
Negative Interest Rates x Negative Bond Yields = Positive Arbitrage?

Former Federal Reserve Chairman Ben Bernanke recently advised that the Fed should maintain "constructive ambiguity" about the possibility of taking the Federal funds rate below 0% in an effort to simulate the U.S. economy during the next recession. Given that current short-term interest rates in the United States are at near-historic lows, many believe that it is inevitable that U.S. monetary policy will replicate the negative interest rates employed in Japan and Europe when the next recession hits. One economist suggests that negative interest rates and negative bond yields (more on that below) are the inexorable conclusion of a trend that began in the late 1400s. We are on notice.

If the Fed experiments with a Bret Easton Ellis-inspired monetary policy and takes the Federal funds rate to less than zero,[1] what are the potential consequences for issuers of tax-exempt bonds? For some speculation (and to see the text of the first footnote), hit the jump.

Continue reading.

By Michael Cullers on January 20, 2020

The Public Finance Tax Blog

Squire Patton Boggs

Fitch Ratings Updates Infrastructure Completion Risk Criteria; Requests Market Comments

Link to Fitch Ratings' Report(s): Exposure Draft: Completion Risk Rating Criteria

Fitch Ratings-New York-15 January 2020: Project completion is a meaningful risk for project finance transactions, and has garnered significant attention recently with several infrastructure projects globally running into cost overruns and delays. As a result, Fitch Ratings has released an exposure draft for its rating criteria for completion risk, and is now requesting market commentary on the updated criteria.

"Delays, cost overruns and outright cancellations of high profile infrastructure projects in the U.S. and Canada are recent by-products of an increasingly competitive market environment," said Global Infrastructure and Project Finance Head Cherian George. "In Latin America, completion risk has been manifested due to right-of-way, social and environmental issues," said George. "Risk is getting pushed down to contractors in greater numbers, which is resulting in some fixed-price projects becoming unprofitable. The downfall of certain European contractors also highlights the pressure contractors are feeling."

While the analytical approach is conceptually the same, Fitch will now break completion risk out into a separate standalone criteria that will shed more light on factors like a project's complexity, scale, and duration (CS&D), availability of replacement contractors and contract terms. Fitch does not anticipate changes to its outstanding ratings as result of the new criteria.

Specifically, the exposure draft:
–Distinguishes the range of projects, using project CS&D as the attribute with the highest influence, although it is constrained by the weakest of all the attribute assessments.
–Explicitly recognizes the credit strength garnered from joint ventures (JVs) with joint and several liability, and distinguishes the relative strength of near-equal members, versus those with disparate expertise and credit strength.
–Recognizes independent engineer (IE) reports do not have global or regionally accepted or established standards for risk evaluation, so the opinions provided are not of consistent quality and reliability. The criteria therefore establishes a risk margin to replacement cost scenarios based on contractor credit quality. In addition in the absence of a well-substantiated IE opinion, the criteria establishes indicative security levels based on market input.
–Reflects the exposure to delay risk by establishing minimum thresholds, noting delay risk is relevant across all projects, regardless of counterparties.
–Clarifies notching between thresholds based on available performance security and liquidity.

Fitch invites feedback from market participants on the released criteria. Comments should be sent to criteria.feedback@fitchratings.com by March 15, 2020. Once finalized, Fitch will apply the criteria to existing ratings and apply the criteria described in this exposure draft to new projects during the exposure draft period.

Contact:

Cherian George
Managing Director, Global Head of Infrastructure
+1-212-908-0519
Fitch Ratings, Inc.
300 West 57th Street
New York, NY, 10019

Scott Zuchorski
Senior Director, North America Transportation/PPPs
+1-212-908-0659

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

Additional information is available on www.fitchratings.com

Fitch Exposure Draft: Completion Risk Criteria FAQs

Read the FAQs.

S&P U.S. Municipal Housing 2020 Sector Outlook: The Foundation Remains Stable

Table of Contents

- Rating Distribution
- What We Are Watching
- Affordable Housing Properties

Outlook: Stable
Economic fundamentals bode well for continued stable performance in the U.S. public finance housing sector. Favorable financial conditions due to a lowered chance of recession, expected low rates through the end of the year, modest inflation, steady labor force participation, and continued wage growth–most importantly even for lower wage workers–provides a solid foundation for the sector to remain on largely stable ground during 2020.

Continue reading.

S&P U.S. Municipal Water And Sewer Utilities 2020 Sector Outlook: Finding Stability Between Headline Risk And Credit Risk

Table of Contents

- State Of The Sector
- We’re Watching E, S, And G
- Looking Ahead
- Last Year’s Rating And Outlook Actions

Outlook: Stable
To the extent that utility leadership demonstrates proactive operational and financial risk management toward day-to-day challenges such as infrastructure renewals, as well as resilience to impactful events like extreme weather or a recession, credit quality can generally be preserved. Forward-looking analysis always begins with the capital plan.

Continue reading.

S&P U.S. Public Power And Electric Cooperative Utilities 2020 Sector Outlook: Heading Into A New Decade On A Familiar Road

Table of Contents

- Rating Distribution
- What We Are Watching

Outlook: Stable
Although U.S. public power and electric cooperative utilities face the specter of significant credit disruptors in 2020, we expect to see resilient and generally stable ratings. Electric utilities are

benefiting from a predictable pathway for recovering costs, whether through autonomous or regulated ratemaking. Furthermore, the moderately growing economy and its low interest rates and natural gas prices is tempering pressures on income statements and balance sheets in this capital intensive industry.

Continue reading.

How Cybersecurity is Factoring Into Credit Ratings.

Cyberattacks are an emerging factor in public finance credit ratings for state and local governments, governmental authorities and non-profit community groups.

A couple of states already have stepped forward to help smaller communities and governmental authorities cope and about two dozen have formed state task forces.

