It isn't just the infrastructure and transportation sectors that are vulnerable. High-yield muni-bond funds often contain the debt of senior-living facilities and financially distressed local governments, two borrowers looking particularly susceptible to the impact of the coronavirus. Long-term-care facilities around the country are bracing themselves after a facility in Kirkland, Wash., emerged as the site of some of the earliest U.S. cases. Meanwhile, stock selloffs and record-low bond yields are putting dents in public pension funds, threatening to drive up yearly retirement costs for local governments.

Investors pulled $128.5 million from high-yield municipal bond funds for the week ended last Wednesday, contributing to the first week of outflows from all muni funds in more than a year. Investors also pulled money out of high-grade muni funds, reflecting what Refinitiv senior market strategist Daniel Berger said may be an emerging preference for more liquid safe-haven investments such as Treasurys.

The Wall Street Journal

By Heather Gillers

Updated March 10, 2020 6:10 pm ET

Municipal Bond Issuers Halt Billions of Sales in Market Rout.

- **About $7 billion in planned sales were canceled or delayed**
- **The municipal market suffered its worst sell-off on record**

The worst municipal-bond market sell-off on record drove state and local governments to cancel or delay $7 billion of debt sales as yields soared and underwriters balked at bidding in auctions.

School districts in Nevada, Pennsylvania and Texas, as well as state agencies in Rhode Island, New York and Virginia, were among those that shelved offerings planned for this week, according to data compiled by Bloomberg.

The retreat came as municipal-bond prices tumbled sharply, driving up yields on even the safest 30-year securities by nearly a full percentage point, as panic about the spreading coronavirus rippled through Wall Street. The riskiest debt was hit particularly hard as investors pulled a record $1.7 billion from high-yield municipal funds in the week through Wednesday, according to Refinitiv Lipper US Fund Flows.

Municipal-bond sales — particularly those for lower rated borrowers — shift to a different day on occasion as banks seek more time to drum up bidders. But they're rarely postponed en masse due to broader market moves.

Amid the sell-off that followed the 2016 presidential election, some state and local governments pressed pause on many sales after a sharp up-tick in rates. At the time, New York City shelved a $1 billion sale of tobacco-settlement backed bonds and Los Angeles International Airport postponed a $436 million issue for capital projects.

Some of the largest sales postponed or moved to day-to-day status this week were $505 million in debt from the Virginia Public Building Authority, $450 million from the Ohio Water Development Authority and $340 million in pension bonds planned by Ontario, California.

Two governments in Arkansas, one in Georgia and one in New Mexico rejected bids sent in by underwriters for their sales and others received much less interest than normal, according to data compiled by Bloomberg.

Johnson City Central School District in New York had just one bidder, TD Securities, on their $10 million sale on Thursday, while in 2018 the district had five banks vying for its debt. At least one issuer, Merrimack County, New Hampshire, didn't receive any takers on its $17 million short-term

note sale, data collected by Bloomberg shows.

Bloomberg Markets

By Danielle Moran and Sophia Sung

March 13, 2020, 7:40 AM PDT

— With assistance by Matthew Begley

For the Muni-Bond Market, It's the Worst Week Since 1987.

- **State and local government debt is headed toward a 4.2% loss**
- **It wiped out $66 billion in an index's market capitalization**

Municipal-bond bankers, traders and investors are closing out their worst week since 1987.

State and local government debt is headed toward a 4.2% loss, the biggest weekly drop since at least May 1987, according to data compiled by Bloomberg. That wiped $66 billion from the Bloomberg Barclays municipal-bond index's market capitalization.

It's unclear whether more pain is ahead as the coronavirus threatens to shut down broad swaths of the economy and causes fearful Americans to pull out their cash. The market showed signs of stabilizing on Friday, much to the relief of investors who saw 30-year benchmark yields jump about half a percentage point on Thursday alone, a record. Yields were mostly unchanged on Friday afternoon.

UBS Financial Services strategists said in a note on Thursday that they expect more volatility until there are signs of containment of the virus. They said investors are likely to keep pulling their money from mutual funds, which could slow down a rebound in prices.

People in the industry can commiserate with others, like stock traders, who had a bad week, too. In 1987, municipals at first felt the hit alone. That May, the state and local securities market fell 5% in a week. Later that year, the stock market crashed in a rout known as Black Monday, which wasn't rivaled until this week.

Bloomberg Markets

By Amanda Albright

March 13, 2020, 12:33 PM PDT

Oil Crash Slams Municipal Bond Issuers (Podcast)

Alaska is among several U.S. states that need much higher oil prices to fund their budgets. Bloomberg reporter Fola Akinnibi joins hosts Amanda Albright and Joe Mysak to assess the outlook after the crude market tumbled. Plus, muni market mayhem as spreads and volatility spike.

Play Episode

Bloomberg Markets

March 12, 2020 — 9:55 AM PDT

S&P: U.S. Oil-Producing States' Fiscal Preparedness Varies As Prices Collapse

NEW YORK (S&P Global Ratings) March 11, 2020–A sustained period of low oil prices is likely to generate negative credit pressures on U.S. oil-producing states (Alaska [AA/Stable], Louisiana [AA-/Stable], Montana [AA/Stable], New Mexico [AA/Stable], North Dakota (AA+/Stable), Oklahoma (AA/Stable), Texas (AAA/Stable), and Wyoming (AA+/Stable)). While shock declines in commodity prices are not new, the timing of this latest rout has potential to upend recent fiscal and economic improvement. It was not until last year–nearly five years after the last price rout–that S&P Global Ratings observed all oil-producing states having positive economic growth (see "With Oil Price Volatility, Recent Economic Gains In U.S. Oil-Producing States Are at Risk," published March 12, 2019, on RatingsDirect). If prices do not rebound quickly or if states fail to make timely budget adjustments, we may see varying degrees of lower-than-expected year-end results for fiscal 2020.

Any sharp pull-back in exploration and production is likely to inflict considerable strain on the economies of oil-producing states, particularly those that lack diversification. Should those states slip back into an economic recession, the three hardest-hit employment sectors will likely be construction, natural resources, and mining; manufacturing; and trade, transportation, and utilities.

The price shock will likely result in many states reconsidering current revenue forecasts and revising proposed fiscal 2021 budgets. S&P Global Ratings recently lowered all of its West Texas Intermediate (WTI) and Brent Henry crude oil price assumptions this week (see "Unrestrained Supply Swamps Oil Outlook: S&P Global Ratings Revises Oil & Gas Assumptions," published March 9, 2020, on RatingsDirect). WTI was revised to $35/bbl for 2020 and to $45/bbl for 2021 from $55/bbl. For fiscal 2020, most states had a price assumption of $50/bbl or higher when enacting their budgets.

S&P Global Ratings has long held that the outsized budget reserves of oil-producing states have provided an effective fiscal cushion during a transition to lower oil prices. Over the past five years, a changing economic outlook and a wide range of fiscal adjustments resulted in an easing of the negative pressure facing state credit quality. However, a fiscal shock to these states, so soon after their economic recovery, is likely to create a challenging budgetary environment.

What we are watching in oil-producing states

Alaska, the state most reliant on oil-related revenue, has depended on reserves to balance its budget since fiscal 2015. A period of austerity and using its vast investment earnings for general operations have provided recent budget relief as traditional reserve balances declined. However, equity market volatility and low oil prices, with already deep expenditure cuts, may limit the state's fiscal flexibility.

While Texas is the nation's largest producer of crude oil and natural gas, its economy has generally shifted toward broad diversification spurred largely by strong demographic trends and growth in the technology and service industries. Nevertheless, the state's extensive oil and gas activities have contributed to its strong economic growth. Following the last oil price shock, Texas' economy grew

faster than all other oil-producing states, with real economic growth among the top ten of all states nationally.

Given their size, North Dakota and Wyoming are highly susceptible to energy market volatility, undergoing significant employment growth and contraction during the energy market's boom-an--bust cycles. While mining-related revenue makes up a significant portion of the states' budgets, each has sizable operating reserves to offset revenue volatility. However, Wyoming has been running substantial operating deficits for years as the result of declines in coal severance tax, which increased oil production has not entirely offset. Louisiana, which previously used one-time budget measures (including using reserves) to balance its budget, has over several years continued to work to strengthen its reserves position to help cushion potential economic softness.

Oil-related revenue makes up a small portion of Oklahoma's and Montana's budgets. However, oil production is a significant generator of statewide employment. Oklahoma was already seeing revenue softening this year. A prolonged suppression of oil and gas prices is likely to disrupt business activity and consumer spending, weakening income and sales taxes (Montana does not have a sales tax).

New Mexico, similar to other oil-producing states, has used recent increases in revenue to address pent-up service demands with fiscal 2020 budgeted expenditures increasing nearly 12% year over year. However, the state still has very strong reserve levels, budgeted at 25% of recurring spending. The state legislature has approved a fiscal 2021 budget with further boosts in expenditures. However, the governor has not yet signed it, and based on the recent oil price drop, is likely to announce substantial line-item vetoes to create a cushion against potential revenue decline, with an emphasis on cutting one-time spending.

This report does not constitute a rating action.

S&P Global Ratings, part of S&P Global Inc. (NYSE: SPGI), is the world's leading provider of independent credit risk research. We publish more than a million credit ratings on debt issued by sovereign, municipal, corporate and financial sector entities. With over 1,400 credit analysts in 26 countries, and more than 150 years' experience of assessing credit risk, we offer a unique combination of global coverage and local insight. Our research and opinions about relative credit risk provide market participants with information that helps to support the growth of transparent, liquid debt markets worldwide.

S&P: Lower Oil Prices May Create Budget Pressures For Some U.S. Local Governments And School Districts

Table of Contents

- Prolonged Low Oil Price Could Exacerbate Pressures
- Operation Categories
- What We Are Watching For In Oil-Producing States
- Related Research

Key Takeaways

- A prolonged period of low oil prices could pressure employment, assessed valuation, and the general economic outlook of local governments throughout oil-producing states.

- We believe that sales tax revenues are at greatest risk for significant declines in oil-producing states, based in part on historical performance during the previous period of low oil prices.
- Risks vary across states given industry exposure, particularly when considering the different facets of upstream, midstream, and downstream operations.

Continue reading.

A Lot of 'Game Show' Pricing In Muni Market: Kazatsky (Radio)

MUNIS in FOCUS: Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence, discusses the hi-yield muni rout, and airport economy risk. Hosted by Lisa Abramowicz and Paul Sweeney.

Play Episode

Bloomberg

March 13, 2020 — 10:53 AM PDT

Risky Munis Haven't Fallen This Much Since Trump's Election.

- **Muni high-yield index fell 1.5% each of the last two days**
- **Airlines, tobacco bonds lead decline in worst month since 2016**

The coronavirus is crushing high-yield municipal bonds.

Risky state and local government debt issued on behalf of airlines, oil companies, or backed by a national settlement with tobacco companies has declined 1.5% each of the last two days as investors were spooked by the impact the virus and crashing oil prices will have on the economy. VanEck Vectors High Yield Municipal Index ETF, the biggest high-yield municipal bond exchange traded fund, declined more than 8% during the first two days of the week, though it pared those losses with a 0.4% gain as of 11:31 a.m. Wednesday.

"We're probably in for a little bit of a rocky market for a while," said Dan Solender, head of municipal debt at Lord, Abbett & Co. "The energy sector is not huge for us, but there's still a lot of investors out there that see high-yield taxables having their issues and then just decide they're going to pull money out of high-yield munis."

High yield niche sees biggest rout since Trump's win
The last time high-yield municipal bonds fell more than 1.5% in a day was Nov. 14, 2016, following Donald Trump's election, as investors speculated his plans to cut taxes and boost spending would spawn inflation and erode the value of tax-exempt debt. They were wrong on both counts. Investors later flocked to tax-exempt debt after the Republican tax-bill limited state and local tax deductions and curbed the supply of new bonds by doing away with a major refinancing tactic. Underlying inflation has remained tame, although asset prices have ballooned.

Funds are selling their most liquid bonds like tobacco to raise cash for redemptions, according to Solender.

The Bloomberg Barclays Municipal Bond High Yield Index is down 3.1% this month. It declined 6% in November 2016.

Bloomberg Markets

By Martin Z Braun

March 11, 2020, 8:45 AM PDT

Muni Bonds Plummet as Virus Fallout Throws Market into Freefall.

- **10-year municipal-bond yields climb as much as 24 basis points**
- **Municipals are getting 'mauled' as retail investors pull back**

For days, there was one corner of U.S. financial markets that seemed oddly impervious to the turmoil wreaking havoc this month: the municipal-bond market.

On Wednesday, the comparative calm in the safe haven of the state and local debt market came to an end as prices were poised for their worst drop in at least nine years.

Yields on 10-year benchmark state and local government debt jumped 22 basis points to 1.15% as of 1:00 p.m. Wednesday, heading for the biggest one-day leap since Bloomberg's records began in 2011. Yields on long-dated bonds rose 24 basis points.

"The muni market is getting mauled," said Matt Dalton, chief executive officer of Belle Haven Investments, which oversees $11.5 billion of municipal debt. "Hedge funds are dumping yield, flows are negative as everyone wants to re-balance portfolios toward equities, which we believe may be too soon to do that."

The financial turmoil caused by the worsening outbreak of the coronavirus sent yields on the safest assets to new lows earlier in the week as global equities tumbled. But after stock prices stabilized, municipal-debt prices slumped Tuesday, and accelerated the drop Wednesday, erasing earlier gains. The swings struck the new issue market, where some state and local borrowers shelved planned deals, indefinitely postponing offerings that had been scheduled for months.

"Obviously, we had not anticipated the market volatility due to the coronavirus, oil situation, and the FOMC's emergency rate cut when our original sale date had been set," said Mark Mathers, the chief financial officer of Washoe County School District in Nevada, which postponed a $215 million sale set for this week.

The spreading virus poses risks to sectors like high-yield municipals, which have seen spreads widen, and airports, which are at risk of people avoiding flights. Some investors may be trying to sell certain securities that could be impacted by the virus. VanEck Vectors High-Yield Municipal Index ETF, the biggest high-yield muni ETF, has declined 8.5% since Friday.

Municipal-bond mutual funds lost $250 million during the week ended March 4, ending 60 consecutive weeks of inflows to tax-exempt funds, according to Refinitiv Lipper US Fund Flows data. Jeffrey Lipton, a managing director at Oppenheimer & Co., said he wouldn't be surprised to see another week of outflows when they report on Thursday.

"As long as the volatility continues and the uncertainty with Covid-19, I think we can expect to see

some continued credit concerns, credit pressure — which obviously flows from high-yield upward to even the higher-quality credits," Lipton said.

The state and local government sell-off marks a sharp reversal from much of the last 14 months, when demand for state and local government debt seemed insatiable. Record inflows drove down bond yields even on the riskiest segments of the market and some investment-grade bonds in high-tax states traded better than AAA-rated benchmark yields.

A New York City general-obligation bond that matures next year traded as high as 0.95% yield Wednesday, more than double the yield on a one-year Treasury bond.

Belle Haven Investments's Dalton said that the market's bid-wanted lists are "massive in terms of line items" and many securities aren't receiving any interest.

"The last time I saw deals like we are getting today was when Meredith did her 60 Minutes interview," he said referencing, Meredith Whitney, the financial analyst who erroneously predicted in December 2010 that the coming year would see a wave of municipal defaults.

Bloomberg Markets

By Danielle Moran, Martin Z Braun, and Amanda Albright

March 11, 2020, 10:41 AM PDT

Frantic Muni Sell-Off Sends Yields Surging Most on Record.

- **30-year benchmark yields surge 51 basis points to 2.32%**
- **'I don't think anyone knows what's going on,' investor says**

America's state and local government bonds are usually a haven from financial havoc. Not this time.

Waves of panicked selling are racing through the $3.8 trillion market, causing prices of even the safest securities to tumble and driving up 30-year yields by an unprecedented 51 basis points Thursday. The amount of securities being put out for bid by investment managers has surged as they rush to raise cash. And municipal junk bonds — like those backed by airlines or state tobacco settlements — are in the midst of the biggest rout in more than two decades.

"I have never seen cuts like this," said Matt Dalton, chief executive officer of Belle Haven Investments, refering to the swift drop in prices.

The sell-off marks a dramatic about face for the municipal-bond market, where prices rose steadily until last week as the securities acted as a refuge from the stock-market's slide. Yet even as investors flocked into Treasuries Thursday, state and local debt yields surged by the most on record, as those on 30-year securities soared to 2.32% from as little as 1.38% Monday, according to Bloomberg's benchmark indexes.

"It's up one day big, it's down one day big," said Jason Appleson, a portfolio manager for PT Asset Management LLC. "I don't think anyone knows what's going on."

The fear about the steadily spreading coronavirus is raising the risk of another mass exodus from the market, which is dominated by risk-averse individuals who tend to pull back in droves when prices

drop. That happened in the wake of the last recession because of misplaced speculation that there would be widespread defaults and again in 2013 on concern about rising interest rates.

The unprecedented risk of a potentially virus-induced recession is making individuals reluctant to invest, and a downturn in consumer spending and travel could hit airports, convention centers and others that have issued municipal bonds. But analysts say this week's selling has been driven more by fear than credit risk.

"Historically when there have been scares like this, it creates panic selling because of the investor base," Appleson said.

The type of securities held by high-yield funds were particularly hard hit. Some backed by Ohio's share of the legal settlement with cigarette companies tumbled to as little as 87 cents on the dollar, a 13% drop from the average price on Wednesday. Puerto Rico sales-tax-backed bonds also fell.

Yet even bonds that have essentially no risk of defaulting, like those backed by the states of California and Maryland, also dropped. The yield on top-rated 10-year bonds is now about 1.65%, more than twice what it is on comparable Treasuries. That's the biggest gap since at least 2001.

"Those are like 2008-type figures," said Gabriel Diederich, portfolio manager at Wells Fargo Asset Management.

That diverging direction of Treasuries and municipal bonds is threatening to compound the losses for some investment funds, which frequently make side bets against Treasuries to protect against the risk of higher interest rates. Those losses are coming just as investors are pulling out cash, forcing them to sell municipal securities to meet the redemptions.

The amount of bonds out for bids reached $2.5 billion Wednesday, the most since 2016, as investors look to get out of their holdings, according to data compiled by Bloomberg.

"They're getting hit on both sides," said Christopher Lanouette, a managing director for CIBC Private Wealth Management, who said he's getting more defensive in the current market environment. "It's difficult to have a lot of conviction."

Bloomberg Markets

By Amanda Albright, Fola Akinnibi, and Martin Z Braun

March 12, 2020, 9:24 AM PDT Updated on March 12, 2020, 10:46 AM PDT

Bond ETFs Face Toughest Liquidity Test Yet in Virus Turmoil.

- **Fixed-income funds are trading at discount to net asset values**
- **Arbitrage isn't compelling amid bond market upheaval: Perlman**

Bond ETFs are highlighting signs of liquidity stress in broader markets, with cash prices trading at persistent and deep discounts to the value of the underlying assets.

The $31 billion iShares iBoxx $ Investment Grade Corporate Bond ETF closed at a discount of 3.3% to its net asset value on March 11, the largest such divergence since 2008, according to data compiled by Bloomberg. Meanwhile, the $23 billion iShares 20+ Year Treasury Bond fund's price

has dropped 5% below its net-asset value, the most ever. And even the U.S. municipal market is feeling the squeeze: The VanEck Vectors High Yield Municipal Index ETF traded at a record 8.3% discount on Wednesday.

The historical volatility roiling American bond markets has created unprecedented dislocations in the ETFs that track them. But the market makers who normally step in to repair price inconsistencies, pocketing a virtually risk-free profit, are cautious. That's because their standard process has become significantly more complicated with many of their usual price gauges are out of whack.

It's not uncommon for an ETF to drop below its net-asset value — but it is unusual to see a continuation of that. In normal market environments, such a decline presents an arbitrage opportunity for certain middlemen known as authorized participants. Typically market markers will buy shares of the ETF as its price drops and redeem these shares with the issuer in return for the underlying bonds. The authorized participant will then sell those securities to capture a relatively risk-free profit. By reducing the supply of ETF shares, the fund's price typically returns to tracking the fund's net asset value.

But as the coronavirus outbreak unleashes historical turbulence in financial markets and liquidity dries up, ETFs spanning the bond spectrum are trading at steep discounts. That dynamic will likely persist until volatility subsides and market makers have a better sense of where they can sell the underlying debt, according to UBS Global Wealth Management's David Perlman.

"The market price is going to drop down to where the authorized participant believes that they'll be able to trade the bonds. They're not doing this out of the goodness of their hearts," said Perlman, an ETF strategist at the firm. "They don't jump in until they think they can execute the redemption and make a profit from doing so."

The inherent rub is that fixed-income ETFs, which trade on exchanges and behave like stocks, are much more liquid than the securities they hold. That's fueled fears that in the event of a sell-off, investors scrambling to redeem their holdings would overwhelm the managers, or the traders that channel bonds into and out of the funds. The likes of Mohamed El-Erian of Allianz SE and Scott Minerd at Guggenheim Partners have suggested they could act as a potential destabilizing force in illiquid credit markets where they have an outsized trading share.

Now, as credit spreads blow out and investors rush for the exit, fixed-income ETFs are being put to the test. That has Peter Tchir at Academy Securities concerned that authorized participants — in the process of selling the underlying bonds to lock in the arbitrage — will exacerbate the sell-off.

"That means, to me, that we are about to enter a cycle driven by arbitrage, where there is more pressure on short-dated corporate than the market can handle, causing a vicious cycle," Tchir, head of macro strategy, wrote in a note Thursday.

So far, there's little evidence to support the theory. But there have been a few early success stories: High-yield bond ETFs. The iShares iBoxx High Yield Corporate Bond ETF, ticker HYG, ended Monday with a modest discount of half a percentage point to its net-asset value even as its price dropped by the most since 2009. The ETF actually added $409 million of inflows that day, suggesting that despite the steep sell-off, there were buyers to be found.

And while shifting cash on a short-term basis may be more challenging this week, buy-and-hold investors likely haven't been impacted by the turmoil — beyond the price of their investments falling.

“If you’re a long-term investor who’s looking to add an ETF position to a portfolio of bonds, for example, the trading liquidity becomes less important,” said Patrick Luby, senior municipal strategist at CreditSights.

Still, it’s crucial to be cognizant of each market’s idiosyncrasies, according to UBS Wealth’s Perlman. While this episode likely isn’t the ETF liquidity reckoning that naysayers have called for, the ease of trading an ETF is ultimately dictated by its underlying market.

“We remind our clients that you do want to take into account the liquidity of the underlying market because ultimately that liquidity is going to be reflected in the price of the ETF during these challenging periods,” Perlman said. “The ETF wrapper makes it easier to trade, but it doesn’t make liquidity costs disappear.”

Bloomberg Markets

By Katherine Greifeld

March 12, 2020, 10:55 AM PDT Updated on March 12, 2020, 2:19 PM PDT

Fixed-Income ETFs Are Trapped in Bond Market’s Liquidity Crunch.

- **Bonds ETFs trading at steep discounts as liquidity vanishes**
- **Arbitrage opportunity less attractive amid swings: Schawel**

As fixed-income markets buckle under wild swings and scarce liquidity, the strain is starting to show in bond exchange-traded funds.

Cash prices in some of the most actively traded bond funds are now at steep discounts to the value of their underlying assets. The largest debt ETF — the $74 billion iShares Core U.S. Aggregate Bond fund — closed at a 4.4% discount to its net asset value on March 12, the largest divergence since 2008, according to data compiled by Bloomberg. Meanwhile, the $31 billion iShares iBoxx $ Investment Grade Corporate Bond ETF’s price fell 5% below its net-asset value on Thursday, also the largest discount since 2008.

The havoc is reigniting arguments around fixed-income ETFs, which trade much more liquidly than the assets they hold. Critics have long warned the products were a pressure point that would crack in volatile times, as investors rush to redeem their holdings during a sell-off. But just as many arguments exist that ETFs give participants in less-active markets better prices in times of stress — and an exit route.

“The ETF at least gives you some way to get out if you need to. you’re going to pay up for it, but if you have to get out, at least there’s liquidity somewhere,” said Eric Balchunas, senior ETF analyst at Bloomberg Intelligence. “The distance between the ETF and the NAV provides a great measure of the liquidity in the underlying market.”

Rampant turbulence across bonds markets is souring appetite for the arbitrage opportunity that normally keeps ETF prices in lockstep with a fund’s value. Normally, middlemen known as authorized participants will buy shares of a falling ETF in order to exchange for the underlying bonds with the fund’s issuer. That market maker will then sell those securities to pocket a virtually risk-free profit. The ETF’s price usually snaps back to the fund’s net-asset value as the supply of ETF

shares is reduced.

But fear over the coronavirus's economic fallout has unleashed historical volatility in fixed income, making it harder to unload the underlying bonds. As a result, the ETFs are trading at persistent discounts as thin liquidity sidelines market makers.

"If the authorized participants felt that they could buy an ETF at a 15% discount and then turn around and sell those components to the cash market 15% higher, they would," said David Schawel, chief investment officer at Family Management Corp. "But clearly they feel like there's not enough activity in the cash market, therefore they can't do that."

The carnage is notable across the risk spectrum. A combined $14.4 billion exited from investment credit, high yield and leveraged loan funds this week, the largest withdrawal on record. And even Treasuries — regarded as the ultimate safe haven asset — have suffered this week as investors sold their most liquid securities in order to raise cash.

The stress in fixed-income ETFs is a stark contrast to the landscape in equities, where the sell-off has been rather orderly. The price of the $227 billion SPDR S&P 500 ETF Trust — the largest ETF — dropped just 0.13% below its net-asset value on March 12. The second-biggest ETF, the $164 billion iShares Core S&P 500 fund, ended Thursday with just a 0.14% discount.

And the cracks are widening. The $3.6 billion VanEck Vectors High Yield Municipal Index fund's price fell a record 19% below its net-asset value on Thursday, the largest discount in the $4.4 trillion ETF market. And even the early success stories are starting to feel the strain. The iShares iBoxx High Yield Corporate Bond ETF's price has dropped over 1% below its net-asset value, after ending Monday with a modest half a percentage point discount amid its worst day since 2009.

Some are spying opportunity as fixed-income ETFs become further ensnared in the bond market's liquidity crunch. The rapid plunge in prices creates a "unique" entry point for funds trading at a discount, according to Schawel, who pointed to investment-grade corporate bond ETFs as an example.

"There's a leap of faith if you think that you're buying a discount because the cash markets aren't functioning very well," Schawel said. "If these are assets that you're wanting to own anyway, then I think it's a very unique opportunity to buy things at an even greater discount."

Bloomberg Markets

By Katherine Greifeld

March 13, 2020, 9:34 AM PDT

[High-Yield ETF Rout Widens Gap With Benchmarks.]

The structure of credit funds at least partially exacerbated the losses and volatility.

A rush to the exits has always raised fears of a liquidity mismatch.

Ever since the introduction of exchange-traded funds tracking the riskiest bonds, they've been haunted by fears of a liquidity mismatch with the underlying securities when investors stampede

toward the exit. And yet, time and again, those concerns have proved to be unfounded.

During the sell-off in risk assets in December 2018, for instance, the largest ETF tracking junk bonds suffered losses but in an orderly fashion, never stumbling by more than 0.9% in a single day. Even in the past two weeks, the iShares iBoxx High Yield Corporate Bond ETF (ticker HYG) took the market volatility largely in stride. So did the Invesco Senior Loan ETF (ticker BKLN) and the VanEck Vectors High Yield Municipal Index ETF (ticker HYD), which respectively are the largest ETFs tracking the leveraged-loan market and speculative-grade munis. Sure, they declined, but never to an extent that raised eyebrows about the ETF structure itself.

Then Monday happened.

HYG collapsed as much as 6.4%, the most extreme decline since May 2010. BLKN plunged as much as 7.8% in the biggest intraday decline since inception in March 2011. And HYD crumbled as much as 6.1% in the steepest drop since August 2011, just after S&P Global Ratings downgraded the U.S.