A growing number of communities and government agencies also have taken out cybersecurity insurance policies.

“State and local governments are soft targets because they don’t have the expertise in cybersecurity that corporations do,” said Michael Belsky, executive director of the Center for Municipal Finance at the University of Chicago.

“I would say that being adequately prepared for a cyber event is a positive credit factor and being ill prepared is a negative credit factor,” Belsky said in an interview.

Credit rating agencies are looking at the quality of the computer systems personnel and whether a government entity has a plan to deal with cybersecurity.

“It’s more like a management practice like fund balance policy or revenue forecasting,” Belsky said.

The first hard evidence of how this is affecting ratings in the public finance sector came from a downgrade two months ago involving Princeton Community Hospital in West Virginia.

S&P Global Ratings lowered its rating to BBB from BBB+ on series 2012A refunding bonds in November, more than two years after a cyberattack weakened the hospital’s reserves which already were declining because of operating losses. Another factor in the downgrade was the integration risk associated from the acquisition of a regional medical center.

When the attack occurred in June 2017, the hospital had to divert ambulances and limit its services for seven weeks because the ransomware attack froze all systems including billing, accounting and electronic medical records.

Although S&P said the hospital’s management “responded appropriately” to the cyberattack and the hospital did not violate its debt service covenants in fiscal 2018, the incident provides a good example of how a cyberattack can factor into bond ratings.

“We are saying now that an attack has affected operations of a public finance entity to be the primarily the attribute to lead directly to the downgrade,” said Geoff Buswick, S&P Global Ratings managing director.

“We have watched this emerge over the past few years,” said Buswick. “Now it’s something that we

are expecting every analyst to at least ask a question or two about on a call so it's more business as usual."

Moody's Investors Service hasn't downgraded any of its ratings because of cybersecurity risks as yet, but officials there said it could happen in the future.

"A lot of the losses have minimized because of cyber insurance or state support," said analyst Nisha Rajan, Moody's lead for ransomware attacks on local governments. "Smaller local governments tend to be more vulnerable because their budgets are smaller and there are less resources to tap."

A Moody's report last August highlighted the state support Louisiana provided when five school districts came under cyberattack.

Louisiana Gov. John Bel Edwards declared a state of emergency and the targeted school districts gained access to state resources from the Louisiana National Guard, Louisiana State Police, Louisiana Office of Technology Services and Louisiana State University.

The effort was coordinated by the governor's office of Homeland Security & Emergency Preparedness.

Similarly, the Moody's report noted that Colorado Gov. John Hickenlooper declared a state emergency in March 2018 following a ransomware infestation at the Colorado Department of Transportation.

Louisiana's response was aided by the fact that Gov. Edwards had established the Louisiana Cybersecurity Commission in 2017. About two dozen states have taken a similar step, including California, Texas, New York and Illinois.

Ohio received a credit positive from Moody's in November after Gov. Mike DeWine signed legislation creating a civilian cybersecurity reserve force, named the Ohio Cyber Reserve, to protect local governments, critical infrastructure and businesses from the impact of cyberattacks.

The 50 person unit is part of the Ohio National Guard.

Moody's said it "underscores the significant role states can play in helping governments respond to rising cybercrime."

The vulnerability is generally the greatest in smaller local governments and agencies.

"You have some state and local governments that are well-resourced that are able to mount a comparable defense to large private organizations," said Leroy Terrelonge, assistant vice president and cyber risk analyst at Moody's Investors Service.

"But you have in this large world of state and local governments you many that do not have the resources to have dedicated cyber expertise and to be able to protect themselves as well," Terrelonge said. "So when you have such a large attack surface for criminals that are looking to find weak links they can probe, it's a very rich target landscape."

At Fitch Ratings, cybersecurity risk is a factor in its ratings but not to the point where it has become a credit concern as yet, according to Managing Director Amy Laskey.

"We look at their general ability to deal with the unexpected as part of their ESG score," said Laskey.

Laskey the risk of cyberattacks is growing everywhere.

“There’s going to have to be a lot more done to address it, as these events become more common and more sophisticated and potentially more impactful,” Laskey said. “It’s probably going to get worse and not better so the responses are going to have to get stronger.”

The latest warning of the growing threat of cyberattacks came from the U..S. Department of Homeland Security and the Multi-State Information Sharing and Analysis Center shortfall after the U.S. killed Iranian Gen. Qassem Soleimani with a drone attack.

“The Iranians probably don’t have military capabilities to fight person for person or weapon system for weapons system, but they have a very sophisticated cybersecurity wing,” Buswick said.

On Jan. 7, Texas Gov. Greg Abbott and Texas Department of Information Resources executive director Amanda Crawford reported as many as 10,000 “probes” per minute of state agencies’ computer systems that originated from Iran.

“That whole chain of events was pretty stunning and telling to what we have been warning,” said Buswick. “Don’t have your head in the sand on this. Prudent cyber hygiene is going to benefit everyone.”

By Brian Tumulty

BY SOURCEMEDIA | MUNICIPAL | 01/14/20 02:35 PM EST

BlackRock’s Larry Fink Sees Bond Peril for Cities Over Climate Change.

- **‘This is going to change the municipal-bond market,’ he says**
- **Puerto Rico, Houston, California a reminder of potential risks**

The head of the world’s largest asset manager has a message for American cities that don’t prepare for climate change: The bond market may not always be so welcoming.

BlackRock Inc. Chairman and Chief Executive Officer Larry Fink said in his annual letter to corporate executives that the risks posed by rising world temperatures will affect “both our physical world and the global system that finances economic growth.” He said that includes the $3.8 trillion municipal-bond market, which finances the roads, utility systems and other infrastructure vulnerable to the impacts of devastating storms, wildfires or rising seas.