Of course, those moves didn't exactly come out of nowhere. The S&P 500 Index tumbled 7.6% and equities worldwide plummeted in what was nothing short of carnage for global financial markets. But a look at the benchmark indexes tracked by the ETFs suggest that the structure at least partially exacerbated the losses and volatility.

The S&P/LSTA Leveraged Loan 100 Index, for instance, fell 2.84% on Monday in the largest one-day percentage drop since November 2008. But that was still less than the 3.09% decline at the close for BKLN and pales in comparison to the ETF's intraday low. Similarly, the Bloomberg Barclays U.S. Corporate High Yield Index fell just 3.12%, and the iBoxx USD Liquid High Yield Index just 3.62%, both short of HYG's 4.3% retreat. And in the biggest deviation from expectations, the Bloomberg Barclays muni high-yield index that HYD tracks fell just 0.86%, compared with HYD's 5.1% plunge.

To be fair, many funds will have some margin of tracking error with their benchmarks, especially during volatile trading days. The $77.8 billion iShares Core U.S. Aggregate Bond ETF, ticker AGG, had some trouble, for instance — its price fell 0.13% compared with a 0.35% gain for the Bloomberg Barclays index it tracks. And the SPDR S&P 500 ETF Trust dropped 7.81% while the S&P 500 itself declined just 7.6%. Those are small enough differences to even out over the course of a few trading sessions.

It's harder to explain away the deviation among the high-yield ETFs. Speculative-grade muni bonds, in particular, are notoriously idiosyncratic and difficult to move in bulk during turbulent market conditions. When trading is calm, the bonds glide higher. And so does the ETF: In 28 of the first 34 trading days of 2020, HYD and its index moved within 10 basis points of each other. On days like Monday, 10 months of price appreciation can disappear within six-and-a-half hours as market makers slash prices on low-rated health-care systems and senior-living facilities.

The high-yield corporate bond ETF has had several days like Monday in which its losses exceeded its benchmark, or vice versa. But it, too, tends to project steadiness during boom times. From Oct. 3 through Jan. 24, a period marked by steady positive returns, the ETF deviated only once from the underlying index to the extent it did on Monday.

Whether the sell-off continues unabated is an open question. U.S. equity futures soared in overnight trading Tuesday on bets that fiscal stimulus would stave off the worst-case economic scenario from the coronavirus outbreak, and the S&P 500 was up 3 percent in early trading. Each of the ETFs tracking risky debt opened higher. Crucially, global primary markets began showing signs of life for some bond issuers. These are hardly favorable conditions for the riskiest corporate borrowers, with

high-yield spreads the widest in four years and double what they were just two months ago, but at least there's a hint of an opening on the horizon.

Buyers of high-yield ETFs will just have to accept that there will be days like Monday. The funds have demonstrated that they're not going to blow up spectacularly like H2O Asset Management or Woodford Investment Management. But there might still be some fireworks along the way.

Bloomberg Opinion

By Brian Chappatta

March 10, 2020, 7:43 AM PD

KBRA Releases Research – Coronavirus (COVID-19) Impacts and Fears: A Focus on U.S. Airport Credit

Kroll Bond Rating Agency (KBRA) releases a research report discussing the growing coronavirus threat and the impact that it may have at U.S. airports.

Over the last week, it has become clear that the new coronavirus' impact will not be limited to distant parts of the world. As confirmed cases of coronavirus infection and deaths increase, U.S. businesses, schools, and families have begun to significantly curtail travel. In the short run, at least, this will impact hotels, airlines, and other travel-related industries. Meanwhile, the myriad secondary effects from supply chain and other economic disruptions has led most economists to believe there is at least a 50% chance of a U.S. recession in late 2020. For the Public Finance market, KBRA notes that all these issues will likely have the most immediate impact on economically sensitive taxes (e.g., sales tax) and on passenger traffic at airports. The extent of this impact will depend on the spread of the disease, the local and federal response to containment, and the public's confidence in those efforts.

In this report, we examine the impact that the COVID-19 threat may have on U.S. airports and the layers of protection that airports typically have available to them against disruptions in air traffic and related revenues. KBRA believes that airport impacts will vary, but our expectations are that strong cost recovery processes will support debt obligation repayment.

To access the report, click here.

Business Wire

March 5, 2020

S&P: COVID-19's Potential Effects In U.S. Public Finance Vary By Sector

With the COVID-19 outbreak having spread to 40 countries around the world including the U.S., S&P Global Ratings has updated its narrative on the economic and credit implications (see "COVID-19's Darkening Shadow"). Given that update, in this report we provide insight on what we will be watching in regard to credit conditions in U.S. public finance. (Also see "U.S. Public Finance 2020

Sector Outlooks Published," published Jan. 16, 2020 on RatingsDirect.)

Key Takeaways

- The growth forecast for the U.S. economy has been reduced as a result of the spread of the virus across the globe and we have seen record volatility in the equity markets. These are not welcome developments for U.S. public finance issuers.
- The economic fallout from the coronavirus has become more acute and there are sector-specific issues that could weigh on credit quality.
- The spread and timing in the U.S. and how it is managed will ultimately determine the credit implications across U.S. public finance.

Continue reading.

Muni-Bond Buyers Get a Coronavirus Warning in California Sale.

- **An economic crimp caused by virus could stunt budget**
- **State about to sell $2.2 billion of general-obligation bonds**

It didn't take long for an issuer in the $3.8 trillion municipal-bond market to warn investors that the coronavirus rapidly spreading around the globe has the potential to wreak fiscal havoc closer to home.

California, the home of the world's fifth largest economy, told prospective buyers of the $2.2 billion of general-obligation bonds that will be sold next week that a stock-market decline or a virus-triggered recession have the potential to stunt California's revenue.

"There can be no assurances that the spread of a novel strain of coronavirus called COVID-19 will not materially impact the state and national economies and, accordingly, materially adversely impact the general fund," California said in offering documents circulated to investors ahead of the bond sale. "While the effects of COVID-19 on the state may be temporary, it appears to be altering the behavior of businesses and people in a manner that may have negative impacts on global and local economies."

California's warning comes as governments globally are trying to come to grips with the virus before the world economy tips into recession. The concerns sent the Dow falling 12% last week, including the single biggest point drop in history. Yields on top-rated U.S. state and local debt maturing in 30 years fell about 18 points last week, the biggest drop since September 2013, as investors plowed into safe havens like bonds sold by California.

While California has enjoyed a robust recovery from the recession, with credit ratings the highest in nearly 20 years and unemployment at a record low, it is vulnerable to market declines because of its reliance on the wealthy for a significant chunk of its tax revenue.

About 70% of the state's general fund comes from personal income-tax receipts and the top 1% of taxpayers accounted for 47% of such collections in 2017, the bond documents say. Such people have their fortunes tied to the stock market, with capital gains accounting for about 10% of the state's annual revenue this year. That leads to volatility generally, and "stock markets in the U.S. and globally have seen significant recent declines that have been attributed to coronavirus concerns," California said in the documents.

The state, where about 40 people are being treated for the illness, told investors that while the impact is “currently uncertain,” it may factor into Governor Gavin Newsom’s updated budget for the next fiscal year to be released in May.

Despite the state’s warning, the bond sale will likely see strong demand from buyers, given the continuing need to invest and shelter income from taxes, said Dora Lee, vice president at Belle Haven Investments.

California 10-year general-obligations are yielding just 7 basis points over top-rated bonds and new securities from the state have been snapped up since the federal tax overhaul capped state and local tax deductions.

Newsom’s administration expects to have $18 billion in the state’s rainy day fund next year, from $16 billion this year, and that could cushion the state somewhat from a recession.

California “is in a better position financially to handle the outbreak than it was even a few years before,” Lee said.

Bloomberg Markets

By Romy Varghese

March 2, 2020, 10:43 AM PST

Muni Bonds Are Menaced by the Coronavirus Spread (Podcast).

Hospital and transportation muni bonds could be hurt by the spread of the coronavirus, says Kathleen McNamara, senior municipal bond strategist at UBS Global Wealth Management. Bloomberg News reporter Amanda Albright and columnist Joe Mysak weigh the outlook. Plus, an ambitious West Virginia project makes a bond-market return.

Play Episode

Bloomberg

March 5, 2020 — 10:07 AM PST

S&P U.S. Municipal Sustainable Debt And Resilience 2020 Outlook: Sprouting More Leaves

Table of Contents

- A Note On The Sample
- State Of The U.S. Municipal Green Market
- The Additionality Question: Are Green Bonds Funding New Projects?
- Other Impact Labels: Sustainability Bonds, Social Bonds, And Beyond
- External Verification Is On The Rise–Will Additional Disclosure Follow?
- Will Rising Discussion Of Resilience And Adaptation Spur Growth In This Nascent Niche Of The

Green Bond Market?
- Why Does Adaptation Remain A Small Part Of The Labeled Bond Market?
- Recent Proposals To Increase Investment In Adaptation And Resilience
- Though Well-Suited For Adaptation Finance, Persistent Challenges Will Impede Rapid Market Segment Growth
- Trends To Watch In Municipal Adaptation Finance

Key Takeaways

- U.S. municipal self-labeled green bond issuance had its strongest year yet in 2019, with 99 issues totaling $10.1 billion in issuance, or 2.4% of the total municipal market.
- Based on recent trends, we project 2020 municipal green issuance of $11.4 billion to $14.0 billion in 2020, with a most likely amount of $13.2 billion.
- Municipal issuers are also issuing debt carrying other labels intended to highlight a financing's environmental, social, and governance (ESG) credentials, most notably sustainability bonds ($2.8 billion in 2019) and social bonds ($621 million).
- For the first time, in 2019, the majority of municipal green bonds had external verification, and 23% of sustainability bonds were Climate Bond Certified.
- Resilience continues to emerge in budgets and capital plans as a focus area for municipal governments, although challenges remain to financing large-scale resilience and adaptation projects.
- Debt financing of adaptation projects remains a largely undeveloped portion of the green bond market, and a mostly untapped portion of the broader municipal market.

Continue reading.

For Growing Numbers of Struggling U.S. Cities, the Downturn Has Arrived.

A boom in some big metropolitan areas has masked fiscal weakness in cities tied to shrinking industries

HARVEY, Ill.—Christopher Clark was elected mayor last year, pledging to seek business tax reductions and lower water bills. They were popular goals that seemed in reach given that city revenues had been rising almost every year since the recession.

On taking office, Mr. Clark quickly figured out the city's progress had stalled. Property tax collections were down, and businesses were cutting jobs. A fall in city revenue, coupled with growing debt payments, meant there would be no relief from business taxes or water bills.

"We just have to figure out ways to do more with less," Mr. Clark said, echoing a familiar mantra surfacing in dozens of U.S. cities.

A decade of growth in the U.S. economy allowed cities to patch fiscal holes left by the financial crisis and recession. A surprising number now see new signs of trouble.

Continue reading.

The Wall Street Journal

by Heather Gillers

March 3, 2020 10:16 am ET

Fitch Ratings Releases Final U.S. Affordable Housing Rating Criteria.

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

Fitch Ratings-New York-05 March 2020: Fitch Ratings has released its 'U.S. Affordable Housing Rating Criteria' following market consultation on the exposure draft published on Dec. 5, 2019. Fitch has concurrently released a Special Report titled 'Feedback Report – Comments on Exposure Draft: U.S. Affordable Housing Rating Criteria', which summarizes the written and verbal responses received during the exposure draft period and Fitch's responses to the feedback.

As a result of market input, the final criteria report incorporates the following key changes:

–A more explicit methodology for rating affordable housing bonds with Low Income Housing Tax Credit (LIHTC) equity.
–Added clarity on Fitch's analytical approach to evaluating debt service reserve funds in affordable housing transactions.
–Recognition of the potential for senior and subordinate bonds and clarification on Fitch's approach to rating a multi-tranche structure.

No additional changes were made to the proposed exposure draft. As Fitch does not currently maintain ratings under the criteria, there is no rating impact resulting from the changes.

Contact:

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

Kasia Reed
Analytical Consultant
+1-646-582-4864

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

Additional information is available on www.fitchratings.com

The Airline Industry's Virus Woes Seep Into a Bond Market Haven.

- **Investors demanding higher yields on airline-backed muni bonds**
- **Bloomberg Barclays index has slipped this week amid pullback**

Even one of the world's safest financial havens isn't totally immune from the coronavirus.

Investors have been demanding bigger yields on state and local government bonds backed by U.S. airline companies, which are already showing signs of being hurt by a slowdown in travel brought on by the widening outbreak. The Bloomberg Barclays index of lower-rated municipal debt tied to airlines — including those secured by lease payments they make on airport terminals — has slid for the past three days, driving it to a loss of 0.88% this month, nearly triple that of the broader municipal junk-bond market.

“It might just be prudent to be cautious on airports in the short-term,” said Peter Stettler, a director for Piper Sandler, an underwriter and investment management firm.

The growing number of cases worldwide and in the U.S. has prompted businesses and vacationers to scale back their travel plans. United Airlines Holdings Inc. and JetBlue Airways Corp. are cutting their number of flights and Southwest Airlines Co. said it expects the epidemic to reduce its first-quarter revenue. The International Air Transport Association Thursday projected the impact of the coronavirus will cost the airline industry $63 billion to $113 billion in lost revenue this year, up from an estimate for a $30 billion loss just two weeks ago.

United Airlines-backed debt issued by the California Municipal Finance Authority that financed a new aircraft maintenance and ground services complex at Los Angeles International Airport traded Thursday at a yield of 2.17%, or about 1.3 percentage points more than top-rated bonds with the same maturity. On Feb. 20 investors demanded a 0.7 percentage point premium.

American Airlines-backed bonds issued in 2016 by a New York agency related to the construction of its terminal at New York’s John F. Kennedy International Airport traded at yield of 2%, about 0.8 percentage point more than where Bloomberg Valuation pegged that spread on Feb. 28.

It’s impossible to judge whether the virus will have a long-term impact, given the lack of certainty about how much it will spread and how severely it affects economic growth. But Piper Sandler has recommended that investors pare their exposure to airports for the short term, especially given how high prices ran up amid the market’s rally over the past few years.

“We expect that to continue but over the next couple of months as this plays out we might see a decline in passenger volume,” Stettler said. “It’s a short-term cautionary play.”

Bloomberg Markets

By Shruti Singh and Martin Z Braun

March 5, 2020, 11:02 AM PST

S&P U.S. Higher Education Rating Actions, 2019.

S&P Global Ratings affirmed 88% of college and university ratings reviewed in 2019. We lowered 17 ratings and raised 14. Notably, of the schools upgraded, three are rated in the speculative grade category (Western Illinois University, Eastern Illinois University, and Sweet Briar College), and three moved from one rating category to another: Boston University, Villanova University, and the University of Alabama Huntsville were all upgraded to ‘AA-‘ from ‘A+’, due to strengthening credit profiles, exemplifying the intensifying bifurcation within the sector. Additionally, the sector saw over twice as many negative outlook revisions (20) as it did positive outlook revisions (7).

Continue reading.

Advancing Municipal Bonds and Infrastructure: BDA Co-Hosts Infrastructure Roundtable on Capitol Hill with Public Finance Network.

Yesterday (March 3, 2020), the BDA along with the Government Finance Officers Association, National Association of Counties, American Public Power Association and BDA member firm Hilltop Securities hosted a roundtable on Capitol Hill titled, ***Muni Bonds 101: Modernizing Infrastructure into the 21st Century***.

The event was kicked off by an introduction from Congressman Steve Stivers (R-OH), the Co-Chair of the House Municipal Finance Caucus, and attracted a standing room only crowd of Hill staff and industry participants and focused on top BDA infrastructure priorities:

- Continued support and protection of the tax-exemption;
- The reinstatement of tax-exempt advance refundings;
- Raising the limit on BQ debt;
- The expansion of PABs; and
- Working to ensure that BABs, if reinstated, would be uncoupled from sequestration.

The panel was moderated by Anne Burger Entrekin, Hilltop Securities Regional Managing Director and featured:

- Kendel Taylor, Finance Director, City of Alexandria, VA (GFOA)
- Commissioner Kevin Boyce, Franklin County (OH) (NACo)
- Jolene Thompson, Executive Vice President of Member Services and External Affairs, American Municipal Power (APPA)

Bond Dealers of America

March 4, 2020

Blockchain: Are Munis Next?

If municipal bonds could talk, they might tell you which town they came from, what specifically they are funding, and who or what backs them. Have a longer conversation and they might share where they have recently traded, how valued they are by others and perhaps more intimate disclosures.

That conversation could provide in an instant the reference data such as issuer, type of bond, guarantor, trading counterparties, transaction prices, and disclosures that you would normally have to pay for today.

Chit chatting with municipal securities may not be practical, however, there are a handful of bonds designed by prominent market participants capable of placing themselves at issuance, paying their own coupon and principal to bondholders, and enabling trading on or off exchanges.

And in the municipal market where the volumes are huge, sizes often small, and details opaque, the

cheapest way to get all of this done may just be to turn bonds into computer programs that can facilitate issuance, exercise options, and feed data to market participants.

No servicers, registrars, custodians, or evaluators — just bonds and you.

Sound far-fetched? Not for the likes of The World Bank, Daimler Chrysler and a handful of others who have issued bonds with some of these traits using the latest "smart contracts" and blockchain technology has to offer. And a number of FinTech firms are creating blockchain-based solutions that are already able to deliver capabilities like this to savvy issuers, investors, and investment banks.

It is easy to see why issuers like The World Bank would want to experiment. With their own annual debt issuance of $54 billion in 2019, the ability to reduce issuance and maintenance costs would be significant and could be applied to further their mission. Some estimate the total savings could top 75% of associated issuance fees with the time to market reduced by as much. But the savings exist for smaller issuers like school districts, municipalities, and local projects as well since these issuances incur many of the same costs as larger deals but don't scale as well.

The World Bank issued two "bond-i" deals leveraging blockchain and smart contract technology. The first of the two bonds was the AUD 100 million 2.2s of 8/2020 issued in August 2018 that was led by Commonwealth Bank of Australia (CBAUF). The purpose of this issue was to test how a bond could be created, sold, and settled using blockchain technology. Then in May of 2019, The World Bank issued an additional AUD 50 million deal led by Commonwealth Bank of Australia (CBAUF), RBC Capital Markets and TD Securities to demonstrate secondary trading using blockchain (aka distributed ledger technology).

But what does it mean to issue a bond "on the blockchain" or have a bond issued as a "smart contract"? A blockchain is a digital ledger shared by a group of participants such as issuers, investors, regulators, etc. When a bond is sold, the owner of the security is automatically recorded on the ledger and future changes in ownership are recorded as additional entries on the ledger. Any traditional participants that are involved in recording ownership or processing a transfer of ownership such as custodians, registrars, and transfer agents, would technically no longer be required.

Separately, "smart contracts" are computer programs that automate legal contracts. When a bond is issued as a smart contract, we are saying that the bond indenture is constructed as a computer program instead of or in addition to the document. Since the program can identify the party that owns the bond as recorded on the blockchain the program can also automatically process the payment of coupons and principal payments or send out information on corporate actions such as call notices. This reduces the need for traditional parties to a transaction such as servicers.

In a market where all records of an outstanding bond are shared in the same place it is easier to link supporting information and disclosures such as the information that we search for on the MSRB's Electronic Municipal Market Access (EMMA) today. Parties such as rating agencies will obtain the required information for the assignment and surveillance of ratings more efficiently as well as speed the distribution of those ratings. And since these ledgers record all entries forever all market participants can look back to see what was done and what data was available at any point in time.

The precise impact on the municipal market is difficult to predict but there are definitely going to be more efficient days ahead. And we don't need the entire vision to come true to reap the rewards. Some FinTech firms are focusing on certain aspects of the lifecycle of a security such as the negotiation of contracts; Know-Your-Customer procedures; issuance and secondary trading; linking reference data to securities, and still others on custody and servicing. As well, the experiments are

covering all the asset classes we know today in traditional markets such as equity, bonds, loans, funds, derivatives, structured finance, and the like.

Technologists are ready to deliver more efficient financial instruments, but market participants need to acquire more of an appetite for innovation. Significant savings on issuance fees, debt maintenance, and retirement will go to those that get involved the earliest. Once issuers understand that this technology changes the balance of power in the capital markets in their favor things will move quicker.

Treasurers can get up to speed easily enough by contacting advisors that specialize in this space or directly reaching out to FinTech firms that are building solutions before they reach out to their financial advisors when planning their next issuance. Procrastinating will inevitably lead to taxpayers hearing about the savings achieved from the "talking muni bond" in a rival state.

By Andrew Pedvis

BY SOURCEMEDIA | MUNICIPAL | 03/02/20 12:45 PM EST

U.S. Rep. Danny Davis Co-Sponsors MAMBA.

The Modernizing Agricultural and Manufacturing Bonds Act (MAMBA) is a common-sense, bipartisan, targeted reform package that will modernize two categories of qualified small issue private activity bonds: Small Issue Manufacturing Bonds (more commonly known as Industrial Development Bonds (IDBs)), and First-Time Farmer Bonds (also called Agricultural Bonds, or simply Aggie Bonds). These types of bonds are key economic development tools used by state and local agencies to finance the small- to mid-sized manufacturing and agricultural sectors.

Unfortunately, IDBs and Aggie Bonds have not been modernized in over 30 years, causing stagnation and decline in these respective industries. Over the past decade, IDB and Aggie Bond issuances have substantially declined due in major part to the outdated rules and regulations that govern the use of these bonds. The six reforms contained within MAMBA will update the Internal Revenue Code (IRC)'s private activity bond rules for IDBs and Aggie Bonds. The six reforms are as follows:

1. Expand the definition of "manufacturing facility"
2. Eliminate restrictions on "directly related and ancillary facilities"
3. Increase the maximum IDB size limitation from $10 million to $30 million
4. Increase the limitation on small issue bond proceeds for first-time farmers
5. Repeal the separate dollar limitation on the use of small issue bond proceeds for depreciable property
6. Modify the definition of "substantial farmland"

Read the CDFA Press Release

View the text of H.R. 5422

A Rise in the Taxable Municipal Debt Issuances.

For some investors, the sole purpose of investing in municipal debt is to take advantage of the tax-free income, diversified portfolio and limited risk exposure that is often higher in the world of corporate debt than municipal debt.

These ideas and advantages of municipal debt may not be wide-spread or applicable to every investor equally – for example, the tax-free benefit can vary from investor to investor depending on their income tax brackets, and for some investors taxable investment instruments may present more of a lucrative option than municipal debt.

Furthermore, when municipalities issue taxable debt, it's either for a purpose/project that may not allow them to issue tax-free debt to raise capital. Taxable municipal debt issuance makes sense, at a given particular time, after gauging an investor's interest and appetite. Historically, taxable municipal debt issuance has been close to 10% of the entire tax-exempt municipal debt. For instance, in 2018, the taxable debt issuance was $25.1 billion dollars, whereas the tax-exempt debt was roughly $278.1 billion. However, 2019 was record-breaking for taxable municipal debt issuance.

In this article, we will take a closer look at the world of taxable municipal debt and how it fits into your portfolio.

Continue reading.

municipalbonds.com

by Jayden Sangha

Mar 04, 2020

Muni-Bond Yields Jump Over Treasuries for First Time Since 2016.

- **10-year benchmark tax-free debt yields more than Treasuries**
- **'Munis have hit this wall — they just can't go much further'**

Treasuries have rallied so hard that they're breaking their usual link with municipal bonds.

The yield on 10-year Treasuries tumbled 14 basis points Thursday to about 0.92%, pushing it below those on top-rated tax-exempt debt for the first time since late 2016, according to data compiled by Bloomberg. Thirty-year state and local government bonds are yielding 1.54%, roughly the same as Treasuries despite the tax break that usually leaves investors willing to accept far lower payouts.

Those ratios — a closely watched gauge of relative value — show how much the concern about the toll of the coronavirus has upended the dynamic in the bond market. As recently as mid-January, municipal bonds were trading at near record high prices when compared with Treasuries as cash flooded in and governments didn't sell debt fast enough to keep up. But that has shifted dramatically this week, as Treasuries kept rallying and municipal debt held relatively steady — in part because absolute yields may have tumbled so much that the individual investors who are the major buyers may be resisting.

"Munis have hit this wall –- they just can't go much further because it's a retail dominated market," said Nisha Patel, a director of portfolio management at Parametric Portfolio Associates who shifted out of munis in January but is now wading back in. "Given the ratio level we would rather be in

munis than Treasuries because munis are so much cheaper right now."

Bloomberg Markets

By William Selway and Danielle Moran

March 5, 2020, 10:37 AM PST

Muni Trading Drops to Lowest Since 2006, Showing Industry Shift.

- **Number of municipal transactions sank 14% in a year's time**
- **Small-sized trades fell while institutional activity increased**

Mom and pop look like they're starting to leave municipal-bond trading to the professionals.

Last year saw trading sink by 14% to the lowest level since 2006, or 8.75 million transactions, according to a Municipal Securities Rulemaking Board report on Tuesday. The drop was driven by fewer trades of $100,000 or less, signaling less activity by retail investors, the report found.

The decline in retail buying and selling could be explained by the movement toward professional management of municipal bonds. Separately-managed accounts have become an especially popular area for retail investors who want to tailor their investments to their needs.

Continue reading.

Bloomberg Markets

By Amanda Albright and Mallika Mitra

March 3, 2020, 10:57 AM PST

Muni Bonds Now Yield Next to Nothing, But Americans Keep Buying.

- **Cash keeps flowing in as rally pushes prices to heady levels**
- **Yields in secondary market driven by past gains, havens**

In theory, the swiftly disappearing yields on municipal bonds should be deterring the little buyers like Greg Fazakerley who dominate the $3.8 trillion market.

That's not happening in practice. Even before the coronavirus set off a stampede into financial havens, American state and local government debt prices had pushed past the levels once seen as triggers for an investor revolt. The latest panic has given the market a further jolt, with about $2.3 billion sent to municipal-securities mutual funds last week even as benchmark yields breached the psychological threshold of 1%.

"Taking a look at the monthly statement in municipals, your manager is talking about basis points," said Fazakerley, a 72-year-old real-estate developer who is continuing to buy municipal securities. "We kind of chuckle over a cup of coffee. That's not where we're squeezing the lemon to get more juice."

Americans who already held about $1.9 trillion of state and local debt poured another $113 billion into mutual funds focused on the securities since early 2019, according to Investment Company Institute and Federal Reserve figures. That stepped up buying came even as prices hit new highs relative to Treasuries, yields slid toward more than 60-year lows and fixtures tailored to such buyers — like 5% coupons — were jettisoned, leaving some money managers questioning what threshold, if any, will cause individual investors to retreat.

Nicholos Venditti, a portfolio manager for mutual fund company Thornburg Investment Management, said it's difficult to currently make the case for buying municipal debt. He said one client gave push-back on a 10-year bond he bought that yielded just under 1.4%.

"If enough people scratch their heads and ask that question, that's where you start to see a little bit of a break in the asset class," he said.

The fidelity can be explained by the steady returns the securities have delivered as prices continue to rise, causing buyers to keep stepping up their investments. Overall, municipal securities haven't lost money since 2013 and last year returned 7.5%, the biggest gain since 2014. Citigroup Inc. analysts said the market has benefited from a self-reinforcing cycle, with positive returns drawing in more cash from individuals.

Starting in early 2018, the demand was increased by the cap President Donald Trump placed on state and local tax deductions. As a consequence, many Americans began using tax-exempt securities as an alternative way to drive down what they owe. The demand received an additional spur this year from a flight-to-quality movement in markets given that defaults by state and local governments were extremely rare even during the last recession. That has driven the yield on 10-year benchmark bonds to about 0.94%, less than one-third of what it was in 2013.

J.R. Rieger, who invests in municipals and runs a blog about bond investing called the Rieger Report, said the securities make sense as a risk-off trade. "The problem is you're not going to earn any yield at all," he said.