“This is going to change the municipal-bond market,” Fink said in an interview with television network CNBC Tuesday after the release of his letter. “Areas that are more impacted by climate change [are] going to have harder time to finance their debt if they don’t focus on the impact of climate change.”

Those risks have been drawing increased scrutiny in the state and local government securities market, underscored in recent years by wildfires that scorched California, the severe flooding of Houston and the heavy damage visited on bankrupt Puerto Rico by Hurricane Maria in 2017.

Yet such events have had little if any impact on the price of bonds sold by cities, counties and states, even though many are increasingly highlighting their vulnerability to climate change in prospectuses circulated to investors. That’s in part because natural disasters have typically brought an influx of

federal aid, which isn't guaranteed if such events become more common in the decades ahead.

In April, BlackRock estimated that within a decade more than 15% of debt in the S&P National Municipal Bond Index will come from regions that could suffer losses from climate change.

In his letter, Fink said BlackRock joined with France, Germany and global foundations to establish the Climate Finance Partnership, an effort to improve financing mechanisms for infrastructure investment.

"The need is particularly urgent for cities, because the many components of municipal infrastructure — from roads to sewers to transit — have been built for tolerances and weather conditions that do not align with the new climate reality," he wrote. He added: every "government, company, and shareholder must confront climate change."

Bloomberg Finance

By Danielle Moran

January 14, 2020, 9:00 AM PST

Larry Fink Defends BlackRock's New Emphasis on Climate Change. What Investors Need to Know.

Larry Fink's recent letters to CEOs and investors were certain to press buttons, because they dealt with BlackRock's plans to address climate change.

Yet the reactions, Fink tells Barron's, have been positive even as climate change has become a political football. "I received one of the great letters of my career from a client in a red state," says the CEO of BlackRock (ticker: BLK). "This client was very thankful. This client said, 'We have a 10- to 20-year investment horizon. We now need to look at how we think about investing.' "

BlackRock puts climate-risk analysis at the heart of its investing process and gives a huge boost to sustainable investing. The world's largest asset manager aims to double to 150 the number of ESG exchange-traded funds that it offers around the world. BlackRock will also push companies to report on sustainability metrics and vote against managements that do not make sustainability disclosures.

"In the next five years, ESG will be one of the key lenses for how investors look at everything, from corporate to country to municipal," Fink says. BlackRock also plans to withdraw from big thermal-coal producers in its active funds.

Jeremy Grantham, the investor and founder of GMO who has spent millions of dollars to raise climate awareness, calls BlackRock's moves admirable. But why doesn't BlackRock get out of thermal-coal producers in the index funds it manages, as well? Or, for that matter, from all fossil-fuel companies? After all, Grantham says, "oil is the mother and father of all vested interests."

"It's not my money," Fink responds. "We can offer an index fund minus these, but if a client is giving me a contracted statement, then I have to be in [the specified] index.… BlackRock, as a fiduciary, isn't permitted to say we need to be out of hydrocarbons because I believe in it. It has to put it through the lens of investment risk."

Fink said that BlackRock would contact passive clients to tell them about the new offerings. Still, dumping hydrocarbons altogether means missing opportunities. “There’s a 50-year transition for energy, but some energy companies are moving faster than others,” he says. Once companies start making sustainability disclosures systematically, it will be easier to compare companies in actively managed funds and find the best ones, he says.

Fink describes himself as “an environmentalist: I personally don’t own hydrocarbons.” He admits he isn’t personally invested in his company’s own ESG ETFs, although he vows to do so this year in his BlackRock 401(k). He is also invested in BlackRock’s illiquid renewable-power funds.

Industry reactions to BlackRock’s moves were guarded. “Can you have it both ways?” asks Leslie Samuelrich, president of Green Century Capital Management, which offers a line of fossil-fuel-free funds. “We’ll have to see how committed BlackRock really is to addressing climate change—it’s still the largest investor in fossil fuels.” Samuelrich is also a member of the board of US SIF, a trade group for sustainable investing.

As for BlackRock’s withdrawal from big coal producers in its actively managed portfolios, Asha Mehta, a portfolio manager and director of responsible investing at Acadian Asset Management, says, “It’s not a big step in divestment, but it’s consistent with where the industry is going.” Coal shares have already tumbled, while oil has underperformed the benchmarks over the past 10 years.

Fink says, “Some would argue we were late. I don’t think so. Our job as a fiduciary is to be thoughtful and helpful to our clients.”

BlackRock’s moves put pressure on other big index investors like Vanguard that also have large active-management arms. “Vanguard funds are managed to specific objectives,” a spokesman says. “Vanguard has no plans to materially change these broad mandates, nor stipulate certain investing restrictions at the company or sector level.”

Despite the looming risks of climate change, Fink is optimistic about stocks. In 2020, “I think the market will be stronger,” he says. “I don’t see interest rates spiking up. We won’t see anything close to [last year], but could we see 8% to 10% for the market? Sure.”

“More people have underperformed because they derisked,” he adds. “The most important thing you can do for yourself is stay invested and be heavily invested in equities.”

Barron’s

By Leslie P. Norton

Jan. 17, 2020 4:41 pm ET

BlackRock Puts Sustainability at the Center of Investment Strategy, Expects More Transparency in Sustainability Disclosure.

Was it the heartbreaking photos of scorched koalas in Australia? Was it the pressure from activists such as As You Sow, which submitted a shareholder proposal asking for a report on how the company plans to implement the new Business Roundtable statement of purpose? (See this PubCo post.) Was it the press reports, like this one in the *NYT*, highlighting what appeared to be stark inconsistencies between the company’s advocacy positions and its proxy voting record? Was it the

protests outside of the company's offices by climate activists? The letters from Senators? The charges of greenwashing? Whatever the precipitating factor, in this year's annual letter to CEOs, Laurence Fink, CEO of BlackRock, the world's largest asset manager, announced a number of initiatives designed to put "sustainability at the center of [BlackRock's] investment approach." What's more, he made clear that companies need to step up their games when it comes to sustainability disclosure.