Nevertheless, buyers haven't been turned off yet. Los Angeles International Airport, rated AA, last week borrowed at below AAA yields, with bonds maturing in 2021 yielding just 0.63%. Even risky debt is paying only what top-rated securities once did. An Ohio agency sold a massive tobacco-settlement bond sale with unrated debt due in 2055 trading at an average of 3.4% yields on Friday.

Lewis Appelbaum, a retiree who invests in municipal bonds, said he's not worried about the sub-1% yields. He estimates he has about 30% of his assets in municipals.

"It's certainly unattractive, but where would you go?" he said. "Where would you put your money that's going to be more attractive?"

Retail investors are notoriously bad at timing the market and often move like a herd, plowing in money when the market is going up and pulling back when it falls.

Debra Taylor, who advises high net-worth individuals at Taylor Financial Group in New Jersey, said she isn't a "fan" of the municipal market given where yields are, but they still make sense for clients who don't have the right temperament for risk.

Even a 30% or 40% allocation to municipals can make sense for some. "Part of it is a factor of what the alternatives are — not that munis are this incredible, screaming opportunity," she said.

Bloomberg Markets

By Amanda Albright

March 2, 2020, 8:17 AM PST

Wells Fargo Asset Management Launches Municipal Sustainability Fund.

WFAM extends ESG capabilities with new framework for assessing U.S. municipal bonds

Wells Fargo Asset Management (WFAM) today announced the launch of the Wells Fargo Municipal Sustainability Fund, highlighting WFAM's commitment to provide clients innovative solutions and play a leading role in sustainable investing.

The Municipal Sustainability Fund utilizes a municipal bond assessment framework that WFAM developed in-house through the WFAM ESG Impact Framework, a partnership involving municipal bond professionals and Environmental, Social and Governance (ESG) professionals. The fund invests in securities that are assessed to have positive environmental or social impact at the bond or issuer level. The investment process also includes a top-down macroeconomic assessment and a bottom-up fundamental security analysis.

The fund is managed by WFAM's Municipal Fixed Income team, a 28-member investment team with a long track record in national and specialty state municipal bond portfolios.

"We are proud to launch the Municipal Sustainability Fund and to assist our clients in their search for returns and sustainable investment options," said Nico Marais, CEO of WFAM. "We are committed to being a leading player in sustainable investing, and this fund offers a great combination of our investment expertise and ESG capabilities."

Hannah Skeates, global head of Sustainable Investing at WFAM, said, "It's important for us to play a role in building the new constructs that the industry requires for robust sustainable investing. The WFAM ESG Impact Framework is the result of detailed work to take respected global principles and develop a process for applying those principles to individual municipal securities. We are excited to help lead the way in the evolution of this important area of investing."

The fund is managed by Wendy Casetta, Terry Goode and Robert Miller, veteran senior portfolio managers with the WFAM Municipal Fixed Income team. The Municipal Fixed Income team manages $40 billion (as of December 31, 2019) across 16 strategies. On average, the team has 22 years of industry experience and 11 years with the WFAM team.

For more information on the Municipal Sustainability Fund, please visit WFAM.com.

About WFAM Sustainable Investing

WFAM's dedicated Sustainable Investing team is made up of experienced ESG professionals who provide a holistic vision for the firm and partner on ESG and sustainability initiatives, including:

- Supporting the development of methodologies for integrating material ESG risk assessment into ongoing investment analysis and portfolio management.
- Assessing the investment implications of climate change and the design of portfolio decarbonization strategies.
- Developing frameworks to help allocate capital to positive and impactful sustainability outcomes.

- Providing firm-level stewardship, with strategic and tactical company engagement.

Business Wire

March 4, 2020

Municipal Bond Funds: The Involuntary Move Toward Risk

Summary

- Municipal bond fund inflows in 2019 were tremendous. In fact, they set an annual record of $105 billion through Dec. 31 into open-end mutual funds and exchange traded funds.
- For perspective, we measured the three largest funds which are currently active and held over $1+ billion in assets in 2008. These funds averaged approximately 57% exposure to NR issues, while the peer average held 30%.
- Reviewing our current landscape, when considering the same search criteria as above, average non-rated exposure grew by 23% since December 2015-flirting with levels similar to 2008.

Continue reading.

Seeking Alpha

Mar. 3, 2020

Can You Hear The Madness In The Municipal Bond Market?

Overpowering Demand; Yields Sink To 1950s Lows; No End In Sight—these are just some of the headlines coming from the municipal bond sector. Old timers, young timers and market timers have never seen such a continuous rush to buy municipal bonds. The ghost of Meredith Whitney's past is rolling over.

As bond manager and a municipal bond investor myself, the market is grotesquely overvalued. Can it get more overvalued? Of course. But for me, it's time to put on the brakes.

The most overvalued states are of course the most confiscatory states: California, New York, Hawaii, Oregon, Minnesota, New Jersey, Vermont, plus the District of Columbia. Their state tax rates can choke a perfectly healthy investor.

Continue reading.

Forbes

by Marilyn Cohen

Mar 2, 2020

Why Taxable Bonds are a Muni Market Fixture, Not a Fad.

AUSTIN — At 30% of issuance so far in 2020, taxable munis are here to stay and will continue to be a force in the municipal market unless tax law changes or rates rise dramatically.

Taxable issuance ballooned to about $70.5 billion in 2019, by far the highest level outside the two years Build America Bonds were sold, 2009 and 2010.

That amount represented nearly 18% of the muni market'stotal 2019 issuance.

Members of the taxable bond panel at The Bond Buyer's Texas Public Finance Conference this week were unanimous in saying taxable issuance totals will grow further and represent an even larger piece of the overall issuance pie in 2020 and beyond.

From a broadened buyer base that includes larger institutional and international investors, but extends to direct retail and separately managed accounts, taxable demand has dramatically changed the municipal market starting in the second half of 2019.

Tom Ryan, head of municipal bond valuations at Refinitiv, noted that instead of typical crossover buyers, the market now has "crossover issuers" because they can truly take advantage of both markets in this rate environment.

Dan Bingham, head of institutional markets at Build America Mutual, said the taxable issuance boom has attracted a much larger investor base, including a growing number of institutional and international buyers.

Bingham said that in the BABs era, the investor base was broadened but when the program expired, the market went back to very limited issuance of taxables.

"With that said, we are even seeing smaller issuers selling taxable deals," he said. "Ultimately, we are seeing a much healthier environment" for all issuers.

The prospect that smaller issuers can access direct retail and SMA accounts engaged with the yield pick-up that can be found in the taxable space, is compelling, he said.

"Larger deals, recognizable names, index eligible deals — you've got a lot of institutional accounts that are much more apt to participate in this market," Bingham said. "International accounts are participating in the municipal market to a level we haven't seen before."

Low absolute rates across the globe are helping.

As the percentage of taxable deals relative to the total market continues to expand, they are becoming easier to understand from an international investor perspective, given some of the protections that are provided in the offering documents.

Investors are "looking for anything they can pick up spread," Bingham said.

The supply/demand mismatch, tremendous cash coming into the market via tax-exempt mutual fund inflows and compressed spreads on the tax-exempt side of the market are leading to a perfect environment for issuers to take advantage of the taxable market, Patricia McGrorry, managing director at Ramirez & Co., said.

“Across the curve there are buyers for every credit and every credit spectrum,” she said. There are definitely different buyers for those smaller deals and different liquidity requirements, but “there’s always a spread for everything.” While she said that smaller issuers might face some concessions for a taxable deal less than, say, $25 million, it depends on the market conditions, such as what other taxable deals are being priced on a given day among other factors.

And the traditional municipal 10-year call is making the leap into the taxable space.

Panelists noted that prior to the recent market conditions, investors would charge at least a 35 to 40 basis point premium on a taxable 10-year callable deal. Today, the cost of the call is about 18 to 22 basis points. “That has changed pretty meaningfully,” Bingham said.

McGrorry said the investor perception has changed and that “if you build it, they will come.” The 10-year call option that many taxable municipal deals use is less of a deterrent in the current market than a few years ago.

Investors are “going to have to buy it if they want to participate. The penalty is credit specific and name by name recognition, and the 10-year call penalty will be less.

Ryan noted that while the global demand is strong, it is “surprising to me that taxable investors aren’t penalizing issuers more.”

With that, Ryan said issuers could even test the market with a seven-year call. In this market, investors are thinking, “do I actually care about the call option?”

Having more optionality is better for issuers and they should “call their bankers.”

Bingham noted there are three ways of dealing with the lack of exempt advanced refundings: access it through a forward-delivery deal, a taxable refunding, or waiting.

“The value of savings today are too strong to wait,” he said.

Barbara League, partner at law firm Orrick, Herrington & Sutcliffe, noted that she is seeing more inquiries into different structures to take advantage of low rates. Aside from issuing taxable bonds to refund exempts, she is seeing more forward-delivery bonds, certain swap structures, tender rights.

“How can we recreate what we lost? The best way we can recreate is to bring back what we lost,” but that does not seem to be a likely scenario, she said.

One area that the participants agreed was that taxable issuance has pressured the exempt market significantly but that threats to removing the exemption at the federal level should not be considered.

Shannon Albert, Senior Director, Treasury & Assistant Treasurer at San Antonio’s municipal CPS Energy, said even outside of the current taxable environment, “there is always that risk.”

As a utility that issues a lot of tax-exempt debt, she said market participants have an obligation to do “everything we can to educate our legislators” on the exemption. “We use taxable as a tool in our toolbox. We look at strategically to see what the most makes sense,” and there are multiple considerations to how she plans her bonding program.

“Issuing taxable debt sometimes is a better choice for us,” however, the exemption is integral to her debt portfolio. The exemption provides significant savings over long periods of time and will cost

communities largely if it were to be taken away.

“I feel like we have an obligation to give [lawmakers] a hard time,” she said.

By Lynne Funk

BY SOURCEMEDIA | MUNICIPAL | 02/27/20 03:01 PM EST

Parametric Insurance: An Emerging Tool for Financial Risk Management

Local governments have a duty to respond quickly and decisively to extreme events and provide continuity in critical public service through adverse circumstances. Reserves or “rainy day funds,” federal assistance, and indemnitybased insurance* programs are the primary tools governments have used to manage risk associated with events, such as natural disasters, recessions, etc., that have the potential to disrupt public services. In recent years, a type of insurance instrument called “parametric insurance” has generated interest in local governments in North America to help fulfill risk management needs that aren’t met by indemnity based insurance, federal assistance, or rainy day funds.

In this paper, we will review the most import things local governments need to know about parametric insurance, including:

- Why local governments might wish to consider parametric insurance.
- Who is using parametric insurance, including a review of the experiences with parametric of two U.S. local governments and one state government.
- How to explore the use of a parametric policy.
- A review of the advantages and disadvantages of parametric insurance.

Download Research Report

Government Finance Officers of America

Author: Shayne C. Kavanagh Elizabeth Fu

Year: 2020

Fitch Rtgs: Aging Populations Strain State Budgets, Pension Funding Varies

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

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

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

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

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

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

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

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

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

Contact:

Douglas Offerman
Senior Director, US Public Finance
+1 212 908-0889
Fitch Ratings, Inc.
Hearst Tower
300 W. 57th Street
New York, NY 10019

Olu Sonola, CPA
Group Credit Officer
+1 212 908-0583

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

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

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

Fitch Ratings: Updates Report for U.S. Public Finance Structured Finance Criteria

Link to Fitch Ratings' Report(s): U.S. Public Finance Structured Finance Rating Criteria

Fitch Ratings-New York-28 February 2020: Fitch Ratings has published the following updated report: "U.S. Public Finance Structured Finance Rating Criteria." This report updates the report entitled "U.S. Public Finance Structured Finance Rating Criteria" published on Feb. 15, 2019. The key elements of Fitch's public finance structured finance rating criteria remain consistent with those of its prior criteria report.

Contact:

Joseph Staffa
Senior Director
+1 212-908-0829
Fitch Ratings, Inc.
300 West 57th Street
New York, NY 10019

Dennis Pidherny
Managing Director
+1 212-908-0738

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

Additional information is available on www.fitchratings.com

New P3 Contract Form Promises to Better Allocate Risk.

Dive Brief:

- ConsenusDocs has released a new form of agreement that public agencies, contractors and other stakeholders can use for public-private partnership (P3) projects.
- At 17 pages, "ConsensusDocs 900 Standard Public-Private Partnership (P3) Agreement and General Conditions (Where the Basis of Payment is Milestone, Completion and Availability Payments)" gives participants a "fair, off-the-shelf" alternative to the massive and complicated P3 contracts now in use, according to ConsensusDocs, as it does not bury the imbalance of risk contained in many agreements.
- A more equitable standard form of agreement, said ConsensusDocs, should lower transactional costs for small and medium-sized projects as users try to create a fair agreement and evaluate their risk. The ConsensusDocs 900 agreement was developed with input from a coalition of industry groups including the Associated General Contractors of America, the Associated Builders and Contractors and the Construction Financial Management Association.

Dive Insight:

There has been more interest in P3s during the last decade, said Brian Perlberg, executive director and senior counsel at ConsensusDocs, probably more than one might think because a lot of the activity is with small and medium-sized projects at the state and local government level, not just with the multibillion-dollar projects that make the news.

And, Perlberg said the P3 will only become more prominent as the U.S. seeks to deliver new infrastructure under current budgetary constraints.

"However," he said, "the way P3 contracting is currently operating is broken. Companies are fleeing the market because of the unprofitable, unsustainable risk transfer that is occurring." Trying to manage the improper risk, Perlberg said, sometimes makes the P3 model too expensive for big projects, let alone smaller ones.

While ConsensusDocs 900 could be a good starting point in developing a P3 agreement, such contract templates should only be looked at as guides since all P3s are different and one size does not fit all,said attorney Keith Poliakoff, a partner in the Fort Lauderdale, Florida, office of Saul Ewing Arnstein & Lehr and co-chair of the firm's government relations practice group. For example, he said, ConsensusDocs 900 presumes that financing will include availability payments and use the design-build method of project delivery. "If either is incorrect," Poliakoff said, "the agreement would have to be modified."

"There are many important benefits of using the P3 delivery method for appropriate infrastructure projects —simplicity of the contract documents is not one of them," said attorney William Eliopoulos with Rutan & Tucker, which is headquartered in Costa Mesa, California. "Every P3 project is different." The ConsensusDocs 900 document, he said, omits and glosses over many important terms that should be included even in small to mid-sized projects.

For example, he said, an important benefit of the P3 model is that the concessionaire gives the public entity owner post-construction facility performance guarantees and agrees to financial penalties if they are not met. "This important benefit seems to be missing from the ConsensusDocs 900 project agreement," Eliopoulos said.

In addition, he said, one of the important advantages of the P3 delivery method is that it allows the public entity owner, concessionaire, design-build contractor and long-term operations and maintenance service provider to collaborate at the beginning of procurement and determine how best to structure the deal, including who is in the best position to price and control each of the project's major risks, how best to design it, build it, finance it and operate and maintain it. This

seems to be missing from ConsensusDocs 900, Eliopoulos said.

The new form, Perlberg said, is not intended to be everything to everyone but rather a good starting point to help reset the conversation about what is fair and what is a reasonable risk allocation for all concerned, particularly for projects less than $100 million. “Part of the problem is there hasn’t been anything on the marketplace to fulfill that need,” he said.

Construction Dive

by Kim Slowey

Feb. 26, 2020

S&P Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors

Table of Contents

- ESG In U.S. Public Finance
- States And Local Governments
- Water And Sewer, Solid Waste, Public Power And Electric Cooperative Utilities
- Health Care
- Charter Schools
- Higher Education
- Transportation
- Related Research

Key Takeaways

- S&P Global Ratings has been incorporating environmental, social, and governance (ESG) risks and opportunities into the credit ratings of public finance entities based on factors embedded in our sector-based criteria.
- ESG credit factors can influence the capacity and willingness of an obligor to meet its financial commitments, but strong
- ESG credentials do not necessarily indicate strong creditworthiness.
- Our long-term ratings and ESG credit factor analysis incorporate qualitative and quantitative analysis and do not have a pre-determined time horizon.
- Challenges remain with respect to data and disclosure practices. However, we anticipate that over time, as the market evolves, disclosure from borrowers will converge and increase transparency on ESG factors.
- Even with additional data, ESG analysis will increasingly require a qualitative view of an entity’s capacity to anticipate a variety of long-term plausible disruptions to its credit fundamentals as well as an assessment of management’s capacity to preserve financial and organizational resiliency.

Continue reading.

S&P: Will The Expiration Of LIBOR Affect The Credit Quality Of U.S. Public Finance Issuers?

Table of Contents

- How Did We Get Here?
- How Does S&P Global Ratings Incorporate The Rate Change Into Its Analysis of USPF Issuers?
- What S&P Global Ratings Expect The Transition From LIBOR To Look Like
- Related Research

Key Takeaways

- The London Interbank Offered Rate (LIBOR) is set to expire in December 2021.
- We continue to assess the financial exposure U.S. public finance (USPF) issuers face due to financing and hedging transactions tied to LIBOR
- We believe the low notional amount of LIBOR exposure relative to overall debt portfolios should limit the extent of financial pressures and credit implications for USPF issuers.

Continue reading.

S&P: U.S. Public Finance Issuers Must Be Nimble To Fend Off Cyberattacks Or They Could Face Credit Fallout

Table of Contents

- Preventive Measures Are Key To Fighting Cyberattacks
- Social Engineering Attacks Come In Many Forms
- States Are Stepping Up Efforts To Help Issuers Fight Cyberattacks

Key Takeaways

- Cyberattacks, like any event risk, can pressure liquidity and operational balance, and can further create contingent liabilities for U.S. public finance (USPF) issuers.
- Social engineering attacks, which consist mainly of phishing and pretexting, attempt to trick users into helping attackers evade security controls, which can open the door for them to carry out ransomware infections, invoice fraud, and other attacks that can cost substantial amounts of money.
- Wider availability of more complex exploit kits (malicious software kits) increases the likelihood of breaches, necessitating better issuer preparedness.
- As threats evolve, so do prevention efforts, including a growing trend of state-level support for improving local government cyber defenses.

Continue reading.

S&P: Environmental, Social, And Governance: Increasing Generational Dependency Poses Long-Term Social Risks To U.S. States' Fiscal And

Economic Stability

Table of Contents

- National Generational Dependency Is Increasing For The Foreseeable Future
- The Northeast's Aged Medicaid Enrollment Pressures Future State Budgets
- As The South's Population Continues To Grow, Economic Diversification Is Key To Rating Stability
- Migration Trends And Economic Profiles Are Likely To Increase Midwest Generational Dependency
- Aging-In-Place Will Exacerbate Housing Affordability Challenges In The West As It Keeps Homes Off The Market
- Related Research

Key Takeaways

- Budgets in the Northeast will likely be pressured by increased Medicaid costs as aged enrollment (65 and older) grows.
- While the South has benefited from an influx of working-age adults, continued economic diversification is crucial to credit stability.
- We expect significant out-migration and aging-in-place to limit the Midwest's economic growth and to pressure state spending.
- Continued aging-in-place may exacerbate the West's challenge with housing unaffordability.

Continue reading.

What Does the Puerto Rico HTA Ruling Mean for Special Revenue Bonds? Likely Not as Much as Feared.

Municipalities have long issued "special revenue" bonds, as defined by the federal bankruptcy code, to finance essential service infrastructure projects including water waste and electric utilities. The bankruptcy code provides special revenue bonds with unique features that benefit creditors during an issuer's bankruptcy. One key provision, Section 922, addresses the timely payment of debt service by an issuer by exempting the payment of special revenues from an automatic stay in bankruptcy.

Last March, the 1st U.S. Circuit Court of Appeals affirmed the decision by the Puerto Rico bankruptcy court, which had stated that Section 922 provides a bankrupt issuer the option, but not the requirement, to pay debt service. On 13 January 2020, the Supreme Court decided it would not hear an appeal in the case, effectively upholding the rulings of the lower courts.

Taken together, the decisions of each of the courts surprised some investors in the $3.8 trillion U.S. municipal bond market. Investors saw them as contrary to the intent of the U.S. Congress when it incorporated the concept of special revenues into the bankruptcy code in 1988. In addition, the rulings differ from established precedent in past municipal bankruptcies. Some investors fear the rulings tarnish the appeal of bonds backed by special revenues and could result in wider credit spreads for issuers.

Fallout is likely limited

Despite these concerns, PIMCO does not expect the HTA ruling to trigger meaningful spread widening in any sector, nor will it likely result in a sustained increase in borrowing costs for higher-

quality borrowers. In part, this is because we expect actions by rating agencies will affect only a limited number of credits in cases where large ratings gaps exist between a municipality's special revenue bonds and its general fund obligations.

Bonds backed by special revenue were never completely insulated from the risk of a payment disruption. A distressed municipality may use the threat of a payment disruption on an essential service enterprise to increase its bargaining power over creditors. Arguably, the negotiating leverage of municipalities has increased modestly following the HTA rulings, but the risks have always been present. Consider that when the City of Detroit declared bankruptcy in 2013, the special revenue bonds issued by the Detroit Water and Sewerage Department suffered a significant price decline, but were ultimately paid in full. Thus, issuers of special revenue bonds could face more price volatility if their parent government is of low quality and falls further into distress.

In addition, the lower court's ruling does not strip away all the unique features granted by the bankruptcy code to bonds backed by special revenues. For instance, the security interest granted to special revenues under Section 928 remains intact and enforceable after bankruptcy; that is to say, even after a municipal utility exits bankruptcy, it remains bound by its pledge to use service charges to make interest payments on special revenue bonds. The continuation of the security interest is the most important defining characteristic of special revenue bonds, in our view. It prevents these bonds from becoming unsecured general obligations during bankruptcy.

The HTA ruling may increase the issuance of special tax bonds that have even greater structural protections for investors. An example is debt issued by the Sales Tax Securitization Corporation created by the City of Chicago in 2017. The issuer is a bankruptcy-remote entity and provides a statutory lien over pledged revenues, and the City's transfer of sales tax revenue to the issuer is structured as a true sale. Similar designs could help lower-quality borrowers access cheaper financing for refunding purposes and displace more traditional special tax and general obligation supply.

Ultimately, we believe the lesson of the HTA ruling is a basic one: There is no substitute for fundamental analysis and thoughtful credit selection. The ruling does not diminish our constructive view of special revenue bonds that we believe are supported by stable cash flows and healthy parent obligors, nor does it change our view of the most important legal protections afforded by special revenue bonds, or the way we approach distressed borrowers whose bonds provide investors with appropriate risk-adjusted return.

by Sean McCarthy, Tom Scgyette of PIMCO, 2/28/20

For Small County Governments, Tackling Cybersecurity Basics Can Go a Long Way.

The local governments can face unique challenges when it comes to protecting their computer systems from threats.

To a small county with limited resources, it may sound intimidating to overhaul and adopt new cybersecurity standards.

But if county officials begin by taking small steps to improve their government's overall cyberhygiene – such as using secure passwords and training employees on cyber threats – they may

be surprised how quickly they fall in line with industry best practices.

Cybersecurity experts shared tips on how local governments could apply the National Institute of Standards and Technology's cybersecurity framework to their networks on Friday at a panel discussion at the National Association of Counties legislative conference in Washington, D.C.

"Attacks are exploiting vulnerabilities we've known about for a really long time… like the fact we don't do secure passwords very well, we don't do user training," said Patrick Woods, the security assurance lead for state and local government at Amazon World Services.

The NIST framework was designed as a voluntary guide for businesses, organizations and federal, state and local governments to help promote the protection of critical infrastructure and manage cybersecurity-related risks.

Compliance with the framework "comes organically when you start nailing those fundamentals," Woods said.

Ensuring that county information technology officials have a working relationship with those overseeing the budget can be critical to ensuring cybersecurity efforts receive sufficient funding, said Barry Condrey, the chief information officer for Chesterfield County, Virginia.

"If the budget department doesn't understand your cyber posture, you're missing the boat," Condrey said. "Make sure you align with the people who control the money."

Condrey shared his state's experience developing security standards for Virginia's voter registration systems and the difficulties encountered by individual counties.

Virginia lawmakers in 2019 approved legislation directing the state's Board of Elections to draft regulations securing the state's voter registration system and requiring local electoral boards to develop their own security plans.

When stakeholders met to discuss potential development of minimum security standards, Condrey said about one-third of the governments represented didn't have a person on staff who was responsible for information technology security across the government. Officials were also worried about the time and resources that would be needed to develop and meet the new requirements.

Once the state adopted the standards, Condrey said officials were not able to act immediately because they missed the budget cycle for the year. He recommended that any efforts to implement new security standards be closely tied to budget discussions so that there is money to pay for initiatives.

"Anytime a state tries to impose its will on local government, particularly with an unfunded mandate, it generally does not go well," he said.

Route Fifty

by Andrea Noble

FEBRUARY 28, 2020

Why Public Pension Debt And Social Insurance Finances Are Not The Same.

Continuing my series of, well, sharing old, bookmarked items, here's a scholarly article from July 2019: "The Sustainability of State and Local Government Pensions: A Public Finance Approach," by Jamie Lenney of the Bank of England, Byron Lutz of the Federal Reserve Board of Governors, and Louise Sheiner of the Brookings Institution.

Here's some background:

A week ago, I wrote about the French concept of "intergenerational solidarity" and their use of the term not to express all generations forging a consensus on how to best meet the needs of the elderly as well as, well, everyone else who has needs, but instead to explain their practice of intentionally not funding their version of Social Security retirement benefits, and promising that each generation funds benefits for their elders and is in turn promised the same benefits then they reach old age.

Continue reading.

Forbes

by Elizabeth Bauer

Feb 28, 2020, 04:22pm

Infrastructure Roundtable on Capitol Hill.

BDA Partnering with the Public Finance Network, GFOA, the National Association of Counties, the American Public Power Association and BDA member firm Hilltop Securities

Next week, the Municipal Bonds 101: Modernizing Infrastructure into the 21st Century.

The flyer circulated on Capitol Hill can be viewed here.

The panel will be moderated by Anne Burger Entrekin, Hilltop Securities Regional Managing Director and will feature:

- Kendel Taylor, Finance Director, City of Alexandria, VA (GFOA)
- Commissioner Kevin Boyce, Franklin County (OH) (NACo)>
- Jolene Thompson, Executive Vice President of Member Services and External Affairs, American Municipal Power (APPA)

The discussion will serve as an educational event for Capitol Hill staff, while promoting BDA< andPFN priorities such as:

- Continued support and protection of the tax-exemption;
- The reinstatement of tax-exempt advance refundings
- Raising the limit on BQ debt;
- The expansion of PABs;
- Working to ensure that BABs, if reinstated, would be uncoupled from sequestration.

The BDA will provide an update next week following the event.

Bond Dealers of America

February 26, 2020

Muni Bonds Stage Biggest One-Day Rally Since 2017.

- **Top-rated, 30-year bond yields tumble 10 basis points to 1.59%**
- **'I'm shocked it's gone as low as it has,' investor says**

Just when municipal bonds didn't seem to have much more room to rally, the fear cast by the coronavirus is driving them to their biggest one-day jump in more than two years.

As stocks plunged worldwide and investors rushed into the safest assets, the yields on top-rated state and local government debt maturing in 30 years plunged 10 basis points to 1.59%, the biggest one day drop since December 2017, according to the Bloomberg BVAL index. Those on 10-year benchmark tax-exempt bonds fell 7 basis points to 1.03%.

The economic uncertainty posed by the spreading coronavirus is spurring a market that had already been rallying since late 2018, driving yields to the lowest since the 1950s, as investors poured money into state and local government bond mutual funds. Such funds picked up about $1.8 billion of new cash during the week ended Feb. 19, according to Refinitiv Lipper US Fund Flows data.

"Investors are fleeing to high-quality assets as the market freaks out about the coronavirus spreading to other places besides China," said Jason Appleson, a portfolio manager at PT Asset Management.

"I'm shocked it's gone as low as it has so nothing would surprise me at this point if we continue to see contagion," he said. "It seems the market is very focused on what the economic implication of coronavirus is."

The rally has pushed yields so low that investors have been shifting into the longest-dated debt to pick up slightly better yields, said Peter Block, head of municipal strategy at Samuel A. Ramirez & Co.

"If there is any value to be had in the market, it's going to be the 30-year right now," Block said, though that value will be taken out pretty quickly as continued buying pushes the yield down even further. He said it's like a "mini sale with limited supply."

Bloomberg Markets

By Mallika Mitra

February 24, 2020, 10:29 AM PST

— With assistance by Danielle Moran, and Amanda Albright

Rush to Invest in Municipal Debt Pushes Yields to Record Lows.

Municipal-bond yields are hitting 38-year lows due to investors' coronavirus concerns driving up demand in the $4 trillion muni market.

Fears of the coronavirus's impact on global markets led to a stock selloff on Monday and Tuesday. Investors flocked to munis and other fixed-income investments for stability. The S&P Municipal Bond Index continued to climb Tuesday after logging its biggest one-day gain in 20 months Monday. A daily gain that big—about one-third of a percentage point—has occurred only five times in the past three years.

"Fear is present and investors are taking some risk off the table," said Sylvia Yeh, co-head of municipal fixed income at Goldman Sachs Asset Management. "That de-risking could mean [they buy into] cash, Treasurys or munis."

The new wave of demand Monday pushed bond yields to once-unheard-of levels. Yields on high-grade tax-exempt 30-year municipal bonds fell to 1.594% Tuesday, 47% lower than in February of last year, according to financial analytics company ICE Data Services' Muni Yield Curve. Bond yields fall as prices rise.

Daniel Berger, senior market strategist at Refinitiv, said "there's no end in sight" to low muni yields. The firm, which tracks state government-bond yields going back to June 1981, showed its lowest yields on record Wednesday for the second day in a row.

Lower yields mean less income for investors and some of them are seeking out less creditworthy borrowers in an effort to find higher returns. At the same time, the falling yields reduce borrowing costs for municipal-bond issuers and make borrowing easier for less creditworthy governments and nonprofits.

Muni-bond prices were climbing steadily even before coronavirus headlines spooked investors. Changes in the 2017 tax law drove up demand in high-tax states by capping the federal deduction for state and local taxes, making tax-exempt munis more attractive. At the same time, the tax law reduced supply by placing new limits on when governments can issue tax-exempt debt.

Quick moves into or out of municipal-bond investments have become easier to execute in the past decade with the proliferation of muni mutual funds and exchange-traded funds, which now hold $852 billion worth of munis, according to the Federal Reserve. Municipal-bond funds reported net inflows of $96.5 billion last year, a 28-year record, according to Refinitiv, and $1.8 billion in inflows for the week ended Feb. 19, the most recent data available.

Fund managers working overtime to field calls from concerned investors expect that number to go up this week.

"There's positive correlation with volatility and how many hours we work here," said Justin Pfaff, municipals product manager at investment management company Nuveen.

The Wall Street Journal

By Heather Gillers

Updated Feb. 26, 2020 4:16 pm ET

Current Important Things About High-Yield Munis.

Municipal bonds are often considered lower risk fixed income alternatives and as such carry lower yields than, say, corporate debt. However, there are avenues for investors looking for more municipal income, including the VanEck Vectors Short High-Yield Municipal Index ETF (SHYD C+) and the VanEck Vectors High-Yield Municipal ETF (HYD A-).

Municipal bonds, also known simply as munis, are debt obligations issued by government entities. Like other forms of debt, when you purchase a municipal bond, you are loaning money to the issuer in exchange for a set number of interest payments over a predetermined period of time. At the end of that period, the bond reaches its maturity date, and the full amount of your original investment is returned to the investor.

An important part of the near-term thesis for ETFs such as HYD and SHYD is that default rates remain low.

“The total par value of first-time non-payments of interest or principal due was $3.6 billion in 2019,” said VanEck in a recent note. “This is just 0.09% of the $3.82 trillion market. Recent defaults have been generally from smaller healthcare sub-sectors such as nursing homes and continuing care retirement communities (CCRCs). These alone represented nearly three-quarters of last year’s total.”

Evaluating The Options

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

Another important element to consider with HYD and SHYD this year is that regardless of the presidential election, demand for muni debt remains strong.

“The leading Democratic candidates support higher and/or new income taxes on high-income earners,” according to VanEck. “Higher taxes historically support demand for tax-exempts, and even the possibility of higher taxes could contribute to positive fund flows. If Trump wins reelection, federal tax policies are likely to remain unchanged. No matter the outcome, we expect continued demand for municipal bonds.”

Favorable fundamentals will continue to support the municipal bond market, especially for high-yield munis and related ETFs. Supporting the munis market, the robust demand and relatively low supply has helped bolster prices.

“The total issuance of municipal bonds expanded by 21.9% in 2019,” according to VanEck. However, this was not nearly enough to meet the reinvestment demand generated by calls, coupon payments, and maturing bonds, let alone the demand from mutual fund and ETF fund inflows, which totaled $93.6 billion last year.”

ETF Database

February 26, 2020

Investors Run to Municipal Bond ETFs for Safekeeping.

Fixed-income investors are placing more attention on municipal bond ETFs, with muni bonds rallying and yields closing in on four-decade lows, as coronavirus concerns push more into the munis market.

For instance, the Vanguard Tax-Exempt Bond ETF (VTEB A-) has attracted $750 million in net inflows and iShares National Muni Bond ETF (MUB A+) brought in $780 million in inflows year-t--date, according to ETFdb data. VTEB tracks the Standard & Poor's National AMT-Free Municipal Bond Index, which measures the performance of the investment-grade segment of the U.S. municipal bond market. MUB seeks to track the investment results of the S&P National AMT-Free Municipal Bond Index, which also measures the performance of the investment-grade segment of the U.S. municipal bond market.

As fears of a spreading coronavirus intensified this week, investors shifted over to munis and other safe-haven fixed-income assets. Consequently, the S&P Municipal Bond Index experienced its biggest one-day gain in 20 months on Monday, the Wall Street Journal reports. A daily gain of about one-third of a percentage point has only occurred five times over the last three years.

"Fear is present and investors are taking some risk off the table," Sylvia Yeh, co-head of municipal fixed income at Goldman Sachs Asset Management, told the WSJ. "That de-risking could mean [they buy into]cash, Treasurys or munis."

The sudden spike in demand for safe-haven bets dragged bond yields to unprecedented low levels. For instance, yields on high-quality, tax-exempt 30-year municipal bonds dipped to 1.627% Monday, or 46% lower than in February of last year, according to financial analytics company ICE Data Services' Muni Yield Curve. Bond yields have an inverse relationship to prices.

Daniel Berger, senior market strategist at Refinitiv, believed that "there's no end in sight" to low muni yields.

The lower yields have even caused some to take on riskier bets in search of more attractive payouts. For example, the VanEck Vectors High-Yield Municipal ETF (HYD A-) attracted $407 million in net inflows so far this year.

Yields on munis have been steadily falling with bond prices rising even before the coronavirus hubbub. After the 2017 tax law changes, demand for tax exempt munis became more attractive in response to caps in the federal deduction for state and local taxes, especially among more high-tax states. The tax law also diminished supply due to new limits on when governments can issue tax-exempt debt.

ETF Database

February 27, 2020

Climate Change Is Coming to Your Hometown Bonds.

Startup risQ wants to be the go-to tool to assess natural-disaster risk in the municipal

market.

In some corners of finance, climate-change risks are only starting to appear on investors' radars. By contrast, in the $3.8 trillion U.S. municipal-bond market, natural disasters have been a nagging concern for decades.

In the wake of Hurricane Katrina in 2005, Moody's Investors Service slashed New Orleans's credit rating by three levels to junk. It didn't win back its investment grade until May 2007. Joplin, Missouri, suffered the deadliest U.S. tornado in almost six decades in May 2011. Two years later, almost half of its 7,500 students were still in temporary classrooms, but construction progressed on new schools thanks in part to voters approving the largest bond sale in city history. In August 2014, the strongest earthquake in 25 years hit Napa County, California, and traders exchanged a record amount of its debt in the following days amid concern that it could halt payments because of the damage. The list goes on.

Yet for all the examples, pinning down the risk has always been elusive for the muni market, which is known for its dispersion. The U.S. has more than 90,000 "local government units," according to the most recent Census data, and although not all of them issue bonds, those that do tend to borrow across a range of maturities and with varying revenue streams. While many deal documents now include some language about climate change, and investment banks and legal counsels are more thoroughly conducting due diligence around the issue, ultimately there's little evidence that the risks are baked into bond prices.

Continue reading.

Bloomberg Markets

By Brian Chappatta

February 21, 2020, 3:00 AM PST

Fitch Rtgs: States Increasingly Budget for Climate, Environment Initiatives

Fitch Ratings-New York-20 February 2020: Long-term costs to states of environmental mitigation, recovery projects and climate initiatives are expected to rise, says Fitch Ratings, particularly as an increasing number of states include environmental considerations in enacted or recent executive budget proposals. These programs are also expected to become a more prominent part of future state budgets amid greater attention to environmental, social and governance (ESG) concerns.

Boosting environmental resilience is a long-term commitment that many states are expected to address in incremental steps, with immediate attention given to life-saving measures, such as fire and flood prevention, followed by more aggressive moves to reach zero-carbon emissions or tackle sea level rise. States believe that investing in capacity building programs will help reduce the costs of future climate or weather related events, but Fitch expects identifying recurring funding sources will be challenging, particularly as spending pressures continue, especially Medicaid and pensions.

New York's governor proposed the largest amount by far in his fiscal 2021 $178 billion budget: a $33 billion five-year plan to tackle climate and environmental concerns and build resiliency. The proposal includes a $3 billion environmental bond program that would invest in coastline resiliency projects, supplemented with an additional $740 million in state funding, $28 billion for green energy

projects and $1.5 billion for carbon-free transportation. This proposal follows the 2019 Climate Leadership and Community Protection Act, which targets reductions in state-wide greenhouse gas emissions and renewable energy gains.

California's governor proposed $12.5 billion in spending over five years in his fiscal 2021 $222 billion budget for a climate resilience plan that includes $4.8 billion in bonds for investments in resiliency and protection, most of which will address immediate vulnerabilities to floods and fires, improve groundwater and farm water systems, and protect drinking water and fish habitats. The proposal furthers investment in fire protection by dedicating $100 million to make homes resistant to fires and creating a four-year, $1 billion revolving loan program to promote recycling, low-carbon transportation, and environmentally conscious agriculture programs. In addition to the bond program, $965 million in funding would come from the state's existing cap-and-trade program.

Fitch notes some states that have not traditionally provisioned for environmental concerns in their budgets have recently enacted measures to apply funds for these purposes. Texas made flood resiliency and hazard mitigation a key priority in its 2019 legislative session, appropriating about $2 billion from the state's then $12.6 billion rainy day fund for flood mitigation and resiliency projects, and to provide funds to cover damages from Hurricane Harvey. The Texas Water Development Board's responsibilities for flood planning and financing were expanded, and the legislature made a one-time transfer of $793 million from the state's economic stabilization fund to create a new flood financial assistance program.

Similarly, in 2019, Florida ramped up its investment in environmental protection, with the governor dedicating $2.5 billion in spending over four years for Everglades restoration, protection of water resources, and establishing a state resiliency office. Massachusetts enacted legislation in 2018 authorizing more than $2.4 billion for a municipal vulnerability preparedness grant program and a state-wide hazard mitigation and adaptation plan. Oregon's governor recently proposed a bill to spend $200 million per year over the next 20 years on wildfire prevention and mitigation.

Many other states have not taken action in their budgets on environmental protection and conservation initiatives, and this may result in greater costs in the long run. States that have not invested in mitigation and prevention efforts up front may face rising costs to address weather-related disasters in the future.

Contact:

Marcy Block
Senior Director, US Public Finance
+1 212 908-0239
Hearst Tower
Fitch Ratings Inc.
300 W. 57th Street
New York, NY 10019

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

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

Credit Card Surcharges for Municipalities.

In the course of providing services and resources to its community, a municipal government might consider accepting credit card payments from its citizens. Just like any business, a city, county, township, or village must enter into a merchant agreement with each credit card brand it intends to accept before it can begin dealing in plastic.

It is easy to assume that all of the major credit card companies offer generally the same things, but each contract is likely to have nuanced differences that may be important to you as the municipal merchant. We recommend that you reach out to an experienced municipal or financial services attorney before entering any credit card agreement.

However, understanding a few general guidelines may help your community know what to expect. To accept credit cards, most merchants will need to enter into an agreement with both a credit card company and a bank known as an "acquirer" which administers the transactions in exchange for a fee. Not every merchant will use the same acquirer which means that not every merchant agreement will be consistent in its administration costs. A significant aspect of most merchant agreements is the way surcharges are assessed and passed on to the consumer.

There are three things to know:

1. It is important to understand that surcharges apply only to credit card transactions and cannot be assessed for debit card or prepaid money card purchases.
2. Most credit card companies differentiate between a "brand-level surcharge," where all credit cards from a particular company (e.g. Visa, Mastercard, etc.) are charged at the same rate and a "product-level surcharge," where the charge is determined by the particular credit product offered by a brand. Merchants may typically impose a surcharge in either way, but must make a choice.
3. Merchant agreements will have a "maximum surcharge cap," meaning a maximum amount that a merchant can pass along to a customer for a transaction. In most instances, the cap is around 4%, but charges may not exceed the actual merchant costs, which are the fees payable from the merchant to the credit card company and acquirer bank. This could effectively provide a cap below 4%.

Some cards may even have built-in restrictions for handling surcharges with competitive brands, demanding consistency across all cards you accept. That may be an important aspect of deciding which credit cards you want to accept and which you'd prefer to decline. Additionally, each card has specific rules for how information about the cards you accept must be displayed. Often these rules relate to the font, language, and location of specific disclosures that must appear at both at the point-of-entry for your merchant and at the point-of-transaction.

Credit card processing services like Square or Clover may simplify and streamline your processes and remove some of the work from accepting credit. However, municipalities should always consult with counsel before entering any agreement with lasting implications.

Foster Swift Collins & Smith PC – Alexander J. Thibodeau

February 18 202

S&P: U.S. Ports Face Headwinds

Table of Contents

- The Current Trade Dispute Picture Is A Mixed Bag
- We Expect Non-China Trade To Rise Despite The Trade War
- COVID-19 Outbreak Adds To Uncertainty For U.S. Ports
- The Focus On Asset Resilience And Climate-Related Issues Increases
- Elevated Cyberrisk Threatens Business Activity
- The Maritime Port Sector At A Glance
- Related Research

Key Takeaways

- **We modified our port sector outlook on Jan. 15, 2020, to negative from stable.**
- **We believe the sector remains strong, though the still-unsettled U.S.-China trade policies, ongoing tariff disputes, and the developing economic and supply chain fallout due to COVID-19 could weigh on these issuers.**
- **We expect issuers in the port sector will increasingly integrate emerging risks, including cyber- and climate-related risks, into their long-term business strategies and capital planning.**

The U.S. port sector is inherently exposed to volatility due to the normal business cycle, shifting trade patterns and supply chains, drastic fluctuations in commodity prices, and changes in both bilateral and multilateral trade policies. Now added to the list is fallout from the new coronavirus (COVID-19) outbreak, which S&P Global Ratings believes will undermine the credit strength of many Chinese infrastructure operators in 2020 and negatively affect exports (see “Coronavirus Will Take A Big Toll On China’s Transport Operators” published Feb. 3, 2020, on RatingsDirect). Many of our U.S. rated ports have very strong business profiles and strong financial metrics, particularly debt service coverage and low debt levels, relative to other transportation sectors. Historically, these metrics have provided cushions for these issuers to absorb volatility and maintain their current rating profile. In our view, the likely implementation of the new U.S.-Mexico-Canada Agreement (USMCA) and the U.S.-China “Phase One” trade agreement lessens the near-term risks somewhat. However, we feel there is still a high level of uncertainty regarding Asia trade and longer-term shifts in trading patterns and supply chains that will produce winners and losers and dampen volumes and revenues at some ports.

Continue reading.

S&P U.S. Independent Schools Fiscal 2019 Medians And 2020 Sector Outlook: Steady As She Goes, For Now

Table of Contents

- Overview Of Sector Ratings
- Fiscal 2019 Medians By Rating Category
- Sector-Wide Medians
- What We’re Watching For In 2020

Outlook: Stable
While the sector faces broad risks, we expect ratings stability through 2020. The stable outlook reflects healthy financial and enterprise profiles for our rated schools–with steady enrollment and demand, proactive management oversight, good revenue diversity, and growing resources, building upon solid fundraising efforts and steady market returns.

Continue reading.

Muni-Bond Market's Favorite No-Risk, Can't-Lose Trade Is Back.

- **Floating-rate yields jump above those on 10-year debt**
- **'It's the best buying opportunity of the year,' investor says**

The municipal-bond market's favorite can't-lose trade is back.

So called variable-rate demand obligations — which are virtually risk proof because they can be sold back at full face value to Wall Street banks as frequently as every day — are yielding 1.18%, more than fixed-rate municipal bonds that don't mature for a decade. And those yields have been steadily rising since mid-January, in contrast to the rest of the $3.8 trillion municipal market.

The disconnect is the result of a frequently seen seasonal quirk: Because variable-rate debt can be sold so easily, and at 100 cents on the dollar, investors often unload it to raise cash to cover their annual tax bills. As a result, banks' inventories of the securities tend to build up, prompting them to reset interest rates higher to draw new buyers. The Securities Industry and Financial Markets Association's index, the floating-rate benchmark, surged more than 80 basis points last April to as much as 2.3%, the highest since the 2008 credit-market collapse.

This year, even payouts not far above 1% may still be enticing at a time when yields are hovering near the lowest since the 1950s. Barclays Plc strategists led by Mikhail Foux last week flagged them to clients.

The yields have room to move even higher as the tax filing deadline on April 15 approaches, because high-net worth investors tend to wait until the last few weeks to liquidate their portfolios, said Kristian Lind, a managing director at Neuberger Berman Group. He said investors should hold the securities until yields hit a peak around March and April and then re-deploy their cash elsewhere.

"The market is basically on sale for all of March and April," Lind said. "It's the best buying opportunity of the year for the front-end of the yield curve."

Bloomberg Markets

By Mallika Mitra and Amanda Albright

February 20, 2020, 10:34 AM PST

New Muni World Sees Rise In Taxable Bonds: Kazatsky (Radio)

MUNIS in FOCUS: Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence,

discusses bond yields and the shifting market for munis. Hosted by Lisa Abramowicz and Paul Sweeney.

Play Episode

Bloomberg

February 21, 2020 — 8:48 AM PST

Municipal Bond Market Outlook: 2020

Due to the dynamic nature of financial markets, they are susceptible to an array of factors from around the world, and municipal debt markets aren't immune to these events. While 2019 witnessed strong U.S. economic growth due to strong consumer spending and historic low unemployment rates, the year 2020 started with tumultuousness in U.S.-Iran relations, presidential impeachment, and global unrest due to Coronavirus.

So far, these events have yet to show an impact on U.S. financial markets and the Federal Reserve is projected to have a stable outlook on interest rates. In addition, contrary to popular opinion, the Fed decided to cut rates in 2019, which was paired with the global demand for yield and credit spread exposure, enabling more local governments to save on net interest costs by issuing taxable bonds to pre-refund outstanding tax-exempt debt.

In 2019, municipal debt funds witnessed continued inflow of funds from investors and the issuance of new municipal debt registered $421 billion due to the lower interest rate environment.

In this article, we will discuss the 2020 outlook for municipal debt markets from both the issuance and investor standpoints.

Continue reading.

municipalbonds.com

Jayden Sangha

Feb 19, 2020

Fitch Rtgs: Bondfield Default Highlights Project Completion Contractor Risk

Fitch Ratings-New York-11 February 2020: The default of a private project contractor for a number of large Design-Build Finance (DBF) social public-private partnership (P3s) projects in Canada highlights the need for robust risk assessment and efficient risk allocation, Fitch Ratings says. Bondfield Construction Company Limited defaulted on its payment obligations for a number of projects for which it served as contractor and filed for insolvency protection. The issues with Bondfield are the latest among a number of high profile construction challenges in the P3 sector, including the I-69 and Denver Great Hall projects, which underscore the importance of understanding and appropriately mitigating key completion risks.

Fitch recently published an Exposure Draft: Completion Risk Rating Criteria, which focuses attention on contractor risk and allocating risk across multiple parties.

Work on the Bondfield projects, located in the province of Ontario, has been delayed from a few months to more than a year as the government sponsor, Infrastructure Ontario, the surety provider, Zurich Insurance Company Ltd, and bank lenders have been working to find a solution to the defaults. The projects employed standard DBF structures, with banks providing all of the financing through construction loans. There was no equity injection, nor was there a project company that actively managed the construction process.

Although relatively simple in scope, the DBF structure used in these projects provided very little liquid security. The lack of adequate liquidity to cover the short and medium-term incremental costs of contractor replacement, such as search and retendering costs, meant lenders were reliant on the sureties when the contractor defaulted. Although sureties typically guarantee completion, they do not guarantee timely completion because the adjudication of claims can take a long time. The Bondfield projects ran out of liquidity before the surety provider was asked to step in. Public information is limited as these projects are not rated.

Many years of successful delivery of social P3s in Canada led to a level of comfort with contractor/completion risk and an increase in competitiveness in the sector that resulted in a compression of construction margins. Underestimating completion risk can result in bids that are mispriced for the level of risk present and lead to cost overruns and delays. In a competitive environment, contractor replacement may also become a challenge because potential replacement contractors are unlikely to assume the contract if the risk is significantly mispriced and will require a significantly higher cost/premium to complete.

Fitch’s completion analysis is heavily dependent on the opinions of technical experts, independent engineers (IEs). However, the processes and standards used in developing these opinions vary, and the influence of the issuer cannot be ignored. Fitch’s Exposure Draft: Completion Risk Rating Criteria consequently identifies minimum levels of performance security required to cover replacement costs relative to the IEs’ estimates based on contractor ratings.

These levels represent Fitch’s experience and judgment, which is informed by discussions with a variety of market experts with considerable experience in construction projects that have experienced delays and cost increases following a contractor default. Fitch will review the IE’s opinion and engage in discussions to ensure there is a complete understanding of the processes and standards used. The ‘right-sizing’ of performance security, both short-term liquid security and long-term performance security, to cover costs of replacing the contractor is vital to mitigate completion risk.

Contact:

Mario Angastiniotis
Director, Infrastructure and Project Finance
+1 416 644-1569
Fitch Ratings, Inc.
120 Adelaide Street West, Suite 2500
Toronto, Canada M5H 1T1

Scott Zuchorski
Senior Director, Infrastructure and Project Finance
+1 212 908-0659

Fitch Ratings, Inc.
Hearst Tower
300 W. 57th Street
New York, NY 10019

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

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

---

Fitch Ratings: Coal Industry Declines Fueling Weaker Demographics for Some U.S. States

Fitch Ratings-New York-11 February 2020: The days of coal production meaningfully contributing to state economies appear to be numbered, posing a drag on state GDP, employment, and revenues and contributing to weaker demographics for some coal-producing U.S. states, according to a new report from Fitch Ratings.

Coal production has declined steadily for over a decade, though direct mining's contribution to U.S. states' economies has remained fairly steady. Notable outliers include West Virginia, where mining's contribution to state GDP gradually descended from 11.4% in 2008 to 7.2% in 2017. Wyoming is another notable outlier with mining's importance slightly growing over this time frame from 12.2% of state GDP in 2008 to 13.4% in 2017. However, this reflects Wyoming's 0.8% annual loss in total GDP over this time reflecting contractions in multiple industries.

Mining activity contributions to state GDP are likely to have softened in 2019 (based on data through the third-quarter). And as the coal industry continues to retract and the secondary impacts of employment and economic loss are incorporated, states unable to replace this economic engine have and will continue to suffer weakening demographics according to Senior Director Marcy Block. 'Met coal prices will exhibit short-term volatility due to numerous factors, and the current coronavirus outbreak also poses downside risks to global demand.'

'Some coal producing states are seeing declines in population and a greater proportion of aged residents, although these trends can be felt more acutely at lower levels of government,' said Block. 'Most coal-producing states have also seen significant losses in coal mining-related employment since 2011, particularly in those states where the industry was heavily labor intensive.'

In total, 41,773 coal mining jobs were lost between 2011 and 2018 with the largest job losses occurring in Kentucky (12,939 jobs) and West Virginia (10,807). For those states with the largest coal mining presence, retraction in this industry has been a drag on overall growth in nonfarm employment. Conversely, coal-related employment has grown in Montana and North Dakota since 2011.

Of the top 10 coal producing states, West Virginia's demographic trends are among the least favorable. Weak trends in population levels, aging of residents and unemployment are also common among Kentucky, Montana and Wyoming, whereas strong growth in oil and gas development (Colorado, North Dakota, and Texas) in addition to other sectors (Colorado and Texas) have

strengthened trends in these states' population, GDP and employment.

'Global Trends Sustain Uncertainty for U.S. Coal Producing States' is available at 'www.fitchratings.com'.

Contact:

Marcy Block
Senior Director
+1-212-908-0239
Fitch Ratings, Inc.
300 West 57th Street
New York, NY 10019

Monica Bonar
Senior Director
+1-212-908-0579

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

Additional information is available on www.fitchratings.com

S&P: U.S. Airport Sector Well-Positioned While U.S. Ports Prepare For Volume Declines Under Our Baseline Coronavirus Scenario.

NEW YORK (S&P Global Ratings) Feb. 12, 2020–Based on our initial sample survey of U.S. airport operators, most are well-positioned to manage the operational and financial implications associated with our baseline economic assumptions related to the 2019 new coronavirus (COVID-19) outbreak. However, U.S. ports with exposure to China are preparing for a likely decline in container volume and further softening in trade, as cancelled shipping calls and trade in goods in both directions will be substantially affected by supply outages and disruptions to logistics networks. (For the most current overview, see "Global Credit Conditions: Coronavirus Casts Shadow Over Credit Outlook" published Feb. 11, 2020.)

S&P Global Ratings' baseline assumption is that COVID-19 will be contained globally in March 2020, allowing travel and other restrictions to be unwound by the middle of the second quarter. We estimate that the virus could lower China's GDP growth by 70 basis points (bps), to 5.0%, this year, with a peak effect in the first quarter before a rebound begins in the third quarter, and lost output largely recovers by the end of 2021. In turn, it would trim 30 bps from global GDP growth this year. However, if the outbreak is not brought under control in March, the economic impact could be much larger.

To assess what effect, if any, COVID-19 will have on U.S. airport sector, S&P Global Ratings surveyed a select group of airports mostly where U.S. health officials are conducting enhanced screening of passengers. Airports included in our sample are:

- Chicago's O'Hare International Airport
- Dallas-Fort Worth International Airport
- Guam International Airport

- Honolulu International Airport
- John F. Kennedy International
- Los Angeles International Airport
- Newark Liberty International Airport
- San Francisco International Airport
- Washington Dulles International Airport

Our findings are as follows:

- Most of the airports we surveyed have limited exposure to flights from China;
- None of the airports have revised current enplanement forecasts for 2020 as yet, although we anticipate those with greater exposure will see some softening; and
- The cost recovery financial structure of airports mitigates the financial impact of lower-tha--expected activity levels.

We anticipate the generally favorable overall enplanement forecasts for this year will mitigate any potential weakening in air travel demand related to this health emergency under our baseline scenario.