Ostensibly, none of the factors above triggered the change. In this NPR interview, Fink protested that they were "doing this on behalf of clients. I have not done this with the idea of focusing on any activist groups or any other voice. We are a voice to the investors. Our job is to be speaking on behalf of our investors. And I wrote this letter not as an environmentalist. I wrote this letter as a capitalist." What's more, he told NPR, there was no single event or conversation or news story that "flipped the switch" for him; rather, it was "really the sum of all my conversations in every part of the world with our clients and witnessing their questions about this. And it really became very clear to me—as somebody who'd been in finance for, you know, 44 years, it's very clear to me that we're at a point now where more and more people believe in the science of climate change. More and more people are worried about their portfolios and how their portfolio is going to be performing over a 10-year horizon."

According to Fink's letter, "[c]limate change has become a defining factor in companies' long-term prospects." Although he has seen many financial crises over the course of his long career, in the broad scheme of things, they have all ultimately been relatively short-term in nature. Not so with climate change: "Even if only a fraction of the projected impacts is realized, this is a much more structural, long-term crisis." As a result, "we are on the edge of a fundamental reshaping of finance":

> "Will cities, for example, be able to afford their infrastructure needs as climate risk reshapes the market for municipal bonds? What will happen to the 30-year mortgage—a key building block of finance—if lenders can't estimate the impact of climate risk over such a long timeline, and if there is no viable market for flood or fire insurance in impacted areas? What happens to inflation, and in turn interest rates, if the cost of food climbs from drought and flooding? How can we model economic growth if emerging markets see their productivity decline due to extreme heat and other climate impacts?"

The result, according to Fink, is "a profound reassessment of risk and asset values. And because capital markets pull future risk forward, we will see changes in capital allocation more quickly than we see changes to the climate itself. In the near future—and sooner than most anticipate—there will be a significant reallocation of capital."

Investors are now "recognizing that climate risk is investment risk," making climate change the topic that clients raise most often with BlackRock: what are the physical risks arising out of climate change? How will climate policy affect prices, costs and demand? How should investors modify their portfolios?

Sustainability at the center of investment strategy

Although the investment decisions are ultimately the clients', BlackRock's "investment conviction is that sustainability- and climate-integrated portfolios can provide better risk-adjusted returns to investors. And with the impact of sustainability on investment returns increasing, we believe that sustainable investing is the strongest foundation for client portfolios going forward." What's

important, he said on NPR, is making sure that more investors use sustainability as a metric to analyze their investments. BlackRock expects to create the tools, techniques and analytics to navigate the risks and opportunities related to climate change and other sustainability concerns.

To that end, BlackRock announced new initiatives, including "making sustainability integral to portfolio construction and risk management; exiting investments that present a high sustainability-related risk, such as thermal coal producers; launching new investment products that screen fossil fuels; and strengthening our commitment to sustainability and transparency in our investment stewardship activities."

With regard to divestment of coal investments, the NPR interviewer noted that BlackRock "will sell out of all companies that get more than a quarter of their sales from thermal coal. That still leaves some of the biggest coal producers in your portfolio because they do a lot of other things, too." Fink responded that "coal is a very small component of any investment universe." And of course, BlackRock is limited to exiting investments and integrating sustainability considerations into the investment process only in its active strategies and discretionary active portfolios, not its index funds. Of its $7 trillion in assets under management, reportedly about $4.6 trillion is in index funds and ETFs (although ETFs can vary).

A push for better sustainability disclosure

Importantly for companies, Fink maintained that everyone needs to see a "clearer picture of how companies are managing sustainability-related questions. This data should extend beyond climate to questions around how each company serves its full set of stakeholders, such as the diversity of its workforce, the sustainability of its supply chain, or how well it protects its customers' data. Each company's prospects for growth are inextricable from its ability to operate sustainably and serve its full set of stakeholders." If companies do not ultimately address sustainability risks, Fink wrote, they will find the markets to be a skeptical bunch; transparency, on the other hand, will attract investment.

Fink advocates adoption of the SASB standards for reporting on sustainability across a wide range of issues and the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) for evaluating and reporting climate risks. (See this PubCo post and this PubCo post.) While BlackRock is itself continuing to work on its own disclosures, as part of its engagement this year, it is asking companies to:

> "(1) publish a disclosure in line with industry-specific SASB guidelines by year-end, if you have not already done so, or disclose a similar set of data in a way that is relevant to your particular business; and (2) disclose climate-related risks in line with the TCFD's recommendations, if you have not already done so. This should include your plan for operating under a scenario where the Paris Agreement's goal of limiting global warming to less than two degrees is fully realized, as expressed by the TCFD guidelines."

BlackRock will use the information to assess companies' risk oversight and planning. Notably, in

> "the absence of robust disclosures, investors, including BlackRock, will increasingly conclude that companies are not adequately managing risk. We believe that when a company is not effectively addressing a material issue, its directors should be held accountable. Last year BlackRock voted against or withheld votes from 4,800 directors at 2,700 different companies. Where we feel companies and boards are not producing

> effective sustainability disclosures or implementing frameworks for managing these issues, we will hold board members accountable. **Given the groundwork we have already laid engaging on disclosure, and the growing investment risks surrounding sustainability, we will be increasingly disposed to vote against management and board directors when companies are not making sufficient progress on sustainability-related disclosures and the business practices and plans underlying them."**

What's the impact?