For the U.S. port sector, we see the COVID-19 outbreak as an additional risk–on top of weakness due to the ongoing trade and tariff dispute–if it becomes a drag on the overall Chinese economy, dampening GDP growth that, in turn, will cause lower-than-forecast levels of goods imported to or exported from China. The demand shock is larger for China than for its trading partners, so all else being equal, this should mean that the decline in imports of goods and services (including tourism) will be larger than that for global exports. At the same time, trade in goods in both directions will be substantially affected by supply outages and disruptions to logistics networks. Overall, it seems likely that imports will be hardest hit and this will provide an offsetting, but moderate, positive contribution to growth that will unwind later in 2020. (Continue to check our website for an update on the port sector at https://www.spglobal.com/ratings/en/sector/u-s-public-finance/transportation)

We consider this latest health emergency an evolving one that we believe is still in its early stages. Therefore, it is difficult to say if it will have a material impact on those U.S. airport and port credits we rate. Consequently, this potential risk does not change the positive and negative 2020 sector outlooks we have for the airport and port sectors, respectively. During past outbreaks, we took no negative rating actions, since their impact was temporary. For example, the SARS coronavirus outbreak in 2003 led to a 14% reduction in total passengers for San Francisco International Airport's Asia traffic for the year, followed by a 19.5% rebound in Asia traffic the following year. However, should this outbreak create a persistent, durable, and material drag on air travel demand or trade flows, we would consider it a major credit risk, potentially leading us to lower the ratings on some issuers.

Related Research

Global Credit Conditions: Coronavirus Casts Shadow Over Credit Outlook, Feb. 11, 2020
Unless Coronavirus Spreads More Widely, Its Impact On The U.S. Economy Should Be Modest, Feb. 11, 2020
Coronavirus To Inflict A Large, Temporary Blow To China's Economy, Feb. 7, 2020
Coronavirus Impact: Key Takeaways From Our Articles, Feb. 12, 2020
Australian And New Zealand Airports Brace For More Pain With Coronavirus Outbreak, Feb. 4, 2020
Coronavirus Will Take A Big Toll On China's Transport Operators, Feb. 3, 2020

This report does not constitute a rating action.

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

View the list.

CUSIP: Municipal Volumes Increase Year over Year.

“So far this year, we’re starting to see pockets of very strong CUSIP request volume emerge in specific asset classes, most notably in corporate debt,” said Gerard Faulkner, Director of Operations for CUSIP Global Services. “There is some volatility in the data, however, with other asset classes such as international debt and equity and some municipal categories still making big month-t--month moves.”

Read Press Release.

Bill Offers $400M for State, Local Government Cybersecurity.

The just-introduced bipartisan bill would send the money to state and local governments through the Department of Homeland Security, which would also create a new federal strategy for cybersecurity.

With state and local governments beset by a precipitous rise in cyberattacks, new federal legislation might provide some necessary cover where needed.

The State and Local Cybersecurity Improvement Act would create a grant program worth $400 million to finance cybersecurity efforts in communities across the country, according to a release. Eligible communities would be able to apply for funds, provided through the Department of Homeland Security, which would be allocated to assist in areas like vulnerability scanning and testing, cyberworkforce development and intelligence sharing, according to the bill text.

The bill would also require DHS’ Cybersecurity and Infrastructure Security Agency (CISA) to develop an overall strategy to improve the cybersecurity posture of those communities. Communities would also be obligated to create their own cybersecurity plans, illustrating how monies would be spent in service of those goals.

The legislation, which was introduced by a group of bipartisan representatives associated with the House Committee on Homeland Security, offers a potential workaround for cash-strapped municipalities looking to bolster their security budgets.

One of the sponsors of the bill, Cedric Richmond, a Louisiana representative and chair of the Homeland Security Committee’s Cybersecurity, Infrastructure Protection and Innovation Subcommittee, explained in a statement his support for the legislation.

“Louisiana has long been vulnerable to cyberattacks, and this bill offers the resources needed to ensure protection against potential threats,” said Richmond. “I’m proud to introduce this comprehensive measure to give Louisiana and other states across the country the proper framework they need to implement vital cybersecurity plans.”

GOVTECH.COM

BY LUCAS ROPEK / FEBRUARY 12, 2020

BDA Submits Testimony and Will Host Capitol Hill Briefing in Support of Infrastructure Proposal.

Today, February 12, 2020, after consultation with the Municipal Bond Executive Committee, the BDA submitted testimony to the House Committee on Ways in Means in response to a recent hearing titled, *Paving the Way for Funding and Financing Infrastructure Investment* and in support of the House infrastructure principles document.

The BDA Comments can be found here.

The BDA also co-signed a letter from the Public Finance Network, along with 25 organizations, in support of the tax-exemption and other market priorities.

The letter can be viewed here.

Both the BDA comments and the PFN letter wrote in support of:

- Continued protection of the tax exemption;
- Reinstatement of tax exempt advance refundings;
- Expanding the cap and scope of qualified private activity bonds;
- Raising the limit on bank qualified debt; and
- Ensuring any federal direct pay bond legislation would be untethered from sequestration

Muni 101 and Infrastructure Hill Briefing

The BDA, along with member firm Hilltop Securities, has partnered with the Government Finance Officers Association, the American Public Power Association and the National Association of Counties for a March 3rd Capitol Hill briefing for Members of Congress and their staff.

The briefing will provide a "Muni Bonds 101" tutorial followed by a discussion on infrastructure and the need for municipal bonds to be a part of the solution.

The BDA will provide a recap following the event.

Bond Dealers of America

February 12, 2020

Fitch Rtgs: Growing US Infrastructure Deficit Necessitates a New Paradigm

Fitch Ratings-New York-14 February 2020: Any government plan for renewing and advancing essential US infrastructure requires a new paradigm to adequately address the infrastructure funding deficit, says Fitch Ratings. While a source of adequate and sustainable funding is a critical component, a results-oriented, objective and strategic approach to investment, along with

responsible stewardship of the public purse, are paramount. Increased spending without a strategic, comprehensive approach to infrastructure investment based on national priorities will not go far in addressing the continued deterioration of critical economic assets.

Passage of a large-scale federal infrastructure spending bill stalled in 2019 due to a lack of consensus on a funding approach, despite bipartisan recognition of the need to address the country's aging infrastructure. Political disagreements partially reflect difficult budget decisions, which will need to be made in the context of a federal deficit that is projected to reach $1.0 trillion this fiscal year. Trying to tackle the issue in a presidential election year will be next to impossible.

Addressing US infrastructure needs will require a significant uptick in annual new investment. Prior government proposals have been rather tepid, suggesting up to $200 billion in new investment a year. While a good start, it is a drop in the bucket, as a multi-trillion dollar infrastructure deficit will require a glide-path to trillion dollar annual investments at 5% of US GDP and more than double recent historical levels to have a meaningful impact. Direct federal spending on nondefense infrastructure, as a percentage of GDP, declined marginally over the past two years and was less than 0.1% of GDP in 2018.

Investments in infrastructure have historically led to increased economic activity and growth. The risk of putting off investment is obvious: infrastructure assets, which are essential to the US economy, will continue to deteriorate, requiring even greater financial resources down the line and making the problem even more difficult to address. Slowing GDP growth will compound this risk, making increased investment less feasible. The irony is that the ability to invest is strongest when the economy is robust.

Such a large-scale undertaking requires a coordinated effort across multiple stakeholders and levels of government to prioritize and fund national needs and provide long-term support for infrastructure renewal. An independent, non-partisan infrastructure commission with the teeth to influence funding and spending may be a useful model to facilitate sustained planning and investment.

With no federal plan currently in place, states and local governments have made efforts to fill the funding gap, including raising gas taxes, using toll revenues for other unrelated projects, or entering into public-private partnerships. State and local spending on infrastructure was about 1.5% of GDP in 2018 but infrastructure needs are too great to address on their own. States and municipalities need funding visibility and assistance to begin work on necessary projects.

Costs associated with repairing and protecting infrastructure will only grow if the funding gap is not addressed systematically. The deficit could be exacerbated with the potential threats to infrastructure from environmental risks such as rising sea levels. Upfront investments to build resiliency would cost less than rebuilding following weather-related events.

Contact:

Cherian George
Managing Director, Global Head, Global Infrastructure and Project Finance
+1 212 908-0519
Fitch Ratings, Inc.
Hearst Tower
300 W. 57th Street
New York, NY 10019

Sarah Repucci

Senior Director, Fitch Wire
+1 212 908-0726

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

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

Dude, Where's My Infrastructure Funding?

Ever since both 2016 presidential candidates made infrastructure investment a core component of each of their platforms, we have been waiting for a significant infusion of federal funds to modernize our aging bridges, highways, and transit systems. One of the few remaining bipartisan issues, members of both political parties had high hopes that a large infrastructure bill would be possible. While this has yet to materialize, the Senate, House, and Administration have all taken steps to advance the ball. But with the current transportation law—the Fixing America's Surface …

Continue reading.

Nossaman LLP

By Shant Boyajian on 02.14.2020

Everything Is Great in Muni-Bond Market. That's the Big Worry.

- **If everyone is on same side, it topples over 'pretty easily'**
- **Money managers discuss outlook at Bloomberg News event**

In the municipal-bond market, everything's going strongly in the right direction: prices have been rising, mutual funds have received new cash from investors for the past 57 weeks, and new debt sales have been gobbled up.

But Guy Davidson, chief investment officer of the municipal-debt business for AllianceBernstein, is still preparing for the risk that his firm's outlook is wrong, given that he and other money-managers are largely in lockstep with expectations for another year of positive returns.

"When everyone's on one side, it gets toppled over pretty easily," he said at a panel hosted by Bloomberg News on Wednesday.

The $3.8 trillion municipal market returned 7.5% last year, the biggest annual gain since 2014, and in January posted its biggest monthly gain in six years. The run-up has pushed yields to the lowest in over six decades, leaving some analysts skeptical of how much more prices can rise.

Davidson said his firm expects "decent" economic growth and isn't anticipating any big moves in yields. But he said he has taken some steps to prepare for a surprise economic downturn, such as adding U.S. Treasuries to portfolios because they tend to outperform during a recession.

At the Wednesday panel, investors from Macquarie Investment Management, Parametric Portfolio Associates, and Columbia Threadneedle Investments expressed similar outlooks for the coming year.

Catherine Stienstra, head of municipal investments at Columbia Threadneedle, said 2020 may be more of a “coupon-clipping” year for investors, meaning returns will be driven more by interest payments than price gains. Still, she said the individual investors who flocked to the municipal market in record numbers last year will likely keep buying the securities to gain the tax breaks or avoid stock-market volatility.

She said she expects such demand to keep supporting the market, even if it isn’t as strong as last year. “What drove the strong returns in 2019 are still in place,” she said.

Nisha Patel, a director at Parametric, also said the weekly cash influx into mutual funds could slow if investors are deterred by the low yields. Municipal bonds maturing in 10 years yield just 1.2%, half what it was in late 2018, according to the Bloomberg BVAL index. The Bond Buyer’s 20-year index is hovering near the lowest since the 1950s.

Patel said she noticed that some new municipal-bond deals this week weren’t met with the overwhelming demand that’s become routine and left deals far oversubscribed. A move higher in rates would likely lure investors who have been sitting on the sidelines, Patel said.

“The market staying stagnant, where it is, is probably something that we would be concerned about,” she said.

Not all muni-bond investors are discouraged. Steve Czepiel, who leads municipal bond portfolio management for Macquarie, said he expects another strong year of returns, saying that rates have room to go lower and that credit spreads can tighten more.

Macquarie is still favorable on high-yield municipals — which last year rallied the most since 2014 — and is being “selective” in what it buys, Czepiel said. He said they prefer deals where there’s a lot of issuance to choose from, like health care, so the firm can be choosy.

“The credit markets are in good shape and they will continue to perform due to that technical demand,” he said.

Bloomberg Markets

By Mallika Mitra and Amanda Albright

February 13, 2020, 8:02 AM PST

Foreign Yield Seekers Buying Taxable Munis.

Catherine Stienstra, Senior Portfolio Manager and Head of Municipal Investments for Columbia Threadneedle Investments, discusses her current outlook for the muni market. Hosted by Lisa Abramowicz and Paul Sweeney.

Play Episode

Bloomberg Radio

February 13, 2020

Citigroup's New Place to Sell Its Mortgage Loans: Muni Market

- **Government agencies sell $1.4 billion of bonds to buy loans**
- **Bank sees 'new source of financing' for affordable housing**

The voracious appetite for riskier tax-exempt debt is allowing Citigroup Inc. to get affordable housing loans off its books and finance more apartments.

Starting last year, Citigroup, the biggest U.S. affordable housing lender, has underwritten four tax-exempt bond issues for state and local government agencies that used $1.4 billion of the proceeds to buy mortgages the bank made to finance 149 properties with 16,850 units nationwide. The deals gave Citigroup cash to make new home loans.

"We've tapped into a new source of financing for affordable housing by using demand in the muni market," said John Heppolette, Citigroup's head of municipal markets and finance. "More demand ultimately keeps the cost of financing affordable housing down."

The structure is allowing the bank to tap into booming demand for tax-exempt debt, which has driven yields to a more than six decade low and led investors to shift cash into lower-rated securities to generate higher returns.

At the same time, many state and local governments are eager for ways to pump more money into low-cost housing projects. As wages stagnate and real estate prices increase, families nationwide are spending a greater share of their incomes on housing. The U.S. has a shortage of seven million affordable rental homes available to extremely low-income renters, according to the National Low Income Housing Coalition. A household is "cost-burdened" when it spends more than 30% of its income on rent and utilities.

Historically banks and government sponsored entities like Fannie Mae and Freddie Mac have provided capital for multifamily affordable housing. While New York City and state issue bonds for multifamily housing developments, the debt is typically backed by large pools of properties that provide additional collateral, allowing the securities to get higher ratings.

By contrast, Citigroup's deals involve smaller portfolios with a limited cushion to absorb losses and have carried ratings from S&P Global Ratings of BBB and BBB+, two and three steps above junk, respectively. Municipal-bond investors have been eager to take on the risk: high-yield muni funds have drawn in more than $20 billion since the beginning of 2019, according to Refinitiv Lipper US Fund Flows data.

Citigroup sold its multifamily loans to municipal conduit bond issuers like the California Housing Finance Agency, the Arizona Industrial Development Authority and the National Finance Authority in New Hampshire. The conduits purchase the loans by issuing municipal bonds backed by mortgages on the properties, which are also subsidized by the U.S. Low Income Housing Tax Credit program.

The bonds don't directly raise cash for affordable housing projects, but they allow Citigroup to make new loans. Scott Helfman, a spokesperson for Citigroup, declined to comment on how much it made on the sale of the loans.

The bank took the top spot in Affordable Housing Finance magazine's annual lender ranking for the ninth consecutive year in 2019. Citi Community Capital, the firm's community-development arm, made more than $6 billion of loans to affordable rental projects in 2019.

"You start originating that much over a long period of time, it starts to build up significantly," said Heppolette, whose bank is planning more such securitization deals this year.

Last month, Citigroup managed an approximately $480 million bond issue backed by 39 mortgage loans on 43 affordable multifamily rental properties in 12 states. A $455 million series with a 4.125% coupon was priced to yield 2.28% to the 10.6 year average life of the loans, according to Citigroup. The yield was about 0.9 percentage point more than AAA bonds maturing in 11 years. The deal also had a $26.5 million subordinate series that absorbs losses before the senior bonds.

Citigroup's first deal last year was a $172 million issue by the California Housing Finance Authority. The securities yielded about 2.63% to an average life of 11 years, according to Helfman.

The debt was priced attractively because it wasn't a typical muni housing bond structure, said Robert Ellis, a vice president at Kore Private Wealth, which purchased some of the securities. Prices have gone up as investors become more familiar with the structure and money continues to flood into the muni-bond market.

"It's a new creature as far as we know in the muni space," said Margaret Hay, vice president at Kore in New York.

Bloomberg Markets

By Martin Z Braun

February 12, 2020, 10:30 AM PST

We're From the Government and We're Here to Build a Bike Path.

Municipal officials are using eminent domain to take private property for recreational uses.

A handful of farmers in Ohio's Mahoning County are getting an unpleasant lesson in government power at the hands of a local park district. Mill Creek MetroParks, a public agency governed by five unelected commissioners, wants to take over an abandoned railroad line running through about a dozen local farms for a recreational bike path. Last year, when landowners balked at the idea of strangers wandering across their properties, the park district decided to invoke eminent domain and gain right of way.

"I asked the park representatives if there was any way we could negotiate on this, and they told me, 'The time for talking is over. We're taking this property,' " says Ohio state Rep. Don Manning, who tried to intervene on the farmers' behalf. Rep. Manning, a Republican, has sponsored legislation that would limit the use of eminent domain in Ohio.

The practice of government taking land for recreational uses—typically bike lanes, hiking paths and fashionable "rail trails" and "greenways"—is spreading across the country, marking a sharp and troubling expansion of eminent domain. The Takings Clause of the Constitution's Fifth Amendment

grants government the authority to seize property to be used for the public good, as long as government pays “just compensation” to the owner. Over the years, the Supreme Court has consistently expanded what is considered a “public good” to justify government seizures. In 2005, for instance, the high court upheld the taking of Susette Kelo’s waterfront home by the city of New London, Conn., so that a local development corporation could build high-end condos and a hotel. The redevelopment was intended to boost property values and increase municipal tax revenues.

Meanwhile, cities and towns across America have in recent years developed an appetite for different types of lengthy, sometimes intrusive hiking and bike paths. Advocates contend that such recreational amenities are vital because they promote alternative forms of transportation. Bike trails “are increasingly being used as a nonrecreational means of transportation, particularly by lower-income residents without access to a motor vehicle,” testified Jason Segedy, director of planning and urban development for Akron, Ohio, in opposition to Rep. Manning’s bill.

Municipal land grabs often result in bitter confrontations. Officials in Sioux City, Iowa, sought to complete a riverfront recreation trail in 2017 by offering Brad Lepper half of what an independent county commission had ruled his property was worth. Rather than pay up in full, the city invoked eminent domain, prompting Mr. Lepper to wage a two-year legal battle. He represented himself for much of the time.

“It can be an intimidating process for a small-business owner to fight this, and many people probably wouldn’t risk it,” Mr. Lepper says. “I took this on myself because I couldn’t afford to run up big legal bills, but I knew the property was worth much more.” Hiring his own appraiser and planning expert, Mr. Lepper ultimately won an $82,500 settlement. Still, it was an uncomfortable experience. “I’m a local businessman. I have to do business here. I didn’t want to fight the city.”

Eminent domain also divides communities. A plan by the town of Swampscott, Mass., to construct a 2-mile trail through the North Shore Boston suburb sparked a yearslong battle pitting officials and some supportive residents against those whose property the path would cross. One property owner, Kim Nassar, published a letter in the local newspaper claiming that she and other opponents had been “vilified and maligned” and branded as “selfish” for lobbying against the project.

Since residents voted in a divisive June 2017 election to dedicate some $850,000 to the Swampscott trail, including an unspecified amount of money for eminent-domain seizures, the town has continued to work to design and fund the project. But an attorney hired by 28 homeowners says he has warned town officials that this battle may be more costly than they anticipate. “There are properties along this path whose value could be substantially diminished,” says Peter E. Flynn. “Juries tend to be sympathetic to property owners if they can afford to fight a case like this in court, and I have seen court awards that can bust the budget of a town.”

The issue also divides elected officials. In 2017 Wisconsin ended the use of eminent domain for recreational projects in a bill signed by then- Gov. Scott Walker, a Republican, after objections from landowners. According to Wisconsin Active Communities Association, a recreational group, 17 bike- and walking-trail projects for which the use of eminent domain was planned have stalled since Mr. Walker’s action. Current Gov. Tony Evers, a Democrat, has sought to re-establish government’s authority to take property in these cases, but so far he’s been blocked by Republicans in Madison. “Somebody else’s recreational opportunity should not be forced on my property,” argues state Rep. Rob Stafsholt, who helped push through the ban.

The Kelo decision provoked a backlash. Some states passed laws restricting eminent domain for economic development. But as local governments, park systems and state agencies become bolder about seizing property for recreational use, don’t be surprised if the next eminent-domain case with

national significance involves a bike path in your backyard.

The New York Times

By Steven Malanga

Feb. 14, 2020 5:19 pm ET

Mr. Malanga is senior editor of City Journal.

S&P: Cyber Risk Management For U.S. Municipal Utilities Should Be Routine And Requires Vigilance And Flexibility

Key Takeaways

- Developing a cyber defense framework should now be an essential part of risk management planning for U.S. municipal water and wastewater utilities.
- By preparing plans in advance, utilities can ensure continuity of delivery if a cyber incident occurs.
- During a cyber incident, utilities must maintain clear communication with their customers and the general public explaining what is happening and what they are doing about it.
- Recovery planning could generate liquidity problems if not addressed in advance.

S&P Global Ratings believes that cyber risk is an important factor to consider when evaluating credit and has become a key credit focus of risk management for many U.S. municipal utilities. The threat to organizations and the credit impact could get worse before it gets better with the prevalence of cyber breaches and the growing sophistication of cyber criminals. Municipal water and wastewater utilities must develop cyber defense frameworks to prepare themselves for such incidents to ensure continuity of delivery, maintain clear communication with their customers, and have recovery plans in place.

Like other local government counterparts, municipal water and wastewater utilities require trust and transparency with their users: trust that the services will be there and transparency to support decisions about rate increases. Improved technology at the plants can aid in strengthening that trust and transparency and has enhanced data collection, streamlined operations, and improved the user and customer experience. Ironically, however, these benefits also make utilities more vulnerable to cyber crime.

These days, it is easy to become a cyber criminal. On the dark web, there are more ready-made tools and programs available to crack passwords or launch malware, some even with money-back guarantees. In our conversations with utility management teams, we regularly discuss preventative measures, but given the accessibility of technological crime tools, we still find that many utilities are reactive, forced to face these issues as they happen with only miminal advance planning on how to respond.

Cyber breaches pose several risks to municipal utilities. These include the loss of financial assets, personally identifiable information being compromised, and infrastructural and organizational disruptions, not to mention the long-term erosion of public trust. Cyber-preparedness is perhaps even more serious for municipal water and wastewater providers due to the critical nature of this resource: Water is an essential service, and the public has an implicit trust and expectation that such critical infrastructure will be protected and the resource will available when needed.

As we noted in “When U.S. Public Finance Ratings Change, ESG Factors Are Often the Reason” (published March 28, 2019 on RatingsDirect), governance and management issues are the most likely factor behind a rating action across U.S. public finance. Even if a particular disruption is not so serious as to genuinely affect credit quality, headline risk can create different but equally challenging headwinds. The effects of controversies such as a cyber breach and the resultant adverse publicity can weaken citizens’ faith in local elected and administrative leadership should the attack be handled poorly or multiple attacks occur. Scrutiny of decision-makers and their risk management practices is likely to increase.

If a utility needs to increase operating revenues, its only option is generally to raise rates. An erosion of public trust could make that more difficult. If the management team scales back or delays rate adjustments–regardless of the reason–the financial profile could weaken, thereby reducing capital commitments or pushing them out to later years, ironically creating vulnerability to even more operating risks. Part of our ratings analysis has always included an assessment of the management team’s preparedness and resilience in the face of such events and the relative exposure to observable event risks, in addition to ensuring continuity of operations and maintaining financial performance. If, in our view, that becomes diminished after a cyber breach, it very well could be the case that headline risk has a measurable effect on the utility’s credit.

To date, losses from cyber breaches have generally been absorbed by the rated entities’ available liquidity and have not resulted in a material decline in credit quality. However, as cyber risk evolves so rapidly, it may only be a matter of time before more serious repercussions arise. Negative rating actions have occurred in other sectors due to cyber breaches. Clearly, every dollar stolen is a dollar than could have been reinvested as a capital investment or other system improvement. If a successful cyber attack on a rated entity significantly affected the expenses, revenue collections, and liquidity position or caused an entity to require the need for further debt to recover from the cyber event, there would clearly be downward pressure on the rating.

Preventive Measures Can Feel Like Catch-Up Actions, But Are Critical

Cyber criminals can be more adaptive and flexible in their approach than the existing countermeasures against them. Thus, in many cases, security technology is playing catch-up. Therefore, cyber risk mitigation is actually more of a management and governance challenge than a purely technological issue. Identifying the organizational workings, risks, and needs of a utility is the most important step in developing a cyber defense framework. Management’s in-depth understanding of the assets in terms of personnel, data, and the operational aspects of the system is key to identifying areas of risk within the overall utility.

While a number of best practices exist for not only cybersecurity, but also risk management in general, the America’s Water Infrastructure Act of 2018 (AWIA) and subsequent Environmental Protection Agency (EPA) rulemaking now compel all utilities serving at least 3,300 people to create–or for some, to update–a vulnerability self-assessment. “Vulnerabilities” include natural disasters but also “malevolent acts” to demonstrate that management has identified risks and how to be resilient when they occur. These plans should address all facets of the utility, from operations to the back office, and are required to be updated every five years. Finally, management must also establish an emergency response plan to show preparedness for identified risks, then certify or attest to the assessment and emergency response plan once submitted to EPA. We believe this is supportive of long-term credit stability, as risk management in general–and cybersecurity specifically–will become a more explicit part of business as usual for nearly all utilities.

Since the nature of cyber crime is constantly evolving, employee training, preparedness, and awareness must also adapt and evolve. The aging of the workforce across the municipal utilities

sector and the looming associated retirements pose risks to new managers, who will have work harder to acquaint themselves with the unique challenges of their utility systems and thus create appropriate security countermeasures for their system and their employees. Obsolete or outdated technology and systems also create cyber vulnerabilities for utilities. Therefore, constant monitoring and updating of systems and isolating and maintaining critical operational systems such as SCADA are generally common but essential starting points of a utility's preparedness planning. Backing up crucial and confidential operational and user data in secure rapid access data storage mediums is another necessary measure. Since the nature of cyber risk is constantly changing, any utility's preparedness plan should also be flexible and ready to adapt.

Detection of intrusions or anomalous activities is another component in the formulation and maintenance of a utility's cyber protection protocols. While managers can use technology tools to detect attempted intrusions, these efforts must be coordinated with robust management plans. These tools, coupled with the vigilance of utility operators toward anomalous activities, can make it more difficult for nefarious actors to gain access to utility systems. Detection and blocking of cyber criminals in a utility's network is extremely important to the organization's brand and maintenance of its public trust. In our current world of ever-evolving cyber criminals, terrorist organizations, and hostile nation-state actors, municipal utilities pose a tempting target for cyber-crime, cyber warfare and cyber terrorism, where risks are low and rewards are high. The protection of critical water and wastewater utilities is therefore not just a local challenge but also a regional or national security concern.

Response Planning Is Key To Credit Stability

Water and wastewater utilities, being essential service providers, must ensure continuity of delivery in the event of a cyber incident. Thus, response planning is critical for them to be able to operate and maintain the trust of their customers. The implementation of previously well-thought-out action plans and stopgap measures is key to the successful navigation of a cyber incident. Examples of such actions that we have seen include the implementation of emergency supply, preparedness for manual system operations, table-top exercises replicating an attack, and the activation of well-maintained back-up data.

Communication and transparency are also key when responding to cyber incidents. Even during severe cyber incidents, the served citizens' implicit trust in their governments is underlined by their expectation that critical components (such as water) continue to function. Despite disruptions, cyber attacks should not affect the accountability of utilities to their customers to provide essential services and doing their upmost to maintain the public's trust and protect personal information. Thus, a robust response plan should include how the breach is represented, how quickly to alert the public, and what management is doing to mitigate the problem. It is also critical for response plans to be regularly reviewed and analyzed to include new approaches and revise procedures in the constantly evolving world of cyber risk.

Recovery Is Easiest When Planned For Before An Actual Attack

Recovery planning is another important component of maintaining public trust in a utility system. It is generally the recovery phase of a cyber incident that poses the greatest credit risk to municipal utilities. The first and foremost credit concern is the cost in terms of damages and resources needed for recovery. The unforeseen costs due to loss of data, compromised systems, recovery consultants(you mean paying them to help after the event?), or deterioration of the affected entities' liquidity position could pose liabilities, which, in some cases, may pressure credit quality and create uncertainty in the municipal market. So we normally ask utilities about the adequacy of their reserves, liquidity, or rainy day funds when considering their exposure to cyber risk.