So here's the question: how much impact, if any, will the Fink letter describing Blackrock's new strategy and initiatives have on the CEOs to whom it is addressed? With $7 trillion under management, BlackRock has a loud voice. And, to the extent that shareholders are actually driving this change, the message could be even more persuasive. It also seems likely that BlackRock's disclosure imperative and warning on holding boards and managements accountable for inadequate disclosure will sway many companies in which BlackRock invests. And disclosure is often considered to be an indirect way to compel change (sometimes known as "regulation through humiliation"). However, as Matt Levine observed in his Bloomberg column, how persuasive will the letter be to the CEO of the largely state-owned Saudi oil company, of which BlackRock is reportedly the largest outside shareholder?

What about more broadly—the big picture? Some might say that, historically, Fink's letters have had a major impact: consider, for example, his previous letters regarding the need for a defined corporate purpose (see this PubCo post and this PubCo post), seen by many as an influential precursor to the adoption by the Business Roundtable of a new Statement on the Purpose of a Corporation. That Statement outlined a "modern standard for corporate responsibility" that makes a commitment to all stakeholders and was signed by 181 well-known, high-powered CEOs. (See this PubCo post.)

Writing in the *NYT*, Andrew Ross Sorkin observed that, while previously "many companies and investors have committed to focusing on the environmental impact of business,… none of the largest investors in the country have been willing to make it a central component of their investment strategy." And BlackRock's "green push" takes on even greater significance as the current "administration is going in the opposite direction, repealing and weakening laws aimed at protecting the environment and promoting sustainability." As a consequence, Sorkin viewed BlackRock's change as a "watershed," a move that "could reshape how corporate America does business and put pressure on other large money managers to follow suit." So how much impact? Only time will tell.

Here is BlackRock's related letter to clients and FAQs.

January 15 2020

Cooley LLP

Municipal CUSIP Request Volume Increased 15% in 2019.

NEW YORK, NY, January 15, 2020 – CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for December 2019. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter,

found a significant year-over-year surge in request volume for new municipal identifiers. On a monthly basis, however, CUSIP request volume trended down in December across most major asset classes.

Read Report.

December Volumes for Municipal and Corporate Security Identifiers Trend Down.

“The overall volume of municipal and corporate identifier requests was strong in 2019, driven by a combination of a favorable interest rate environment and a generally strong economy,” said Gerard Faulkner, Director of Operations for CUSIP Global Services. “As we turn the corner to 2020, our CUSIP issuance indicator appears to be signaling some caution on the part of market participants, but it is still early.”

Read Press Release.

For Shrinking Cities, an Aggressive Way to Dodge the Census Bullet.

Places where the population is declining know it could cost them money after the 2020 head count is taken. The solution: Expand their borders to add more residents.

DECATUR, Ill. — The last three census counts brought bitter confirmation of what Decatur residents could already see for themselves, after the factories cut shifts and the neighbors moved away. Their city, whose welcome sign boasts of being the original home of the Chicago Bears, was shrinking.

But ahead of this year’s official head count, Decatur officials are trying a new way to boost their numbers: If people won’t move to Decatur — where downtown coffee shops are nestled amid mid-rise buildings, factories are hiring again and the area’s first Chipotle just opened — Decatur will move to them.

Over the last year, the City Council pushed Decatur’s boundaries outward, annexing hundreds of properties despite vehement objections from new residents whose spacious houses and half-acre lots contrast sharply with the smaller, aging homes in neighborhoods closer to downtown.

Continue reading.

The New York Times

By Mitch Smith

Jan. 17, 2020

A Tale of Two Community Reinvestment Act Proposals.

Even by banker standards, Martie North is a numbers person. She's a senior vice president at Simmons Bank, where she keeps close tabs on the bank's lending to low-income communities and community development projects across the bank's 35 markets.

As a regional bank based in Pine Bluff, Arkansas, with $17.8 billion in assets and around 200 branches across eight states, every market is a little bit different, and some markets are new to Simmons Bank — it's acquired 11 other banks since 2013, quadrupling in size. It just acquired another bank last year, in St. Louis.

Each market has annual targets for loans to low-income communities and community development. North sets the targets, and the bank's executive team and board approve them. She checks in with each market lead at least once a month.

Continue reading.

NEXT CITY

by OSCAR PERRY ABELLO

JANUARY 16, 2020

S&P U.S. States 2020 Sector Outlook: Finding Balance In Today's Lower-Fo--Longer Economy

Table of Contents

- Ratings Distribution
- What We Are Watching For In 2020
- Environmental, Social, And Governance Factors Coming More To The Forefront

Outlook: Stable
Although we highlight more potential credit disruptors than favorable opportunities, the overall expectation for 2020 is for U.S. state rating stability. There will continue to be a delicate balance between delivering the services constituents want and generating the necessary revenue. But, over time, maintaining structural budgetary operations may be a challenge with our economic growth forecast below 2%.

Continue reading.

S&P U.S. Local Government 2020 Sector Outlook: A Precarious Balance Of Stability And Uncertainty.

Outlook: Stable
Despite the possibility of a variety of potential disruptors, overall we expect stability to continue for local governments in 2020. With a long history of effective responses to unexpected circumstances as well as the recent trend of revenue growth, the sector is well poised to meet the challenges of the new decade. However, to maintain credit quality over the longer term, management teams will also

need to be prepared when and if the credit cycle turns.

Continue reading.

S&P Charter Schools 2020 Sector Outlook: Clear Skies For Now, But Political Uncertainties Cloud The Horizon

Table of Contents

- Overview Of Sector Ratings
- What We Are Watching For In 2020

Outlook: Stable
Although we highlight more potential credit disruptors than favorable opportunities, the overall expectation for 2020 is for charter school rating stability. Despite the increasing political support for stricter charter laws in some states, federal government support for school choice remains strong, per-pupil funding is generally stable-to-growing, and student/parent demand for charter schools continues to grow.

Continue reading.