The loss of constituent trust is another factor as weak public support may weaken the ability of the affected entity to raise the funds needed to rebalance the system. There may also be calls for the removal in the utility's management. Therefore, thoughtful response planning is also key to the maintenance of credit quality and public trust for municipal utilities. Response activities must be well coordinated with local and federal authorities and the response plan should include steps regarding communications with them. The lack of response preparedness and transparency in cyber incidents not only erodes public confidence but also makes it more difficult for local and federal law enforcement to track and combat future risks and breaches.

Ultimately, the heightened speed of communication and the rapid globalization of the cyber realm mean that state and local government entities, which previously were only concerned with their local service areas and thus somewhat insulated, are now part of the global risk environment. The importance of these public systems in the fabric of our critical infrastructure, coupled with their limited resources, makes them tempting targets for cyber criminals and other hostile global actors. These factors, coupled with the localized nature of utilities in the U.S., make cyber security a unique operational and credit challenge for water and sewer utilities.

This report does not constitute a rating action.

Primary Credit Analyst: Omid Rahmani

Secondary Contacts: Theodore A Chapman, Geoffrey E Buswick

Ransomware Attack on Hospital Shows New Risk for Muni-Bond Issuers.

- **The attack in part led to a breach of a covenant agreement**
- **The hospital spent $1 million in response to the attack**

Hackers have finally done what bond issuers may have feared most from cyber criminals.

A ransomware attack on Pleasant Valley Hospital in West Virginia was partly responsible for the hospital's breach of its covenant agreement, according to a notice to the hospital's bondholders from the trustee, WesBanco Bank. It appears to be the first time a cyber attack triggered a formal covenant violation, according to research firm Municipal Market Analytics.

The virus entered the hospital's system via emails sent 10 months before the cyber criminals asked the hospital for money, said Craig Gilliland, the hospital's chief financial officer. The information the criminals held for ransom did not contain patient data or confidential data, so it was "more of an annoyance," he added.

Because of the attack, the hospital was forced to spend about $1 million on new computer equipment and infrastructure improvements, Gilliland said. That cost, along with declining patient volume, caused the hospital's debt service coverage for the fiscal year that ended on Sept. 30 to fall to 78%, below the 120% the loan agreement requires, according to the material notice to bondholders.

Continue reading.

Bloomberg

By Mallika Mitra

February 5, 2020, 7:11 AM PST

Fitch Rtgs: Medicaid Changes Will Affect States, NFP Healthcare Providers

Fitch Ratings-New York-06 February 2020: Recent regulatory actions from the US federal Centers for Medicare and Medicaid Services (CMS) could have fiscal and credit repercussions for state governments and those reliant on state funding, particularly not-for-profit (NFP) healthcare providers, Fitch Ratings says. The proposals illustrate the Trump administration's efforts to make notable changes to Medicaid, even without legislative approval given the divided control of Congress. Collectively, Medicaid's expenditures account for approximately 20% of states' non-federal funds spending, according to the National Association of State Budget Officers. Medicaid covers nearly 1 in 5 Americans, though commercial payers are more significant in terms of patient net revenues for providers.

CMS recently issued two regulatory notices opening the door to potentially significant changes to Medicaid. The Healthy Adult Opportunity initiative (HAO) allows states to transition to block grants or per capita cap grants for certain beneficiaries, effective immediately. The Medicaid Fiscal Accountability Regulation (MFAR), which is in the midst of the rulemaking process and at least several months from implementation, could upend how states finance their Medicaid costs.

HAO is optional for states and provides guidance on applying for Section 1115 Waivers to extend coverage to adults under 65 not otherwise eligible for Medicaid, with a per capita or block grant cap on federal contributions. Under current law, the federal government matches state Medicaid spending at varying percentages on an open-ended basis. An HAO per capita or block grant shifts cost risk to states. In return, states receive flexibility including cost-sharing requirements with beneficiaries, work requirements or limiting prescription drug coverage.

Capping federal Medicaid contributions, even for a subset of beneficiaries, poses risks to state budgets and those entities reliant on state funding, including local governments and providers. States would need to find revenue or cost savings, either in Medicaid or elsewhere, to offset reduced federal contributions. Since CMS notes the flexibility available under HAO is already available via separate waivers, the fiscal benefits to states are unclear.

Fitch considers CMS's proposed MFAR as potentially more disruptive than HAO to credit quality. MFAR affects how states finance their share of the Medicaid program. Various state organizations including the National Governors Association and the National Association of Medicaid Directors have suggested MFAR represents a material change to current CMS policy, creating uncertainty for states and providers.

Among other changes, MFAR revises standards for approving healthcare-related taxes in ways that could limit states' ability to use this important Medicaid funding source. The Medicaid and CHIP Payment Access Commission (MACPAC) reports 49 states and the District of Columbia use such taxes, and the General Accounting Office reported in 2014 that provider taxes made up at least 10% of states' Medicaid contributions. MACPAC reports states spent $230 billion on Medicaid in federal fiscal year 2018.

The American Hospital Association, in an analysis conducted with Mannatt Health, estimated MFAR could reduce total Medicaid spending nationally by $37 billion and $44 billion annually, or 5.8% to

7.6%, and by $23 billion to $30 billion for hospitals alone. States and, to some extent providers, would respond to MFAR's implementation with measures to mitigate the negative fiscal implications. For both HAO and MFAR, Fitch anticipates states' credit quality would be less directly affected, given their broad ability to manage spending and revenues, although short transition times could complicate budget effects. Credit quality for those providers reliant on state funding could be more at risk, as they have relatively less fiscal flexibility. This is particularly true for NFP healthcare providers that have higher Medicaid exposure.

Contact:

Eric Kim
Senior Director, U.S. Public Finance
+1 212 908-0241
Hearst Tower
Fitch Ratings, Inc.
300 W. 57th Street
New York, NY 10019

Kevin Holloran
Senior Director, U.S. Public Finance
+1 512 813 5700
Fitch Ratings, Inc.
111 Congress Avenue, Suite 2010
Austin, TX 78701

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

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

---

Satellites Are Helping the Municipal-Bond Market Assess Climate Risk.

Investment firms are using spatial data mining to visualize dangers.

The $3.8 trillion municipal-bond market has found a new tool in its effort to understand the impact of climate change: the array of satellites orbiting high above Earth.

Assessing climate risks is a particularly vexing problem given that U.S. state and local governments tend to give investors information that's often too little or just too late. But the use of geospatial data and information from sources like Google Earth could help municipal-bond investors evaluate and price the risks posed from a warming climate, rising sea levels and natural disasters.

The deployment of spatial technology in the municipal market advanced in January when credit-ratings company S&P Global Ratings completed an analysis of U.S. water utilities using data from National Aeronautics and Space Administration satellite missions. Other investment firms say they're starting to focus on geospatial information as a way to evaluate climate risks as well.

Continue reading.

Bloomberg Green

By Amanda Albright and Mallika Mitra

February 6, 2020, 2:00 AM PST

S&P U.S. Higher Education Rating Actions, 2019

S&P Global Ratings affirmed 88% of college and university ratings reviewed in 2019. We lowered 17 ratings and raised 14. Notably, of the schools upgraded, three are rated in the speculative grade category (Western Illinois University, Eastern Illinois University, and Sweet Briar College), and three moved from one rating category to another: Boston University, Villanova University, and the University of Alabama Huntsville were all upgraded to 'AA-' from 'A+', due to strengthening credit profiles, exemplifying the intensifying bifurcation within the sector. Additionally, the sector saw over twice as many negative outlook revisions (20) as it did positive outlook revisions (7).

View the Rating Actions.

5 Feb, 2020 | 18:25

High-Tax States' Bonds Are So in Demand That Ratings Don't Matter.

- **'To boil it down, it's 99.999% because of the SALT cap'**
- **California, New York yields holding below the AAA benchmark**

There's so much money chasing after the bonds sold by America's high-tax states that buyers don't seem to care too much about what credit-rating companies think.

The heavy demand overall has driven municipal yields to their lowest in more than six-decades. And with rates so low, the yield penalties that would typically differentiate a deeply indebted state from a thrifty one have become little more than rounding errors that in some cases contrast with their standing in the ratings pecking order.

California's general-obligation debt, for example, is yielding about 1 basis points less than the AAA benchmark, even though the state is rated as many as four steps below that, according to data compiled by Bloomberg. New York, one step below AAA, is paying about 8 basis points less than top-rated borrowers. Over the past year, New Jersey's yield premium has been cut nearly in half even though its rating hasn't changed. Connecticut's is roughly a third of what it was.

By contrast, bonds issued by AAA rated Texas and Florida, where there's no state income tax, pay above-benchmark yields.

This dynamic shows how dramatic the demand has become for tax-exempt securities since President Donald Trump's 2017 tax law limited state and local deductions. That change drove investors in high tax-states like California, New York and New Jersey into municipal bonds as an alternative way to drive down what they owe.

"To boil it down, it's 99.999% because of the SALT cap," said James Iselin, portfolio manager at

Neuberger Berman Group LLC in New York. “Because there’s is so much demand in the market — there is less of a credit differentiation that the market is making.”

Bloomberg Markets

By Danielle Moran

February 6, 2020, 10:56 AM PST

States Take the Reins in Resilience Planning.

Governors say states are taking steps to assure their long-term resiliency in the face of worsening climate change—and in the absence of sweeping federal action.

In the absence of strong federal actions to address climate change, states are beginning to implement their own measures to ensure long-term resiliency, governors said Sunday at the National Governors Association winter meeting in Washington, D.C.

“Everyone says, ‘It can’t happen here,’ until it does happen here. And it can happen in any one of our states,” Janet Mills, the governor of Maine, said during a panel discussion on state-level resilience planning. “I think we all sat back for years and said, ‘If something happens, FEMA will help us out.’ We need to start this at home.”

Maine has seen firsthand evidence of climate change, including extensive flooding and the looming loss of what Mills called “working waterfront.” To prepare for future events, Mills said, the state has undertaken a host of “decisive actions” aimed at mitigation, including the implementation of an electric vehicle rebate program, a goal to achieve statewide carbon neutrality by 2045. The state has also launched a “100,000 heat pump initiative” designed to help residents ease their dependence on fossil fuels.

Continue reading.

Next City

By Kate Elizabeth Queram,

FEBRUARY 9, 2020 02:57 PM ET

The Trillion Dollar Question: Can Cities Safely Navigate the World of Private Investment?

In 2008, then-Chicago Mayor Richard M. Daley, famous for privatizing public infrastructure in order to secure short-term revenue sources, made the worst deal of his career. He leased 75 years of parking meter revenues to an investor group that included Morgan Stanley and the Abu Dhabi Investment Authority in exchange for a $1.15 billion upfront payment.

The Windy City spent that money in just three years as it sought to plug municipal budget holes during the throes of the Great Recession. However, under the terms of the deal, the city is on the

hook for the “full value” of the parking revenue. If the parking authority doesn’t increase street parking rates in line with inflation or if the city suspends meters for a Cubs victory parade, then the city owes the difference to that investor group.

By squandering so much long-term revenue and handcuffing the city to onerous contractual terms, Chicago’s parking arrangement earned the dubious distinction of a “worst practice” from an Illinois government watchdog.

Continue reading.

NEXT CITY

by GREGORY SCRUGGS

FEBRUARY 8, 2020

Muni Bonds Go Wild. Could 1% 10-Year Yields Be Far Behind?

The insatiable demand for U.S. state and local government debt may face a big hurdle.

The $3.8 trillion U.S. municipal bond market, sometimes called a sleepy asset class, has been partying awfully hard lately.

Consider that investors poured $1.8 billion into muni mutual funds in the week through Jan. 29, the 56th consecutive week of inflows, according to Refinitiv Lipper US Fund Flows data. Then, on Jan. 31, the biggest high-yield muni exchange-traded fund, the VanEck Vectors High-Yield Municipal Index ETF, drew in $150.2 million, the largest one-day increase in assets since inception in 2009. The amount of state and local debt on the books of Wall Street banks has dwindled to the least since late 2014. Overall, the market returned 1.8% in January, its strongest month in six years.

Continue reading.

Bloomberg Markets

By Brian Chappatta

February 5, 2020, 4:00 AM PST

Citigroup Bucks Herd in Call for ‘Intense, Prolonged Rally’ in Muni Market.

- **The investment bank says munis may return more than 8% in 2020**
- **Tax-exempt municipal bonds gained more than 7% last year**

Citigroup Inc. analysts are standing apart from the Wall Street pack by predicting that the municipal-bond rally may be gaining steam.

Vikram Rai, Jack Muller and Vedanta Goenka, who track the state and local government debt market for the bank, said in a note to clients that the securities may return more than 8% in 2020 as cash

continues surging into the market. That would come after tax-exempt bonds gained more than 7% last year, their biggest annual jump in five years.

“The ongoing intense, prolonged rally, has led to gluttonous demand for tax-exempt paper, which has engendered strong performance, and is leading to more gluttonous demand,” the analysts wrote.

The bullish forecast from Citigroup, the second biggest underwriter, stands in contrast to widespread expectations on Wall Street. Late last year, analysts at firms including Barclays Capital, UBS AG and Morgan Stanley predicted that the market was poised for more muted gains, given how low yields had become.

Since then, however, prices continued to rally as the amount of cash being invested outstripped the volume of new tax-exempt bonds being sold and the coronavirus outbreak increased demand for the safest assets. That drove the securities to a 1.8% gain in January, the biggest one-month advance in six years, according to the Bloomberg Barclays index. Yields are at their lowest in over six decades.

Price gains slash yields to lowest in over six decades

Citigroup’s forecast is based in part on the behavior of individual investors who are by far the biggest buyers of municipal debt. As long as the market continues to gain, they tend to keep sending in their cash, creating a self-reinforcing cycle. While that can also exaggerate the impact of a downturn, the bank’s analysts said they “do not see a sell-off on the horizon.”

Other forecasts are more muted. Even after January’s gains, Barclays analyst Mikhail Foux said he still expects investment-grade state and local government bonds to return 2% to 2.5% this year. BlackRock Inc.’s Sean Carney is forecasting similar sized gains, saying that other months “are not as friendly as January has been.”

But based on its expectation for inflows to municipal bond funds, Citigroup anticipates average gains of about 8.2% across various maturities, with nearly 11% returns on 30-year bonds.

Rai said in an interview that he expects prices will inch up as the year goes on. “It’s simple supply and demand fundamentals,” he said.

Bloomberg Markets

By Danielle Moran

February 4, 2020, 10:38 AM PST

Virus Outbreak Not Impacting Muni Credit Yet, Hilltop's Kozlik Says.

Tom Kozlik, Hilltop Securities head of municipal strategy, discusses the potential impact of the coronavirus outbreak and the proposed infrastructure legislation currently before Congress on the municipal bond market. He speaks with Bloomberg’s Taylor Riggs on “Bloomberg Markets.”

Watch video.

Bloomberg MarketsTV Shows

February 5th, 2020, 10:20 AM PST

Winds Driving Muni-Bond Rally Are Blowing Hardest in Illinois.

- **No state but Texas faces as big a supply gap over next month**
- **With bonds near junk, Illinois also gains from hunt for yield**

The forces that are driving the municipal-bond market rally are especially strong in Illinois.

Over the next 30 days, agencies in the state will pay off about $1.3 billion of debt, more than eight times as much as is currently scheduled to be sold, according to data compiled by Bloomberg. While that gap may narrow as more bond offerings are announced, nowhere except Texas currently faces as large a mismatch between supply and demand. That's a positive sign for Illinois debt, which this year has already outperformed every other U.S. state tracked by Bloomberg as rock-bottom interest rates cause investors to snap up higher-yielding bonds.

The wide gulf between the cash sloshing around — from debt payments, new investments into mutual funds, and those seeking havens from stock market volatility — pushed the municipal-securities market in January to the biggest one-month gain in six years. Those same dynamics appear poised to continue in February, when bondholders will receive even more in principal and interest payments than they did last month.

"The technicals are way, way overwhelming," said George Huang, an analyst who follows state and local government debt for Wells Fargo & Co. That "would point to further tightening of spreads and yields across all munis and also for comparatively yieldier Illinois bonds."

The broader rally has cut municipal-debt yields to the lowest in more than six decades, fueling interest in bonds with higher payouts. That has helped fuel the outperformance for Illinois, whose rating three years ago was at risk of being cut to junk because of the government's large debt to employee pension funds and the gridlock the former Republican governor encountered in the Democrat-controlled legislature.

The end to the political divide since Democratic Governor J.B. Pritzker took office last year has also contributed to the state's outsize gains. The difference between the yields on Illinois's 10-year bonds and those with the highest credit ratings — a key measure of the perceived risk — has narrowed to a little over one percentage point, the smallest since at least 2013 and down from more than three percentage points in 2017 at the height of a long-running impasse over the budget, according to data compiled by Bloomberg. The yield-penalty on Illinois bonds is still the highest of the 20 states tracked by Bloomberg.

Even so, Illinois's returns have been driven more by the broader dearth of new bonds than by the government's fiscal health, said Dan Solender, head of municipal securities investments at Lord Abbett & Co.

"There is very limited supply," Solender said.

Bloomberg Markets

By Shruti Singh

February 5, 2020, 10:30 AM PST

New ETF Created to Tap Demand for Muni Debt With Social Investing.

- **Fund appears to be first of its kind aimed at the two markets**
- **Will focus on muni debt that finances sustainable development**

VanEck plans to wade deeper into sustainable investing with the launch of what appears to be the first-of-its-kind municipal-bond exchange traded fund.

The asset-management company on Feb. 5 filed to register an actively-run Sustainable Muni ETF that will focus on investment-grade state and local government debt from "issuers with operations or projects helping to promote progress towards sustainable development." The fund will use the United Nations' Sustainable Development Goals, which aim to encourage sustainable cities and promote responsible consumption, to help make investment decisions, the filing says. No other muni ETF of that profile has so far been set up, according to data compiled by Bloomberg.

The plans for the fund come amid growing interest in both the $52 billion municipal ETF industry and investment strategies that promote the public good. The $3.8 trillion municipal-bond market, which finances things like public transit systems and green-energy start-ups, has seen firms like Brown Advisory and Neuberger Berman add mutual-fund products focused on investments that are perceived to have a positive impact on society.

The VanEck fund would also take a rules-based approach to choosing its investments, the filing says. It will incorporate ratings from independent research firm HIP Investor Inc., which measures investments' impact on society. Those investments could include bonds for affordable housing, hospitals and green spaces, the filing says.

VanEck municipal portfolio manager Jim Colby will manage the fund, the filing says.

Bloomberg Markets

By Amanda Albright

February 6, 2020, 7:53 AM PST

Tough-to-Disrupt Municipal Market Attracts Blockchain Developer.

- **ConsenSys buys Heritage Financial Systems; Terms undisclosed**
- **Firm seeks to ease issuance of tokenized bond offerings**

The municipal-bond market, with roots dating back to an 1800's New York City canal project, has a reputation for being stuck in a different century.

The $400-billion-a-year market, used by some 50,000 U.S. issuers, is known for small-sized deals that sometimes don't trade again for years after they're sold. Financial filings are often late and outdated. And hiccups with technology and human error can sometimes cause officials to forget to make bond payments on time.

That's why ConsenSys, a blockchain-application developer started by Ethereum co-founder Joseph Lubin, sees an opportunity to expand into the $3.8 trillion state and local debt market. The Brooklyn-

based firm said on Tuesday that it acquired the broker-dealer Heritage Financial Systems, betting that governments can more efficiently raise funds and gain local investors by tokenizing municipal bonds on its Codefi platform.

Continue reading.

Bloomberg Cryptocurrencies

By Amanda Albright

February 4, 2020, 6:00 AM PST

ConsenSys Tokenizing $3.8T Municipal Bond Market.

Improving finance one bond at a time.

ConsenSys announced the acquisition of Heritage Financial Systems, an American broker-dealer, in a bid to tokenize the $3.8 trillion municipal bond market and improve one of the most tradition-bound assets in finance.

Is There a Blockchain for That?

Emma Channing, a coordinator of the deal, told Bloomberg that implementing blockchain technology for the municipal bonds sector "is a great use case." The thesis follows that blockchain technology, along with a host of other incoming technologies, will help digitize critical infrastructure. From finance, real estate, gaming, and so on, every industry looks ripe for renovation. This is especially true in the traditional debt market.

Municipal bonds move slowly and tend to be outfitted with inefficient tools which are prone to human error. Defined as debt securities, state institutions sell municipal bonds to investors. The capital raised is used to build roads, support schools, and other public projects.

ConsenSys' Attempt at "Mini-Bonds"

Channing may be correct, blockchain technology could shine in this environment. Clearly, ConsenSys sees real promise in combining the two businesses too. The specific implementation would tokenize the municipal bonds on ConsenSys' Codefi platform. This would allegedly make it easier to sell so-called "mini bonds."

Such mini bonds would be no different than what can be seen in the wider securities space. By tokenizing bonds, stocks, and equity, crypto entrepreneurs claim that inefficient markets could be made much quicker. Fintech outfit Securitize is doing exactly this, for example. And, as the name suggests, these digital assets could be parceled into even smaller pieces.

There is also an opportunity for further innovation once such assets are placed on a blockchain. In the bond sector, ConsenSys said that portions of how bonds are bought, sold, tracked, and distributed could be executed automatically.

The global fintech lead of ConsenSys, Patrick Beraducci, also pointed out that mini bonds may improve engagement between community members and their local government. Still, traction in this space has been unimpressive.

Neighborly, a non-crypto startup that worked to crowdsource bond underwriting, told its employees last year that it had run out of money. The bad news came two years after they had underwrote a massive debt sale for the city of Cambridge, Massachusetts.

Only time will tell if Neighborly failed in substance or in execution. With the latest ConsenSys acquisition, however, onlookers may have their answer soon enough.

Crypto Briefing

by Liam Kelly

Feb. 4, 2020

Understanding the New Wave of Green Debt.

Municipal debt markets can cater to everyone from a conservative investor looking for principal protection while earning enough to keep up with inflation to a moderate risk-taker who might be looking for high returns.

The new wave of green municipal debt instruments has many investors talking and potentially looking to make them part of their portfolio. The Municipal Securities Rulemaking Board (MSRB) states that green bonds are fixed-income debt instruments like any other bond. They offer a stated return and a promise to use the proceeds to finance or refinance, in part or fully, new or existing sustainable projects.

Generally, green bonds fund environmental, social and governance improvements or projects, and are issued by the public, private or multilateral entities to finance projects related to a more sustainable economy and that generate identifiable climate, environmental or other benefits. These projects may include renewable energy and energy efficiency projects, clean public transportation, pollution prevention and control, conservation, sustainable water and wastewater management, and green buildings that meet internationally recognized standards and certifications.

In this article, we will take a closer look at the rise of green debt issuance by public agencies and how an investor can meet his/her long-term investment goals while staying environmentally responsible and aligning with their social values.

Continue reading.

municipalbonds.com

by Jayden Sangha

Feb 05, 2020

Muni Bond Deals Continue to Help Global Green Issuance.

(Bloomberg) — American cities borrowing to fund environmentally-friendly projects continue to help drive green bond issuance, data compiled by Bloomberg show.

Green muni bond sales — including deals from San Francisco's Public Utilities Commission, New York City's Metropolitan Transportation Authority and Maine's Governmental Facilities Authority — were about $1 billion in January 2020, up from $972 million in December. Issuance reached approximately $9.8 billion in 2019, the second-biggest annual issuance total in data going back to 2013.

That helped push the global tally of corporate and government green bonds issued during the month to about $18.8 billion, in line with the $18.4 billion raised in January last year, according to Bloomberg compiled data.

Companies — mostly European power utilities — issued about $4.5 billion in green debt, a drop from about $9.7 billion raised in the first month of 2019, according to data compiled by BloombergNEF. Germany's E.ON SE sold $1.1 billion in green bonds to help fund sustainable infrastructure and energy efficiency projects. Portugal's EDP, which aims to slash emissions by 40% by 2030, raised about $800 million.

Bringing More Buyers

For New York's MTA, which issued $924.8 million in green bonds in January, adding a green label brought more buyers to the table, said Patrick McCoy, the issuer's director of finance. "Strong interest resulted in great results for the MTA," he said in a telephone interview Monday.

While companies in the U.S. didn't issue green bonds in January, high-profile deals like Verizon Communications Inc.'s $1 billion 2019 sale will encourage others, according to Moody's Investors Service. The bond grader expects issuance to hit $300 billion in 2020.

"There's growing demand for responsible investment strategies broadly speaking and for a lot of them green bonds fit in," James Rich, senior portfolio manager and chair of the sustainable investment committee at Aegon Asset Management, said in an interview Monday. "They are kind of a natural place for investors to look."

More sovereign issuers are expected to issue green bonds in the wake of and Chile, which sold debt in euros and U.S. dollar last month. Insight Investment, with about $900 billion in assets, is contacting governments in both emerging and developed markets directly to express an interest in buying more green bonds, said Josh Kendall, senior environmental, social and governance analyst at the firm.

Bloomberg

by Caleb Mutua and Mallika Mitra

February 7, 2020

New MSRB Analysis Finds that Retail Investors Tend to Purchase Municipal Bonds with Lower Coupons More Often Than Institutional Investors.

Read the report.

Regulator Warns of Interest-Rate Risk Retail Investors Take With Low-Coupon Munis.

MSRB study shows retail investors purchase more 3-3.5% coupon bonds, institutional buy 5%

Retail investors purchase more municipal bonds with lower coupons than institutional investors do, setting themselves up to take a hit if interest rates rise, a regulatory organization found in a recent study.

Earlier this week, the Municipal Securities Rulemaking Board released a study showing that more than half of retail investor purchases involved bonds with a coupon of 3% to 3.5%. Most institutional investors bought bonds with a 5% coupon. The analysis was based on sales of bonds with maturities of 15 years or longer between May 1 and Oct. 1 last year.

In the report, the MSRB highlights the interest-rate gamble that retail investors are taking if they sell their bonds before they mature. If rates rise, bond prices fall. The smaller the coupon, the more vulnerable the bond is to rate volatility.

“In particular, a potential future rise in interest rates could have a material impact on investors’ ability to sell the bonds at market price, should they want to sell the bonds prior to maturity,” the report states.

In addition, the market discount is more likely to fall outside a de minimis threshold and be taxed at the ordinary income tax rate rather than at the capital gains rate, which would likely drive the bond price lower.

The report is a way for the MSRB — a self-regulatory organization that focuses on rule-making, education and transparency — to help investors navigate the muni bond market, said John Bagley, chief market structure officer for the MSRB.

“We want to make sure investors have all the information available at the time they’re making these decisions,” Mr. Bagley said. “If you’re looking at [low-coupon] bonds, recognize that this is a unique risk to this type of structure.”

Ronald Bernardi, chief executive of Bernardi Securities, endorsed the MSRB report because it highlights the risks surrounding low-coupon bonds.

“I like that the MSRB puts these pieces out,” Mr. Bernardi said. “Bonds are complicated. The report is good. It’s basic. That’s the audience the MSRB is addressing. There are a lot of sophisticated investors out there who are buying bonds themselves.”

But he hopes the MSRB study doesn’t stigmatize low-coupon bonds.

“My one concern with this is don’t conclude from it that a bond with a 3% to 3.5% coupon, within the context of the entire portfolio, is necessarily a bad thing,” he said.

Mr. Bagley said the report is not meant to indicate that investors are being harmed by purchasing low-coupon bonds or that they should avoid them. The report notes that buyers may want to take advantage of lower premiums and potentially higher yields.

But financial advisers who recommend discounted bonds also need to know the risk, Mr. Bagley said. “They should be aware of it and telling their clients about this risk when their clients buy bonds.”

Financial advisers already have a good grasp of the ups and downs of the bond market, said Dennis Nolte, vice president at Seacoast Investment Services. He recently attended a Financial Planning Association of Central Florida meeting about tax-free income, where municipal bonds were a topic of discussion.

“There aren’t too many folks who have just fallen off the turnip truck,” Mr. Nolte said. “The garden-variety financial adviser has a grasp of the risks in the market when you’re buying an investment with a long duration.”

INVESTMENT NEWS

BY MARK SCHOEFF JR.

February 5, 2020

New ETF Created to Tap Demand for Muni Debt With Social Investing.

(Bloomberg) — VanEck plans to wade deeper into sustainable investing with the launch of what appears to be the first-of-its-kind municipal-bond exchange traded fund.

The asset-management company on Feb. 5 filed to register an actively-run Sustainable Muni ETF that will focus on investment-grade state and local government debt from “issuers with operations or projects helping to promote progress towards sustainable development.” The fund will use the United Nations’ Sustainable Development Goals, which aim to encourage sustainable cities and promote responsible consumption, to help make investment decisions, the filing says. No other muni ETF of that profile has so far been set up, according to data compiled by Bloomberg.

The plans for the fund come amid growing interest in both the $52 billion municipal ETF industry and investment strategies that promote the public good. The $3.8 trillion municipal-bond market, which finances things like public transit systems and green-energy start-ups, has seen firms like Brown Advisory and Neuberger Berman add mutual-fund products focused on investments that are perceived to have a positive impact on society.

The VanEck fund would also take a rules-based approach to choosing its investments, the filing says. It will incorporate ratings from independent research firm HIP Investor Inc., which measures investments’ impact on society. Those investments could include bonds for affordable housing, hospitals and green spaces, the filing says.

VanEck municipal portfolio manager Jim Colby will manage the fund, the filing says.

Bloomberg

Amanda Albright

February 6, 2020

EPA Announces First WIFIA Annual Report Highlighting $3.5 Billion in Infrastructure Funding.

WASHINGTON (February 6, 2020) — Today, as part of the U.S. Environmental Protection Agency's (EPA) 50th anniversary celebration, the agency released its first-ever Water Infrastructure Finance and Innovation Act (WIFIA) program annual report. Through 2019, the WIFIA program has financed more than $3.5 billion in loans, which has saved borrowers $1.2 billion dollars and has helped improve water quality for more than 20 million Americans.

"The WIFIA program's success is a key component of President Trump's efforts to modernize our nation's aging infrastructure, strengthen public health protections, and create jobs," said EPA Administrator Andrew Wheeler. "I have seen first-hand the impact this program has had on local communities in just a short amount of time. The WIFIA program has proven to be a tremendous tool in achieving environmental protections and fostering economic growth in communities across the country."

Established by Congress in 2014, the WIFIA program is an EPA federal loan and guarantee program focused on helping meet the growing water infrastructure needs in communities across the country. The program provides long-term, low-cost supplemental credit assistance to creditworthy drinking water and wastewater projects of national and regional significance.

WIFIA loans can finance a wide range of drinking water and wastewater projects, including traditional drinking water and wastewater treatment plants and conveyance systems, water recycling and desalination plants, drought prevention and mitigation projects, stormwater management, green infrastructure, non-point source pollution control and source-water protection. Eligible WIFIA borrowers include local, state, tribal, and federal government entities; partnerships and joint ventures; corporations and trusts; and State Revolving Fund programs.
Through 2019, the WIFIA program has closed 14 loans ranging in size from $20.7 million to $699 million. Together, WIFIA has provided $3.5 billion in loans to help finance more than $8 billion for water infrastructure projects while creating more than 15,000 jobs. Of those projects, 57 percent directly support Clean Water Act and Safe Drinking Water Act compliance.

In 2019, EPA invited 38 new projects to apply for WIFIA loans, totaling approximately $6 billion to help finance over $12 billion in water infrastructure investments. These projects will help support key agency priorities, including reducing lead and emergent contaminants and developing water reuse and recycling capacity. Together, the selected projects will improve water quality for 24 million people in 18 states.

For more information on the WIFIA program and to read the WIFIA annual report, visit: https://www.epa.gov/wifia.

02/06/2020

Contact Information:
EPA Press Office (press@epa.gov)

Fitch Rtgs: Coronavirus Places Limited Pressure on Airport Revenues

Fitch Ratings-New York-31 January 2020: Most US, EMEA and LATAM airports are able to absorb the effects of air traffic interruptions due to the Wuhan coronavirus, says Fitch Ratings, although a prolonged suspension of Chinese air travel will depress passenger volumes and may pressure airport revenues. While Fitch believes airports are well positioned to handle such event risks, the situation is rapidly evolving, as a growing number of countries with exposure to this latest outbreak are causing additional flight cancellations and border closures. The duration of the health crisis and associated travel restrictions will determine if the virus will have longer-lasting effects on business and leisure air traffic.

Travel bans will primarily affect large hub and international gateway airports but these airports should be able to absorb a short-lived reduction in air traffic as they have strong cash reserves and can adjust rates to recover costs. As more companies suspend Chinese operations and airlines cancel and reduce flights, air traffic reductions may take longer to recover to pre-epidemic levels. A stall in overall traffic growth or a sustained dip in volumes could pressure airports to take defensive actions to protect their cash flows or reserves.

Flight cancellations by carriers, due to reduced passenger demand because of government imposed travel restrictions or negative travel sentiment, will slow traffic growth. However, the effects on costs and operations of most airports are expected to be minimal because of the stronger financial profiles of international airports, as air traffic is generally geographically diversified at these airports.US airports with non-stop service to China, namely San Francisco, Los Angeles, Seattle, Chicago O'Hare, and JFK, currently do not have a high dependence on this market segment, typically less than 10%, and China is not a major market pair for any US airport. A prolonged service interruption could certainly constrain growth compared with expectations and some airport revenue streams could face pressure such as terminal concessions.

Currently we expect the effect on European airport traffic to be temporary and limited due to low exposure to Asia. Direct flights to China constitute a small share of EMEA airport traffic, ranging from 0.2% to around 6.0%. The APAC region in general represents from 1.5% to 14.0% of total traffic. Some airlines such as British Airways and Lufthansa have suspended all flights to and from China, whereas others such as Hainan Airlines and Air France-KLM plan to cut the frequency of flights.

As a developing market, China's air traffic has grown faster than most markets, although growth slowed slightly in 2019 due to trade tensions with the US. Given the number of Chinese travellers increased dramatically since the SARS outbreak in 2003, the effect of travel bans and flight suspensions on air traffic to and from the country will have a greater effect than past outbreaks. Nevertheless, based on past event risks, including viral outbreaks, air travel should rebound, but at this point the timing remains uncertain.

Fitch Ratings: Driverless Cars Largely a Plus for Toll Roads; Managed Lanes Vulnerable

Link to Fitch Ratings' Report(s): The Effect of Automated Vehicles on Toll Roads (Automated Vehicles Are Likely Positive but Congestion Reliever Toll Roads Are Most Vulnerable)

Fitch Ratings-New York-03 February 2020: Though likely over a decade away from widespread usage, automated vehicles (AVs) will have a transformative effect on travel and traffic patterns for toll roads, according to Fitch Ratings.

While the effect on ratings is still too early to gauge, toll roads will likely benefit over time for numerous reasons. Perhaps chief among them will be an increase in vehicle miles traveled. “Commuters will now be able to complete other tasks en route if they don’t have to drive, which makes longer journeys more tenable,” said Scott Monroe, Director at Fitch Ratings. “More trips are also expected since empty cars can reposition themselves and individuals who cannot drive a conventional vehicle will have improved mobility.”

However, the advent of AVs could be potentially disruptive and make forecasting future toll revenues more difficult since there are also competing factors that could decrease vehicle miles traveled. AVs could encourage more carpooling, resulting in fewer individual trips.

Toll roads with no viable competing routes, such as monopolistic bridge systems and large expressways, are difficult to avoid, making them the least susceptible to revenue loss from AVs. Conversely, congestion relievers like managed lanes are the most vulnerable. A driver will choose to use a toll road if the driver’s value of time (VOT) saved is greater than the cost to pay a toll. AVs reduce VOT because a passenger’s time is freed up to complete other tasks instead of driving. Even with an increase in the number of trips, “Since AVs decrease the value of time the willingness to pay tolls for a faster trip declines,” said Monroe.

Contact:

Anne Tricerri
Associate Director
+1-646-582-4676
Fitch Ratings, Inc.
300 West 57th Street
New York, NY, 10019

Scott Monroe
Director
+1-415-732-5618

Media Relations: Athos Larkou, London, Tel: +44 20 3530 1549, Email: athos.larkou@thefitchgroup.com
Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Fitch Rtgs: US Healthcare Policy Proposals Will Weigh on NFP Hospitals

Fitch Ratings-New York-03 February 2020: Healthcare is a major 2020 US presidential election issue, and some leading proposals, if implemented, would have considerable credit implications for not-for-profit (NFP) hospitals, says Fitch Ratings. The outcome of the election will likely have significant ramifications for healthcare regulation and spending, although the success of any plan is dependent upon a party’s control of both the White House and Congress.

Federal policy could take very different paths due to deep political polarization. In addition to bipartisan views, there are philosophical differences regarding healthcare policy among Democratic presidential candidates. Democratic proposals including “Medicare For All”, “Medicare For All Who Want It”, and “The Public Option” are top of mind as Iowans caucus today.

We believe the chances of a “Medicare For All” plan becoming the law of the land during the next presidential term are remote due in part to these divisions. Not only is private health insurance popular among many Americans but the costs of “Medicare For All” would be huge, making it difficult to garner support in Congress. Focus on the costs of any federal healthcare proposal will be intense, given projections of an increasing federal budget deficit reaching $1.0 trillion this fiscal year, according to the Congressional Budget Office.

Healthcare is a considerable portion of the economy, representing nearly 18% of GDP in 2018, according to the US Centers for Medicare and Medicaid. The federal government shoulders much of this cost, spending nearly $1.1 trillion on Medicare, Medicaid, the Children’s Health Insurance Program, and veterans’ medical costs, out of a total federal outlay of $4.1 trillion in federal fiscal year 2018.

The “Medicare For All” proposal essentially replaces commercial insurance payments with Medicare rates and would be an unambiguous credit negative for NFP hospitals. Only the most efficiently operated hospitals reportedly break even on Medicare rates. Effectively all profit margin is earned from commercial/managed care insurers. If the private insurance market were downsized significantly or eliminated altogether, hospital operating margins would be slashed, and unless Medicare reimbursement rates were revised upward, most hospitals would begin to run deficits.

A proposal being offered by more centrist Democrats is to keep the Affordable Care Act (ACA) and reintroduce the public option, which was part of the initial ACA proposals. The credit effect on NFP hospitals would depend on how any potential public option is structured. If set up to add competition to the health insurance market without meaningfully crowding out existing commercial payors, the number of uninsured could drop considerably, while providing stability in insurance markets in regions that currently have limited access. Alternatively, if a public option had structural price advantages over commercial payors, private health insurance might be dropped by employers and relegated to a small segment of the market.

Probably the best outcome in terms of hospital credit quality is if the ACA were left intact, particularly if states that have not expanded Medicaid under the ACA reversed position. We observed a notable reduction in bad debt and an uptick in cash flow margins, which ultimately bolstered balance sheet strength, during the initial Medicaid expansion when the ACA became law. This supported an uplift in overall NFP hospital ratings in those states that expanded Medicaid.

Concurrent with these policy debates are on-going challenges to the ACA. Elimination of the ACA, through either the courts or administrative mandates, would be a clear credit negative for NFP hospitals. Millions of people would lose insurance coverage through a significant cutback in Medicaid eligibility and elimination of subsidized health marketplaces. Uninsured individuals would continue to seek care, resulting in an increase in hospital bad debt and charity care, leading to a reduction in hospital profitability.

Contact:

Mark Pascaris
Director, US Public Finance, Nonprofit Healthcare
+1 312 368-3135
Fitch Ratings, Inc.
One North Wacker Drive
Chicago, IL 60606

Kevin Holloran

Senior Director, US Public Finance, Nonprofit Healthcare
+1 512 813-5700
Fitch Ratings, Inc.
111 Congress Ave., Suite 2010
Austin, TX 78701

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

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

---

Special Assessment Debt: S&P Criteria Implementation Summary

Table of Contents

- Observation On Criteria Implementation
- California's High Revenue Flexibility Puts It Ahead Of Florida In Positive Rating Actions
- Special Assessment Financings May Proliferate Outside Of California

Key Takeaways

- We've reviewed all credits under our revised special assessment criteria since its publication in April 2018.
- Overall, the direction of rating actions to date has met our expectations, though the magnitude of positive rating actions has slightly exceeded our expectations.
- In particular, the frequency of upgrades for credits in California was more than double that of other states.
- Rated issuers consist almost entirely of fully or highly developed districts with minimal developer exposure, supporting credit quality.
- Although property value appreciation has begun to slow in most major real estate markets and distress metrics have increased slightly, real estate demand remains robust, and we believe that assessment areas with mature development will maintain strong credit characteristics.

Continue reading.

S&P USPF 2020 Outlooks.

All sector outlooks are stable with the exception of Higher Education which continues with a negative outlook for the third year. The record economic expansion has translated to overall credit stability in U.S. Public Finance and we expect this to continue in 2020. Despite favorable economic and fiscal trends we do see a precarious balance for 2020 as key credit risks such as retirement liabilities, event risk disruptions, global aging, and pressing infrastructure needs present budget and policy challenges in 2020 and beyond. We will continue to highlight Environmental, Social and Governance issues, which could lead to both positive and negative credit influences.

Download Report.

Climate Risk Disclosure is Both a Challenge and Opportunity for Issuers.

Climate change risks are becoming clearer for municipal issuers and market participants are counting on more disclosure about how those risks affect credit and global investor perceptions of the market.

The very way issuers disclose — or don't disclose — those risks to the broader public finance industry is under scrutiny, market participants have recently said, including panelists at The Bond Buyer's National Outlook Conference this week.

Nearly every panel touched on climate. Industry participants — from investors to data providers to ratings agencies to the issuers themselves — are beginning to speak more aggressively about the need for improved disclosure and increased spending.

Fifty-two percent of attendees who responded to a live survey thought that spending on climate change and cybersecurity will increase by 5% above overall budget spending and 68% of respondents said that issuers will incorporate environmental, social and governance (ESG) practices into their disclosure practices this year.

"We would like a little more detail than what is currently out there," Kurt Forsgren, managing director and head of sustainable finance at S&P Global (SPGI), said on a climate panel. While rating agencies, investors and bond insurers do their own due diligence on potential credit risks due to climate, essentially "we are still dependent on issuers for information," he said.

Forsgren said that sometimes current disclosures in official statements can seem a bit "couched" and there is an opportunity to give climate risks relevance and importance in ways that investors can understand.

Build America Mutual Chief Credit Officer Suzanne Finnegan, also speaking on the panel, said BAM considers climate factors when deciding whether it will insure a deal, and takes a "conservative" approach to viewing the potential risks versus the revenue pledges on those deals.

The risks municipal issuers face from climate change are not simply environmental — there are potential increased costs of paying for the infrastructure needs to preemptively deal with climate events and clean up after them. There is a need to assure investors through disclosures that governments are prepared to repay them if the costs become larger than expected. These factors are being discussed across trading floors, board rooms and through letters to investors from the world's largest asset managers.

"Will cities, for example, be able to afford their infrastructure needs as climate risk reshapes the market for municipal bonds?" Larry Fink, CEO of BlackRock (BLK), wrote in a letter earlier this month.

The issue could be looked at as a potential carrot and stick relationship for issuers.

William Glasgall, senior vice president and director of state and local initiatives at the Volcker Alliance, said that disclosure of climate risks is "inconsistent and incomplete." During a panel discussion, Glasgall said that while the Securities and Exchange Commission cannot tell issuers

what they have to disclose, there is a potential that it could focus on climate risk and potential defrauding investors similar to how it focused on pension risks that were not disclosed in the past. "If the SEC decides that environmental, climate change is material, we could see enforcement and then we will see disclosure."

Some issuers are moving in that direction, whether by seeking third-party sustainability designations, focusing on ESG, green and marketing their bonds to investors that have mandates to invest in those types of bonds.

James McIntyre, director of capital markets at NYS Homes and Community Renewal, New York's state affordable housing agency, said that when issuers are planning their deals, "climate cannot sit over here and well, credit sits over there. All the projects we are doing — we are building resiliency into them."

McIntyre, speaking on an outlook and opportunities panel, noted that he and other issuers, such as the San Francisco Public Utilities Commission, are exploring ways to show their projects are sustainable, most recently by using the Sustainable Bond Network, a global online platform designed to improve transparency in the market for green, social and sustainability bonds.

And with the taxable bond boom that has drawn international investors, issuers can lure new investors.

"Issuers have a strong opportunity in 2020 to tell the story of the municipal market to a much broader investor pool through disclosures on climate risk, ESG factors and green bonds," said Will MacPherson, managing director at IHS Markit (INFO). "An international audience is growing for such disclosures and given the trend in taxable supply and interest in long-dated investments, tools are available to seamlessly expand the conversation into these new pockets of interest. The data is there; it simply needs to be articulated."

MacPherson said that while the additional disclosure requirements may be viewed as a burden by some, through steady repetition they could become a new standard over time.

"Having more eyes on munis is better for the market as a whole," he added.

McIntyre also said that international investors in particular are looking to munis as investments in their portfolios, pointing to Dutch and Canadian pension funds as examples, but they have certain mandates to invest in sustainable projects. He said there needs to be an educational effort with international investors and that issuers should "leverage our leverage" in that area.

Daniel Tomson, co-head of public finance at Citi, noted that because of the influx of taxable debt, Citi is deploying its bankers to educate international investors because demand there is a large part of why taxable munis have been well absorbed. Tomson said 2020 could be a bellwether year for the market.

Bob Spangler, co-head of municipal finance at RBC Capital Markets, said that large issuers such as California and New York are focusing more on ESG in their deals and that investors interested in ESG will begin to change issuer behavior, but he cautioned "it's going to be very slow."

As the current administration rolls back Obama-era environmental protections, it will leave it to the cities and states to take the lead on addressing climate risks.

What's needed is "a robust federal partner" in dealing with climate change and "right now, that's not what we have," said Dan Zarrilli, chief climate policy advisor and OneNYC director in the New

York City mayor's office. Zarrilli said that given that reality, the risks New York City faces in particular require the help of the financial markets and his office has plans to "fundamentally reshape this city over the new few decades."

Zarrilli said that climate change is an "all society" problem which all participants need to take seriously.

"Investors are increasingly … recognizing that climate risk is investment risk," Fink wrote. "Indeed, climate change is almost invariably the top issue that clients around the world raise with BlackRock."

By Lynne Funk

BY SOURCEMEDIA | MUNICIPAL | 01/30/20 02:42 PM EST

GFOA Releases New Report on Cyber Security.

A Byte of Prevention: Best Practices in Cybersecurity

All local governments are potential targets for cybercrime, a risk that intensifies as victims increasingly pay ransoms to regain access to their hijacked technologies. It can be tempting to pay up because hacks are disruptive, damaging, and embarrassing – and expensive.

As stewards of (often sensitive) public data, finance officers must understand the significance of this threat, including the large costs governments face in recovering lost data, restoring public trust, and otherwise recovering from a breach.

This report identifies simple simple and inexpensive strategies that address people, process, and technology to protect their organizations from cyber threats without conducting a costly cybersecurity assessment. Many of the recommendations on the following pages address the weakest link in cybersecurity: the human factor.

Download Report

How the Fed, Negative Rates Impact the Municipal Bond Market.

Chris Brigati, head of municipal trading at Advisors Asset Management, discusses expectations for lower-for-longer-rate policy for the Federal Reserve, the impact of negative interest rates on the municipal bond market, and market supply and demand. He speaks with Bloomberg's Taylor Riggs on "Bloomberg Markets."

Watch video.

Bloomberg MarketsTV Shows

January 29th, 2020, 9:36 AM PST

Goldman's Unusually Small Client: This $61,920-a-Year Prep School

- **Bank underwrites $8 million muni-bond deal for Milton Academy**
- **Boarding schools among issuers taking advantage of low rates**

Goldman Sachs Group Inc. is one of the biggest underwriters in the $3.8 trillion municipal-debt market because it chases big deals. But this week, it stepped back from that strategy to handle an unusually small sale for an elite Massachusetts boarding school.

The Milton Academy, whose alumni include billionaire Illinois Governor J.B. Pritzker, Robert and Ted Kennedy, and Nobel Prize-winning poet T.S. Eliot, sold $8 million in bonds this week to refinance older, higher interest-rate debt. The 1,000-student school, started in 1798, charges as much as $61,920 a year in tuition for high schoolers.

It's rare for Goldman to underwrite a deal that small. It hasn't managed a long-term municipal-bond offering under $10 million since at least 2013, according to data compiled by Bloomberg. Goldman held its slot as the sixth-biggest underwriter last year by managing just 86 deals. But because they were so large, that put it ahead of rivals like Wells Fargo & Co., Stifel Financial Corp. and Raymond James Financial Inc., all of which worked on far more transactions.

Elite boarding schools like the Taft School in Connecticut have been among those tapping the muni market to capture low interest rates, armed with huge endowments, strong credit ratings and high-society cachet. Milton Academy, which has a $329 million endowment, will also sell bonds for campus projects through a private placement next month, according to offering documents.

This week's bonds, which are rated AA by S&P Global Ratings, priced for yields as little as 0.03 percentage points above top-rated municipal debt.

While Milton Academy may not have the size of Goldman Sach's other muni-bond issuing clients, it has a roster of elite graduates and a curriculum that includes Latin, nuclear physics, ceramics and molecular genetics. The school has a five-to-one student-faculty ratio and allows its high school students to study abroad in China, France and Italy.

The school is in the midst of a $175 million fundraising campaign that's been supported by donors like hedge fund executive David Abrams and Boston Partners Chief Executive Officer Jay Feeney. Pritzker, who spoke at the school's graduation ceremony in 2019, also donated through his foundation.

Esten Perez, a spokeswoman for Milton Academy, declined to comment, as did Goldman spokeswoman Nicole Sharp.

Bloomberg Markets

By Amanda Albright and Danielle Moran

January 31, 2020, 6:15 AM PST

MacKay Municipal Managers Announces Top Five Municipal Market Insights

For 2020.

PRINCETON, N.J., Jan. 21, 2020 /PRNewswire/ — MacKay Municipal Managers™, the municipal bond team of fixed income and equity investment management firm MacKay Shields LLC, today published its top five insights for the municipal bond market in 2020.

John Loffredo and Robert DiMella, co-heads of MacKay Shields Municipal Managers, commented on the firm's outlook: "While we do not believe that 2019's municipal performance will repeat, we do expect that active management has the potential to enhance performance in 2020. We believe the most prudent strategy for 2020 is security selection based on the key qualities of prospective investments. Whether evaluating investment grade or high yield municipal bonds, we look beyond a stated rating to further assess each bond's structure, liquidity profile, rate sensitivity, and credit fundamentals. Anticipating the potential for periods of higher volatility, we also place a premium on maintaining liquidity as an essential strategy for capitalizing on the resulting opportunities that may arise."

MacKay Municipal Managers – Top Five Municipal Market Insights for 2020

1. **Security selection and bond structure drive performance.** Municipal credit spreads are tight, the yield curve is relatively flat, and absolute yields are low. We believe the tax-exempt municipal market will maintain its strong technical and fundamental characteristics versus other fixed income asset classes. However, successful municipal investing requires that investors plan how to generate strong relative returns, not hope for another year of outsized absolute returns. We believe that a relative-value based security selection strategy that incorporates rebalancing credit, reducing exposure to the long end of the market and favoring 4% and higher coupon structures will likely lead to outperformance.
2. **Tactically positioning portfolios when volatility rises can reward investors.** We believe that an ongoing low rate environment, monetary policy on hold and a mixed economic outlook point to coupon-dominant performance in 2020. However, the 2020 U.S. Presidential Election, foreign trade and the potential for weaker equity returns may create periods of notable volatility. Given the backdrop of strong technical conditions in the tax-exempt municipal market, prudent professional managers will seek to reward their investors by 'buying the dips.' However, it is essential to maintain adequate liquidity in preparation for seizing those opportunities coupled with an active trading strategy to monetize those positions.
3. **Strategic underweight exposures likely to drive outperformance in the high yield municipal market.** Quality high yield investments will be key as signs of distress appearing in certain pockets of the high yield municipal market suggest that poor security selection can lead to underperformance. Therefore, we believe a prudent focus on avoiding losers rather than stretching for winners will be the more successful strategy to investing in high yield municipal bonds by avoiding leveraged or speculative income.
4. **Taxable municipal refunding trend leaves the weak behind.** Although interest rate dependent, we expect that the 2019 surge in taxable municipal issuance to re-finance higher coupon tax-exempt debt will continue in 2020. A continuation of this issuance pattern would result in smaller, less sophisticated issuers being denied access to this re-financing activity, as the taxable market favors larger issuers of generally higher credit quality. We expect that taxable refunding activity will support supply-related technical conditions in the tax-exempt market, which will contribute to the overall market's relative performance strength. The combination of reduced supply pressure, ongoing strong demand for tax-exempt income and a shift in those credit sensitive sectors dictates even more need for sophisticated, credit research driven investment management and prudent security selection.
5. **Beware of fleeting income.** Coupon will likely be king this year but only when the quality of the

income source is high. We believe that assertion will hold true in both the investment grade and high yield segments of the municipal market. Investors should verify that their portfolio income is not reliant on strategies employing hidden leverage, excessive duration, speculative project bets or short call bonds on the verge of retirement. While market conditions in the last number of years were very forgiving with respect to such tactics, a turnaround would bring to light the fragility of those investment approaches.

To view the full outlook, please click here. For additional insights from MacKay Municipal Managers, please visit www.mackayshields.com.

OMB Releases Proposed Changes to the Uniform Guidance Covering Grants and Agreements.

The U.S. Office of Management and Budget has published for comment changes to sections of Title 2 of the Code of Federal Regulations (CFR) Subtitle A – OMB Guidance for Grants and Agreements, commonly referred to as the Uniform Guidance. The changes are in a number of areas but are geared toward aligning with the work already underway as part of the President's Management Agenda to standardize the grants management business processes and data, build shared IT infrastructure, manage risk, and achieve program goals and objectives.

NASACT is requesting comments on these important proposed changes no later than March 11.

There are a number of changes that could affect state government, however, below are a few areas of specific interest.

Government Quality Audit Project
J. Changes to Performing the Governmentwide Audit Quality Project – Proposed revisions to 2 CFR §200.513 include a change in the date for the requirement for a governmentwide audit data quality project that must be performed once every 6 years beginning with audits submitted in 2018. This date has been changed to 2021, given the significant changes to the 2019 Compliance Supplement in support of the Grants CAP Goal.

Aligning Federal Assistance with Federal Acquisitions
To further align implementation of FFATA, as amended by DATA Act, between the Federal financial assistance and acquisition communities, OMB proposes revisions to Federal awarding agency and pass-through entity reporting thresholds. For Federal awarding agencies, OMB proposes revisions to 2 CFR Part 170 to require agencies to report Federal awards that equal or exceed the micro-purchase threshold as set by the FAR at 48 CFR Subpart 2.1. Consistent with the FAR threshold for subcontract reporting, OMB is proposing to raise the reporting threshold for subawards that equal or exceed $30,000. OMB seeks comments that includes an analysis on the advantages and disadvantages of raising this threshold.

Addressing Pension Costs
E. Aligning 2 CFR with Authoritative Sources – OMB proposes a revision to 2 CFR Section 200.431 Compensation—fringe benefits to allow states to conform with Generally Accepted Accounting Principles (GAAP), specifically Governmental Accounting Standards Board (GASB) Statement 68, and to continue to claim pension costs that are both actual and funded. OMB proposes this revision because GASB issued Statement 68, Accounting and Financial Reporting for Pensions which amends

GASB Statement 27 and allows non-Federal entities (NFE) to claim only estimated pension costs in their financial statements. OMB's revision will allow non-Federal entities to continue to claim pension costs that are both actual and funded."