S&P U.S. Not-For-Profit Health Care 2020 Sector Outlook: A Precarious Balance As Evolution Continues

Table of Contents

- Overview Of Sector Ratings
- What We're Watching For In 2020

Outlook: Stable
The 2020 outlook for the sector is stable, as it has been since 2015. While the sector's core strengths supporting stability–management acumen, excellent balance sheets, and improving business profiles–remain unchanged, their long-term sustainability rests in a precarious balance. Legal, regulatory, and policy developments pose uncertain, but potentially large risks, and nontraditional competitors could become meaningful business disruptors. The combination of more assertive nontraditional competitors, changing consumer expectations, and advancements in data analytics and other technologies are creating an environment that could result in meaningful change.

Continue reading.

Fitch Ratings Releases Final Revised USPF Tax-Supported Rating Criteria.

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

Fitch Ratings-New York-10 January 2020: Fitch Ratings has released its revised "U.S. Public Finance

Tax-Supported Rating Criteria," with modest changes to the exposure draft published on July 23, 2019. Fitch has concurrently released "Feedback Report – Comments on Exposure Draft: U.S. Public Finance Tax-Supported Rating Criteria", which summarizes feedback received during the exposure draft period and highlights changes made in the final criteria based on that feedback. The previous versions of tax-supported criteria have been retired.

"We embarked on this criteria revision after the First Circuit ruling upended the long-established belief in the municipal market that the payment of special revenue debt would continue during an automatic stay period," said Amy Laskey, Managing Director. "Fitch thinks the decision, having stood through two courts, substantially erodes the ability to confidently say that any legal protection can provide full insulation from the operating risk of the related municipality.

"As a result of this erosion of confidence, the criteria now limits the relationship between security ratings and the related government's Issuer Default Rating."

The revised criteria also clarify the relationship between the issuing entity and any related local government. This relationship limits the rating on revenue bonds with strong independent credit characteristics that are issued by enterprises of a local government with weaker general credit quality.
Fitch's fundamental methodology for rating local government debt has not changed, and Fitch expects approximately 20 ratings will be affected in sectors including utilities, school districts and other special districts.
As a result of the criteria change, affected ratings will be placed on either Rating Watch Negative, indicating a preliminary assessment that the distance between a security rating and the related general government credit quality is greater than is permissible, or Under Criteria Observation, indicating there is a potential credit impact, but the impact is more uncertain. Fitch will release a list of affected credits within the next week.

Contact:

Amy Laskey
Managing Director
+1-212-908-0568
Fitch Ratings, Inc.
300 West 57th Street
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

Fitch Feedback Report: Comments on Exposure Draft: U.S. Public Finance Tax-Supported Rating Criteria

Read the Feedback Report.

Fitch Ratings: Updated Report for Variable-Rate Demand Obligations and Commercial Paper

Link to Fitch Ratings' Report(s): U.S. Public Finance Variable-Rate Demand Obligations and Commercial Paper Issued with External Liquidity Support Rating Criteria

Fitch Ratings-New York-10 January 2020: Fitch Ratings has published the following updated report: "U.S. Public Finance Variable-Rate Demand Obligations and Commercial Paper Issued with External Liquidity Support Rating Criteria". This report updates the report published on Jan. 31, 2019 entitled "U.S. Public Finance Variable-Rate Demand Obligations and Commercial Paper Issued with External Liquidity Support Rating Criteria". The key elements of Fitch's external liquidity rating criteria remain consistent with those of its prior criteria report.

Contact:

Joseph Staffa
Senior Director
+1-212-908-0829
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

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

Muni-Bond Shopping Spree Shows No Sign of Stopping.

High-income households looking for tax relief drove record inflows into municipal-bond funds in 2019

Investors are heading into this year still eager for municipal bonds after a 2019 buying binge supercharged returns.

High-income households looking for tax relief drove record inflows into muni-bond mutual funds last year, with the S&P Municipal Bond Index up 7.26% during the 12 months ended Dec. 31.

Some analysts project that muni-bond mutual funds will continue that growth in 2020.

"Basically all of that money has driven up prices," said Nicholos Venditti, a portfolio manager at Thornburg Investment Management.

Continue reading.

The Wall Street Journal

by Heather Gillers

Updated Jan. 10, 2020 10:36 am ET

Fitch Ratings 2020 Outlook: U.S. Public Finance (Outlook Compendium Report)

Read the report.

The Muni Bond Market's Biggest Credit Risk: Climate Change.

The risk isn't priced into bonds yet, but 2020 could change that.

The municipal bond market has staged a strong, somewhat unexpected rally in 2019, but faces growing risks from climate change, according to a growing number of investment firms.

"Extreme weather events pose growing risks for the creditworthiness of state and local issuers due to impact of those events on local GDP which could reduce GDP growth of affected metropolitan areas by 05% to 1%," BlackRock has warned.

Moody's climate intelligence unit, Four Twenty Seven Inc., in which it holds a majority stake, reports that rising temperatures, "if significant enough, now and over the ensuing decades … have the potential to lower revenue, increase expenses, impair assets and increase liabilities and debt."

The impact, of course, will depend on the strength of the economies affected and the costs of emergency responses and mitigation efforts, but the growing risks are something that all municipal bond investors, analysts and portfolio managers have to think about to a greater degree than previously, says David Alter, a portfolio manager and co-head of municipal bond research for Goldman Sachs Asset Management.

"The wildfires have drawn a lot of attention to the impact of climate change on muni bonds," says Alter. "In the case of California the power industry is now under pressure with its survival at risk."

California's biggest utility, PG&E, has filed for bankruptcy and undertaken mandatory rolling blackouts as a result of the growing number of wildfires. It now faces a "safety crisis" and may not survive in its current form, according to a recent Wall Street Journal story citing safety specialists, researchers, former regulators and other experts.