Using System for Award Management (SAM)/Unique Identifier
OMB's proposal to expand the applicability of Federal financial assistance in 2 CFR Part 25 beyond grants and cooperative agreements so that it includes other types of financial assistance that Federal agencies receive or administer such as loans and insurance will impact small entities, but it will not have a significant impact on a substantial number of small entities. Currently, 2 CFR Part 25 requires all non-Federal entities that apply for grants and cooperative agreements to register in the System for Award Management (SAM). OMB proposes to require all entities that apply for Federal financial assistance such as loans and insurance to register in SAM, which requires the establishment of a unique entity identifier. In practice, some Federal awarding agencies already require SAM registration for all types of Federal financial assistance and the proposed change would make this practice consistent among agencies.

There are many other areas to highlight including but not limited to:

- Domestic preferences for procurement. OMB is proposing to add 2 CFR 200.321 (Domestic preferences for procurement), encouraging Federal award recipients, to the extent permitted by law, to maximize use of goods, products, and materials produced in the United States when procuring goods and services under Federal awards. This Part will apply to procurements under a grant or cooperative agreement.
- A Proposal to standardize terms across 2 CFR part 200 to support efforts under the Grants CAP Goal to standardize the grants management business process and data.
- Proposing to clarify areas of misinterpretation such as the responsibilities of the pass-through entity to address only a subrecipient's audit findings related to their subaward.

RESOURCES TO ASSIST IN REVIEW

OMB is also providing a few resources to assist in review of the proposal, including a redlined version of the proposed changes.

Additionally, OMB will be hosting a listening session on the proposed revisions at 3:30 PM ET on February 4.

Comments on the proposal are due directly to OMB by March 23. To include your comments in NASACT's response, please send them to Cornelia Chebinou by Marcy 11.

For those filing direct comments to OMB, please visit Regulations.gov and search for the reference ID "OMB-2019-0005." OMB is also requesting commenters include the section of the guidance that their comment is referencing by beginning each comment with the section number.

Municipal Bond Perspective: Approach High Yield With Caution In 2020.

Summary

- The municipal bond market presents a number of unique features and characteristics that set it apart from traditional asset classes.
- Only around 10% of the municipal market would be considered below investment grade, based on

the traditional breakdown of credit ratings (i.e., bonds rated BB and below).
- Historically, wider spread levels have provided opportunities for credit selection to drive incremental upside results, given the potential for spread compression amid improving fundamentals.

As we head into 2020, municipal bonds will likely remain attractive for many tax-sensitive investors, but their performance potential could prove to be relatively muted compared to 2019, according to Sheila Amoroso, director of our Municipal Bond Department. She and her team say this is due to the general level of interest rates and tighter yield spreads, particularly for lower-rated segments of the municipal market. They believe that while now may be a good time to consider a more cautious approach, they still see potential for high levels of tax-exempt income.

Continue reading.

Franklin Templeton Investments

By Sheila Amoroso, Senior Vice President, Director, Municipal Bond Department, Franklin Templeton Fixed Income Group; Daniel Workman, CFA, Vice President, Portfolio Manager, Franklin Templeton Fixed Income Group; Francisco Rivera, Vice President, Municipal Bond Department, Franklin Templeton Fixed Income.

Jan. 28, 2020

Muni Bond Investors Beware: 'Staged' Bond Defaults Are Back.

At first it seemed like we were starting off the new year on a happy note. Five bond defaults as of the first day of the year that were immediately remedied by a bond call at full value, plus 1%, payable on the last day of the month.

Having been around the horn, however, it seems more to me that “staged defaults” in municipal bonds are back. Such defaults are the bane of the municipal bond market since they are generally motivated by a desire to get out of a high coupon bond that has no early call provision. We saw a wave of such defaults in the 1980s as we came down from the high rates back then and I suppose, with the benefit of 20/20 hindsight, we can expect quite a few in 2020.

I was struck by the January 10, 2020 announcement by the Huntington National Bank that five of the bond issues it is trustee for, had not made their interest payments to the bank and therefore, the January 2 interest payment to bondholders would not be made. The bonds were thus declared in default. This was followed by a second letter from the trustee, dated the same day, advising that all the bonds from the five issues were being called by the obligor on January 31, 2020 at par plus a 1% premium plus accrued interest.

A call to the Huntington National Bank was not returned. I then turned to a recipient of the January 1 notice letter, Waldrep Law, which describes itself as “a boutique law firm specializing in business bankruptcy, healthcare restructuring and insolvency, and long-term care. We offer a unique combination of top-tier credentials and efficient, individualized client service.” As soon as I identified myself and why I was calling, I received a “no comment” and a hang-up. I then called Tortoise Credit Strategies LLC, a firm that represents itself as a “Bondholder Representative.” No call back from them either. I suspect they hold these bonds for investor clients.

Continue reading.

Forbes

by Richard Lehmann

Jan 27, 2020

Avoiding Redemption Risk In This New Municipal Environment.

Summary

- Growing threats to Municipal bondholders.
- Little known provisions can lay waste to bond values.
- Recommendations and strategies to escape getting burned.

Municipal bond issuers are under increasing pressure to fund their ballooning pension costs. Red flags are abundant in muni-land right now since many public entities are selling their assets – sewer and utility systems among them. Some are even merging with private entities to fund their growing liabilities. These types of transactions can have enormous negative repercussions and should put municipal bond investors on high alert. Specifically, investors should fear the triggering of Extraordinary Redemption Provisions (ERPs), explained below. I'll also recommend safe alternatives to buy, what to avoid, and what steps do-it-yourself investors can take to reduce risk in the muni market.

Significant events involving one of your municipal bond issues can trigger Extraordinary Redemption Provisions. This provision appears in the municipal bond's Official Statement. It states that if a certain event occurs, the issuer can redeem the bonds early. Sometimes this redemption can occur at par value $100, which can have huge downside ramifications for those who own bonds trading at a premium (above $100). ERP trigger events include unexpended proceeds, determinations that the status of the bonds are no longer tax free, changes in uses of proceeds, failure of issuer to appropriate funds, or destruction of facilities from which the bonds are payable. These events can cause massive losses if your bond has appreciated in market value and trades at a premium, such as $120. That premium can be lost in a heartbeat unless you have done the proper credit analysis.

Although this still happens only rarely, it has become more frequent of late. We are increasingly seeing privatization of municipal assets, as the issuers strain to fund their pension liabilities. We see this with water and sewer bonds. These were once considered the gold standard of the muni market. They were essential services, isolated from a municipality's pension liabilities. As some move from public to private they become far riskier.

Continue reading.

Seeking Alpha

Jan. 21, 2020

Alexander Anderson

S&P U.S. Not-For-Profit Health Care Rating Actions, December 2019.

S&P Global Ratings' U.S. Not-for-Profit Health Care rating actions in December were balanced with two upgrades and two downgrades. Outlook revisions were slightly more positive than negative in December with four favorable outlook revisions and three unfavorable outlook revisions. We consider a favorable outlook change to include revisions from stable to positive, negative to stable, or negative to positive, and vice versa for unfavorable outlook changes where the rating itself doesn't change. Overall, we affirmed 33 ratings, of which 12 were for new sales, in the month of December.

Our view of the sector remains stable. Continued balance-sheet strength combined with improving enterprise profiles as a result of mergers and acquisitions in addition to diversifying joint ventures drives our view of the sector, despite continual regulatory and financial risks. (U.S. Not-For-Profit Health Care 2020 Sector Outlook: A Precarious Balance As Evolution Continues, published on RatingsDirect Jan. 9, 2020.) Our 2018 median ratios also support our overall stable view of the sector and are highlighted by slightly improved operating margin performance overall following a two-year decline. Based on the 2018 ratios and our view of year-to-date results, we believe operating margins are generally stable, but at lower levels (U.S. Not-for-Profit Acute Health Care Ratios: 2018 Medians Show Operating Margin Improvement But Are Otherwise Stable, published on RatingsDirect Sept. 4, 2019).

Notable December rating actions include our downgrade on Tower Health to 'BBB+' from 'A' due to significantly weaker than expected financial performance and further expansion plans, which strain the balance sheet, and Winkler County Hospital District's downgrade to 'BB+' from 'AA' driven by the application of the acute-care criteria published March 19, 2018. This organization was previously rated under priority lien tax revenue debt criteria.

Continue reading.

S&P: Five U.S. State and Local Government Pension and OPEB Trends to Watch for in 2020 and Beyond.

Table of Contents

- Low Interest Rates And Market Volatility Increase Risk For Public Pension Plans
- Pension Reforms Continue, Partly Mitigating The Effects Of The Next Recession
- Affordability Of Retirement Obligations Remains A Long-Term Source Of Credit Stress
- Demographic Trends And A Changing Public Workforce Affect Funding
- Retiree Health Care Costs And Benefits Face Heightened Scrutiny

Key Takeaways

- As interest rates remain low, safer investment options may seem less attractive for U.S. pension funds needing to meet targeted returns.
- Pension reforms and efforts to improve funding discipline will continue, while weak funded plans are likely to consider new ways to solve funding challenges.
- Many state and local governments failed to make meaningful progress on their aggregate pension and OPEB liabilities last year.

- Changing demographics and workforce trends pose multiple risks to pension funding.
- As rising medical costs continue to outpace general price inflation, OPEB spending will likely grow as a significant cost pressure.

Continue reading.

S&P 'AAA' Rated U.S. Municipalities: Current List

Read the List.

S&P U.S. Higher Education Rating Actions, Fourth Quarter 2019.

The following tables summarize S&P Global Ratings' quarterly bond rating actions for its U.S. non-profit colleges and universities. All credit rating actions are based on our "Methodology: Not-Fo--Profit Public And Private Colleges And Universities" criteria, published Jan. 6, 2016.

View the tables.

Bonds are a Risky Way to Deal with Pension Woes.

By Jon Coupal, includes "Recently, this column exposed the foolishness of two proposed statewide bond measures: A $15 billion school bond, which will be on the March 3 ballot, as well as a 'climate resiliency' bond. … But at the local level, taxpayers need to be aware of a recent resurgence in the use of pension obligation bonds, a risky financing method that fell out of favor during the recession but is now making a comeback. …"

Read the full article on: The Daily Breeze (California)

Jon Coupal | January 27, 2020

Rainy Days Ahead: States Boost Reserves, Anticipating Slowdown.

An expanding economy led to expanded budgets. Now, with slowdown looming, rainy-day funds get more attention

As the longest economic expansion in American history continued last year, state governments increased salaries for teachers and other public employees, authorized new construction projects and — recognizing good times won't last forever — added to reserve funds.

Cash reserves could become more important this year, as experts project the economy to slow down in 2020. Though a full-scale recession seems less likely than it did at points last year, a slower rate

of growth still appears likely. Fitch Ratings, a credit ratings agency, projects a 1.7 percent expansion in 2020, which would be the lowest level since 2011.

Understanding that growth — which has lasted since the Great Recession officially ended in June 2009 — can't last forever, most states have tried to budget conservatively and set money aside, according to Eric Kim, senior director of public finance at Fitch.

Continue reading.

Roll Call

by Jacob Fischler

Jan 27, 2020

Key Takeaways from Municipal Bankruptcies.

When strictly analyzing the default risk of your investment holdings, municipal debt is often regarded as one of the safest forms of investments – compared to corporate debt – because municipal bankruptcies are a rare occurrence in the United States.

This also means that municipal debt investors often spend more time analyzing other risk and intricacies of municipal debt like interest evaluating rate risk, comparing taxable and tax-free returns, and comparing revenue vs GO debt instruments. However, the number of recent municipal bankruptcies reminds investors to stay vigilant of the municipal default risk when making their fixed-income investment decisions.

In this article, we will take a closer look at the recent municipal bankruptcies, any commonalities, and what investors should look for before making their investment decisions.

Continue reading.

municipalbonds.com

Jayden Sangha

Jan 22, 2020

Urban Land Institute's Public/Private Partnerships Council Discusses 2020 Outlook.

Read the Report.

Urban Land Institute | Jan. 21

Muni Funds See Record Inflows in 2019.

Investors' appetite for municipal bonds soared last year, helping push already low muni yields even lower.

Municipal-bond funds saw record inflows in 2019, as investors poured a massive net $105.5 billion into muni open-end mutual funds and exchange-traded funds during the year. That amount dwarfed the annual gains of each of the past 25 years, including the group's previous boom year of 2009, which brought in roughly $75 billion.

Demand remained high throughout the year, as muni funds saw 12 straight months of net inflows over $5 billion, and by midyear had gathered 10 times the assets that flowed into those strategies in all of 2018.

Roughly 90% of 2019's flows went into actively managed mutual funds, yet a substantial $8.7 billion went to passive strategies, mainly muni ETFs, which have continued to gain prominence since they first arrived on the scene in 2000.

Continue reading.

Morningstar

by Elizabeth Foos

Jan 27, 2020

Muni Index Funds Are Moving Closer to Their Benchmarks.

- **'Tracking error' on funds has narrowed to 0.35%: Morningstar**
- **Muni-bond ETFs attracted a record $10 billion in 2019**

Municipal-bond exchange-traded funds, which attracted $10 billion in investor cash last year, are getting better at tracking their benchmarks.

The average gap between municipal-bond index fund returns and their targets fell to 0.35 percentage point for the three years ended Dec. 2019, compared with 0.57 percentage point for the 36-month period ended in November 2013, according to Morningstar Inc. Expanded electronic trading and improved sampling of bonds by large asset managers like The Vanguard Group Inc, BlackRock Inc. and State Street Corp. have lowered costs and made tracking more precise, said Neal Kosciulek, a Morningstar analyst.

"Managers themselves have gotten better and more experienced," Kosciulek said in a telephone interview. "A lot of that has to do with sampling, considering the size and diversity of the municipal-bond market. Picking the right bonds is very important."

A narrowing tracking error means investors are getting closer to what they paid for and could make muni ETFs and a small number of muni open-end index funds more appealing. At about $50 billion, muni ETFs comprise just more than 1% of the state and local government debt market, but the segment is growing quickly. Last year, muni ETF inflows grew 48% after increasing 26% the previous year, according to UBS Global Wealth Management's Chief Investment Office. Actively

managed open-end municipal-bond funds include more than $800 billion in assets, according to Morningstar.

Index funds were slow to arrive to the fragmented and relatively illiquid $3.8 trillion muni market, which is comprised of almost a million securities issued by an estimated 50,000 municipalities. The first muni open-end index fund was created in 2000, according to Morningstar. The first municipal-bond ETF, iShares National Muni Bond ETF (MUB), was formed in September 2007, 14 years after the first ETF, the SPDR S&P 500 Trust was created by State Street.

“Liquidity and fragmented issuance were challenges that had to be overcome,” said David Perlman, ETF strategist at UBS Global Wealth Management.

Sampling Process

Muni-bond indexes include thousands or tens of thousands of individual bond issues, and muni ETFS can’t fully replicate them. Instead, portfolio managers use a sampling process, buying enough bonds from the index to match its key characteristics like sector, credit risk and duration.

Technology improvements have enabled fund managers to more effectively sample indexes by simplifying monitoring of changes to the funds’ benchmarks and helping to identify bonds on the market, according to Kosciulek. And when a manager finds the bond, the expansion of electronic trading has made it less costly to buy and sell securities.

The average spread between what a seller receives and a buyer pays for a security with dealers acting as an intermediary dropped by more than half between 2005 and 2018, according to the Municipal Securities Rulemaking Board. Institutional investors who buy blocks of $1,000,000 or more are paying less than 20 basis points to trade on average, according to the MSRB.

More than 60% of institutional investors reported using electronic trading platforms in 2018, up from half only two years before, according to a survey last year by Greenwich Associates.

Both MUB and Vanguard’s Tax-Exempt Bond ETF, (VTEB), the biggest muni ETFs, aim to mirror the S&P National AMT-Free Municipal Bond Index, which contains more than 12,000 bonds. MUB, which holds about 4,200 bonds, returned 7.28% last year on a net asset value basis, compared to 7.42% for the index. MUB’s management fee is 7 basis points.

VTEB, with 4,350 bonds and a management fee of 8 basis points, returned 7.5% last year on a net asset value basis. VTEB had a slightly higher average coupon, stated maturity and duration than its benchmark.

Bloomberg Markets

By Martin Z Braun

January 21, 2020, 10:13 AM PST

A Massive Gap Explains Why Muni Prices Are Testing Record Highs.

- **Debt payments, mutual fund inflows outpace new debt sales**
- **‘Everybody is just piling money into the muni market’**

Over the next month, about $25 billion of municipal debt will be paid off. Bondholders will receive another $13 billion of interest payments in February. And mutual funds have pulled in nearly $7 billion of new cash already this month.

Yet over the next four weeks, only a fraction of that money may find new securities to buy: American states and cities are so far set to sell just $13 billion of bonds in that time, according to data compiled by Bloomberg.

That yawning gap between the amount of cash looking to be reinvested and the amount of new securities being sold is driving the municipal market to new heights. Yields are at the lowest since the 1950s, 30-year munis are hovering around their highest values against Treasuries since at least 2001, and this month's 1.2% return marks the strongest start to a year since 2016.

"There is a mismatch between supply and demand," Matt Fabian, a partner at Municipal Market Analytics, said in a telephone interview on Wednesday. "Part of it is the continued trend of exceptional demand from last year."

Yields holding near lowest against Treasuries since at least 2001
The demand for tax-exempt debt has been fueled in part by President Donald Trump's 2017 tax law that capped state and local deductions, leaving investors in high-tax states looking for other ways to drive down what they owe. That's caused a steady influx of cash into municipal-bond mutual funds, which have gained money each week since last January.

At the same time, interest rates have fallen so low that governments can even sell taxable bonds to refinance their debts, contributing to a relative dearth of new tax-exempt securities.

So far, state and local governments have issued about $18.4 billion of new long-term bonds in January, the slowest start to a year since 2014, according to data compiled by Bloomberg. Some $5.7 billion were taxable.

"Everybody is just piling money into the muni market and there is only so much supply," said Jeffery Timlin, a managing director at Sage Advisory Services, an investment firm.

While the amount of debt in the pipeline will continue to increase, since many deals are scheduled with less than a month's notice, analysts don't see a pullback from the market on the horizon.

"We do not have reason to believe that the current trend of fund inflows will reverse any time soon," Wells Fargo Securities senior analysts Randy Gerardes and George Huang said in a report on Tuesday. "So, absent a significant build in the February calendar, we think the technicals will remain accommodative for a continued muni rally."

Bloomberg Markets

By Shruti Singh

January 22, 2020, 10:59 AM PST

— With assistance by Mallika Mitra

Muni Bonds That Deter Retail Investors Are Blowing Up (Podcast)

Retail investors are being steered clear of high-risk muni bonds by banks, who raise the minimum amount they can purchase. And more of those deals are getting into trouble. Reporter Amanda Albright and muni bond columnist Joe Mysak explore this booming segment of the municipal market, as well as mobile home parks in California.

Play Episode

Bloomberg

January 24, 2020 — 11:46 AM PST

How Investments in Innovation Districts Can Combat the Country's Regional Divides.

Last month, Robert D. Atkinson of the Information Technology & Innovation Foundation, together with our colleagues Mark Muro and Jacob Whiton, published a report calling for a renewed federal role in helping to balance the country's growing geographic inequities. "The case for growth centers: How to spread tech innovation across America" carefully documents how and why the innovation economy—the driver of much of the nation's growth—has become increasingly concentrated in a handful of coastal metropolitan areas, leaving much of the heartland struggling to keep pace. It also proposes a way for leaders in Washington, D.C. to boost lagging regions by selecting a small group of "growth center" metro areas (chosen via a competitive process) to receive a package of federal supports.

The "growth center" construct was originally conceived in the 1950s, but this 21st century version acknowledges that in today's economy, federal support for more widespread diffusion of innovative activity will not be enough to combat the entrenched economic divergence between regions. Rather, such "top-down" investment needs to be matched with "bottom-up" leadership, drive, and capacity to make the kinds of transformative investments in places and placemaking essential for growth centers to thrive.

Continue reading.

The Brookings Institution

by Jennifer S. Vey and Julie Wagner

Thursday, January 23, 2020

Claims By Tort Claimants Against Municipal Insurer Over Coverage for Sexual Abuse Dismissed By Federal Court.

Typically, a claimant has no direct right of action against an insurance company especially prior to a judgment against the insured. Even more typically, a claimant has no right to "cut-through" to the reinsurers based on an alter ego or fronting claim when the claimant is not the insured and is not in

contractual privity. Nevertheless, that doesn't stop claimants from trying. In a recent case, a federal court rejected that attempt based on a lack of subject matter jurisdiction.

In *Bridges v. Poe*, No. 7:19-cv-00529-LSC, 2020 U.S. Dist. LEXIS 11240 (N.D. Ala. Jan. 23, 2020), a series of individual plaintiffs sued similar defendants for allegations of systemic sexual harassment, abuse and rape of female pretrial detainees at a city jail. After the first case was filed, the city's insurance company filed a state court declaratory judgment action seeking a declaration that it had no duty to defend or indemnify the city or its employees in the case. Subsequent cases filed by other plaintiffs in federal court named the insurance carrier as a defendant.

Each plaintiff alleged that the insurer was a shell corporation with no real employees, was merely the alter ego for a state municipality organization and a fronting company for the insurer's reinsurers. Plaintiffs, in the federal court actions, sought declarations that the insurance company had a duty to defend and indemnify the city defendants in the cases and that each plaintiff was an assignee of the insurance company's rights under its reinsurance contracts allowing plaintiffs to recover any judgment based on a cut-through to the reinsurers.

The insurance company moved in each of the federal cases to dismiss the claims against it for lack of subject matter jurisdiction. The plaintiffs argued that the court could retain the cases under supplemental jurisdiction. The district court granted the insurance company's motions to dismiss.

In granting the motion to dismiss, the court noted that the claims against the insurance company were state law claims between citizens of the same state. Thus, the analysis came down to whether supplemental jurisdiction was appropriate. Given that the claims against the insurance company were about insurance coverage, separate and distinct from the underlying tort claims, the court said that the exercise of supplemental jurisdiction "may not be appropriate." The court found that the claims against the insurance company alleging alter ego, fronting and as an assignee on a cut-through basis were not typical tort claims, were complex and hinged on whether the insurer was a shell corporation and a mere front for reinsurers. These allegations implicated matters of local law and policy. Because resolving these issues would cause the court to unnecessarily make decisions of state law, the court concluded that the state court would be better suited to hear and resolve those novel and complex state law claims.

The court also determined that it was not even clear that the plaintiffs had Article III standing to sue the insurance company for a declaration of coverage before the entry of judgment against the insured. Dismissing the claims, said the court, promoted judicial economy by avoiding substantial duplication of effort where there as a state case already pending.

January 24 2020

Squire Patton Boggs – Larry P. Schiffer

Chronically Late Municipal Bond Audits Further Delayed in FY 2018.

Every year since 2007, Merritt Research Services1 (Merritt Research) reports the time it takes for municipal bond borrowers to complete their annual financial audits. The results of the study consistently show slower reporting relative to industry standards of the securities markets. By now, it has been well documented that most municipal audits lag the corporate standard of 60 days by a range of three to six more months.

Slower audit turnaround times increase the likelihood that analysts will miss signals that may adversely affect municipal bond pricing and catch investors or other stakeholders off guard. In short, the useful value of the audits will become either stale or diminished, or potentially not useful at all. That concern is aggravated by the fact that the Merritt Research study evidenced that weaker borrowers generally experience longer delays than better quality credits to complete their audits.

This year's findings are particularly disappointing. Despite a decade of placing a spotlight on the problem2, audit reporting took another step down to tie the slowest median audit time recorded over the past eleven years.

Continue reading.

muninetguide.com

By Richard A. Ciccarone, President of Merritt Research Services, an Investortools, Inc. Company

Jan 13, 2020

U.S. Flood Risk Model to Be Publicly Available in Boon for Homebuyers.

NEW YORK — A climate research organization will offer access to a risk model that predicts the probability of flooding for homes across the United States, giving the public a look at the data institutional investors use to gauge risk.

First Street Foundation on Tuesday launched Flood Lab, a research partnership which provides eight universities with its model that maps previous instances of flooding as well as future risks. Using the dataset, Wharton business school at the University of Pennsylvania, Massachusetts Institute of Technology and Johns Hopkins University among others will quantify the impacts of flooding on the U.S. economy.

The move could put pressure on prices of homes, municipal bonds and mortgage-backed securities linked to real estate in risk-prone areas, according to Matthew Eby, executive director of research organization First Street Foundation, and other Flood Lab participants.

The data will be made available to the public in the first half of 2020 in an online database searchable by home address.

About 62 million American homes have a moderate to severe risk of flooding, data analytics firm Verisk has estimated.

Major risk modeling firms like Risk Management Solutions, CoreLogic, AIR Worldwide and KatRisk are currently the sole purveyors of that information, which they sell to big insurers, mortgage lenders and investment firms. But the cost, which can run into seven figures a year, is prohibitive for universities, smaller financial firms and homeowners.

"We tried to get some of the data from one of the providers and they quoted us an astronomical price," said Benjamin Keys, a real estate economics professor at Wharton.

Keys had reached an impasse in his research: he had evidence that mortgage markets in coastal regions of the United States were being affected by rising sea levels, but couldn't get accurate or

comprehensive datasets that modeled the risk of flooding. Flood Lab will help fill that gap.

First Street says its model rivals those at big private firms. While there have long been researchers modeling flood risk, the timeframe and geographic scope have been limited as the manpower and cost have been too great for any one university. First Street currently has around 70 researchers working on its model, more than some of the proprietary firms.

Private risk modeling agencies will still have business: they offer other catastrophic risk data on a global scale and there is demand for multiple models. But a public option could lead to competitive pricing and a demand for transparency around methodologies.

The most lasting impact, however, is likely to be on homeowners.

“Where does your average homeowner get that flood risk information and make an optimal decision?” asked Carolyn Kousky, executive director of the Wharton Risk Center.

“I think that’s the place First Street will actually be disruptive.”

By Reuters

Jan. 14, 2020

(Reporting by Kate Duguid; Editing by Stephen Coates and David Gregorio)

‘That is Insane’: Muni Yields at the Lowest Since Elvis Was King.

- **The bond market’s oldest yield index hits lowest since 1956**
- **Steady influx of cash into market is keeping a rally going**

The last time municipal-bond yields were this low Dwight D. Eisenhower was the president, Elvis Presley released his second studio album and Grace Kelly married Monaco’s Prince Rainier III.

The Bond Buyer’s 20-year index of general-obligation bonds reset at 2.56% this week, the lowest since June 1956, according to Bloomberg’s records. And for some context, that year some $5.4 billion of new long-term bonds were sold, a sum that’s now considered a somewhat slow week.

The 20-bond index is the oldest gauge of yields in the tax-exempt securities market, started by the newspaper in 1917.

“That is insane,” said Nisha Patel, the director of portfolio management at Parametric, an affiliate of Eaton Vance Management. She said the massive amounts of money that have been flowing into mutual funds have driven down absolute yields, most notably for long-dated debt, as investors hunt for bigger payouts.

“One part of me thinks it’s hard to see how this is sustainable,” Patel said. “But another part says if Treasury yields grind lower, you could see this going down to 2%.”

Albert Jalso, a senior portfolio manager for Russell Investments, said the lower yields may increase the pace of new debt sales. “The state can say ‘hey, rates are lower, we can borrow a little more.’”

That’s the consensus view, with analysts forecasting a potentially record-setting year for new bond

issues. Such sales have been met with seemingly boundless demand. Investors added another $2.3 billion to municipal-securities mutual funds in the week ended Wednesday, marking the 54th straight week of inflows, according to Refinitiv Lipper US Fund Flows data.

Patel said investors at some point may stop throwing their cash into the funds because of the "sticker shock" of how pricey — and low yielding — tax-exempt bonds have become.

"We started crossing over into taxables because of the richness," she said, saying that Treasuries look more attractive in this environment. "It's just extremely rich."

Bloomberg Markets

By Danielle Moran and Mallika Mitra

January 17, 2020, 10:31 AM PST

— With assistance by Joe Mysak

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com