Despite these risks in California and in other states and municipalities affected by more devastating fires, floods or extreme heat, muni bond prices have not been affected significantly. "The marketplace has not discounted" these risks in places where it probably should, says Alter, adding that the rating agencies also are not doing enough analysis of the climate risks that municipalities face.

"Ratings agencies talk about climate risks, but I'm not seeing that reflected much in their ratings or views on securities packages," he says.

2020 could be a turning point, however. It could be “the first time [that] climate change risks will be priced into some bonds … the most directly affected bonds,” says Matt Fabian, a partner at Municipal Market Analytics. “There is so much pervasive interest in climate change risk in the muni industry on the asset management side that it’s only a matter of time when it becomes apparent in prices.”

Most at risk are localities that are already economically challenged, located in low-tax states and threatened with extreme weather-related events. In contrast, “big city bonds are going to be protected by big states,” says Fabian. “There are literally no costs that New York State won’t pay to protect New York City … which is likely to be safer than small cities near the coast in New Jersey or Connecticut.”

He recommends that investors swap out of bonds issued by governments in areas most exposed to climate change risk, such as such as the coasts of Florida or the Carolinas, and into areas with less exposure, whether geographic or economic.

Extremely tight spreads in the muni market — 35 basis points between a 10-year A-rated revenue bond vs. AAA-rate general bond — make this an opportune time to make the switch, according to Fabian. Investors wouldn’t be giving up much yield to make the change, and tight spreads suggest the change to incorporating climate change risk will happen quickly in the market, rather than gradually, following a dramatic event.

Fabian recommends that investors also learn whether the managers of their funds are truly addressing climate change in their portfolios or just paying lip service to that analysis.

Alter says investors also need to focus on whether the management teams of municipal issuers are able to react quickly to climate events (which also suggests the importance of state governments) and whether local and state governments have the ability to protect local economies and bond markets.

He cites Florida’s legislative response to Hurricane Andrew, which devastated the city of Homestead in 1992. The state created two funds to address the impact on insurance market: a Hurricane Catastrophe Fund to reimburse insurers for a portion of their catastrophic hurricane losses and the Florida Residential Property and Casualty Joint Underwriting Association to provide certain residential property and casualty insurance coverage to qualified state residents.

That had a “huge impact on municipal market there,” says Alter, adding that California now has responsibility to fashion its own “big solutions.” California “passed a number of helpful bills but has not solved its power industry problems.”

The state imposed a one-year ban on insurers dropping customers in or alongside ZIP codes struck by recent wildfires, and it asked insurers to voluntarily stop dropping customers anywhere in California because of fire risk for one year.

“Climate change is likely the biggest credit risk on our sector today, but we’re coming from a place of extreme safety,” says Fabian. The current default rate in the muni market is 0.3%.

ThinkAdvisor

By Bernice Napach | December 30, 2019 at 08:52 PM

Arizona State Retirement Bets Big on Private Credit.

Arizona State Retirement System is looking to dedicate $1 in every $6 it manages to direct lending — more than five times the industry average — in a move some see as a harbinger of what's to come for the booming asset class.

Investors have plowed hundreds of billions of dollars into private credit funds in recent years, lured by premiums that are more than 5 percentage points higher than competing public debt. Yet less than 3% of pension fund portfolios were dedicated to the sector as of December, according to London-based research firm Preqin. That may be about to change.

In a recent survey of firms managing nearly $400 billion in private credit strategies, nearly 90% said they expect pension funds to up their allocations over the next three years. The $15.8 billion Ohio Police & Fire Pension Fund, Columbus, said this month that it was cutting its high-yield exposure as it moves toward a 5% target for private debt. And in its most recent financial statement, the $52.3 billion Illinois Teachers' Retirement System, Springfield, said it "continues increasing exposures to private debt opportunities," even as it retreats from fixed income broadly.

"We've been invested in private debt since early 2013," said Al Alaimo, who oversees the $41 billion Arizona fund's credit investments and aims to boost direct lending, one of the most popular private credit strategies, to 17% of the portfolio from about 13.6% previously. "We were very conscious that we were an early adopter and we tried to lock up as much capacity as we could with managers we perceived as being the best."

Now others funds are catching on too.

The number of U.S. public pension funds active in private credit climbed to 281 this year, with a median allocation of 2.9%, up from 186 and 2.1% in 2015, according to Preqin.

That may not seem like much, but with $4.57 trillion in assets, even incremental increases in exposure can mean billions of dollars in inflows for alternative credit managers.

The Arizona State Retirement System, Phoenix, invests with some of the biggest players in the business, including Ares Management, HPS Investment Partners, Cerberus Capital Management, GSO Capital Partners, Oaktree Capital Management and Monroe Capital, according to fund documents.

Global pension funds are "increasingly attracted to the high current risk-adjusted returns offered through experienced private credit managers," said Ares CEO Michael Arougheti.

With a growing scarcity of higher paying assets to help pension fund managers meet their long-term obligations, the shift toward private debt appears poised to accelerate.

Yields on more than $11 trillion of debt globally are still in negative territory. Blue-chip U.S. company bonds pay roughly 2.9%, near multiyear lows, while speculative grade notes yield about 5.1%, the least since 2014.

Direct lending, in contrast, offers an average yield pickup of 5.14 and 5.3 percentage points vs. the average rate on speculative grade bonds and leveraged loans, according to a Goldman Sachs Group analysis based on data through June 30.

That's helped assets in private credit strategies balloon to more than $800 billion.

Yet all that money pouring in is making the asset class more competitive, and thus less attractive, according to Neil Sheth, director of global research for NEPC. The influx of cash may fuel weakening lending standards, and the investment consultant, which counts public pension funds such as the Arizona fund as clients, is urging investors to be diligent committing significant capital to such an illiquid asset class amid a maturing credit cycle.

"If you're just learning about and thinking of putting a lot of capital in the space right now, you're too late," Mr. Sheth said.

The Arizona retirement system — which oversees the benefits of nearly a quarter million people — is already exploring alternatives strategies such as litigation finance and securities backed by aircraft leases to help boost returns going forward.

These more opaque corners of the market are part of its push to bring its investments in illiquid credit to nearly a quarter of its portfolio over a three-year period, according to Mr. Alaimo.

"We wish there were fewer people in the marketplace," Mr. Alaimo said. "However, the reality is if you partner with the right managers, they can be discriminating in the deals that they do."

Pensions & Investments

December 30, 2019 09:53 AM

Muni-Bond Shopping Spree Shows No Sign of Stopping.

High-income households looking for tax relief drove record inflows into municipal-bond funds in 2019

Investors are heading into this year still eager for municipal bonds after a 2019 buying binge supercharged returns.

High-income households looking for tax relief drove record inflows into muni-bond mutual funds last year, with the S&P Municipal Bond Index up 7.26% during the 12 months ended Dec. 31.

Some analysts project that muni-bond mutual funds will continue that growth in 2020.

"Basically all of that money has driven up prices," said Nicholos Venditti, a portfolio manager at Thornburg Investment Management.

Continue reading.

The Wall Street Journal

By Heather Gillers

Updated Jan. 2, 2020 5:05 pm ET

Pension Cuts May Pose Special Risks For Public Workers Not Covered by Social Security.

About 5 million state and local workers are outside of the federal retirement program.

There are millions of state and local public employees across the U.S who are not covered by Social Security, and are banking instead on government pensions as a main source of retirement income.

Researchers with the Urban Institute recently highlighted how these workers could face unique vulnerabilities with their financial security in retirement, especially as some states and localities seek to rein in spending on pensions by making benefits less generous.

An analysis the researchers conducted found that employees who are not in the Social Security system and who were hired in 2018 generally saw rules governing their pension plans that were more stringent than those for workers hired in 2008. The result is that the more recently hired employees will see lower retirement benefits.

Continue reading.

Route Fifty

By Bill Lucia

Jan 2, 2020

Municipal Bond Market Eclipses the $400B Mark in 2019.

2019 was a strong year of performance for bonds, particularly fixed income ETFs, which saw notable interest during times of heavy volatility. The municipal bond market also made out well, hitting over the $400 billion mark.

“The municipal bond market eclipsed the $400 billion mark for the fourth time since 2010, thanks to taxable trend that led to a vault in fourth quarter volume,” a Bond Buyer report noted. “Municipal issuance picked up the pace in December to the tune of $40.79 billion, with taxable bonds accounting for about a quarter of the month’s supply. For the year, volume jumped 21.8% to $421.69 billion from $346.06 billion in 2018.”

Not only has it been a strong December, but also a strong decade for municipal debt—marked by stability, which has made them a prime alternative when considering safe haven assets.

“Muni credit has become increasingly stable as the decade progressed,” wrote John Hallacy in Bond Buyer. “Going back to the days of recalibration of ratings, the rating spectrum outstanding has contracted along with spreads. There are many more Aa/AA category ratings than ever before. Analysts use fine gradations to differentiate credits but at times those efforts are lost on the market.”

“The credits that depart from the norms become very well known in a relatively short period of time,” Hallacy added. “Resolution of these cases can take considerable time, expense and effort. We should be further along to closure on some of the issues revolving around Puerto Rico. There is still

ample time for testing legal concepts within the proceedings. All parties have a different perspective on what constitutes fair settlements. We can only hope that resolution comes well before the end of the next decade."

ETF TRENDS

by BEN HERNANDEZ

JANUARY 3, 2020

U.S. Muni Bond Funds Post Record Inflows in 2019 - Lipper

Investors seeking to dodge risk and ease their tax burden poured a record $94.05 billion into U.S. municipal bond funds in 2019, according to preliminary data from Refinitiv Lipper on Thursday.

Last year's fund flows beat the previous record set in 2009 when they totaled $81.06 billion, said Tom Roseen, who heads research services at Lipper, which has been collecting weekly net flow data since 1992.

Chris Mier, a managing director at Loop Capital Markets, said a lot of cash was exiting "risky" equity funds in 2019 for "less-risky" muni funds, which hold bonds sold by states, local governments, schools and other issuers.

The federal Tax Cuts and Jobs Act of 2017, which capped deductions of state and local taxes (SALT) at $10,000, has also increased the popularity of tax-exempt municipal debt.

"The (act) stoked demand for tax-advantaged investments given the increased tax burden faced by many taxpayers from the 'SALT states,' which imposed greater tax burdens," Mier said.

In the most recent week, which ended Jan. 1, muni bond funds reported $280.6 million of net inflows, Lipper said. Flows have been positive since the week that ended Jan. 9.

Meanwhile, debt issuance in the U.S. municipal market totaled $406.5 billion in 2019, a 27% increase from 2018, according to Refinitiv data released on Thursday.

Lower interest rates spurred a 54% increase in bond refundings, which totaled just over $155 billion. The state of California was the year's biggest debt issuer, selling nearly $9.49 billion of bonds, followed by the New York State Dormitory Authority with $8.84 billion of bonds.

Bank of America Securities was 2019's top underwriter of municipal bonds, followed by Citigroup, Refinitiv reported.

Reuters

January 2, 2020

(Reporting by Karen Pierog in Chicago Editing by Matthew Lewis)

Bond Funds Had a Strong 2019. Next Year's Performance Depends on This One Factor.

Investors will likely keep sending cash into bond funds in 2020, according to Ned Davis Research—and that could help fuel future market gains.

Bond markets posted strong performance in 2019. Investment-grade corporate bonds brought in 14%, Treasuries returned 7.6%, and high-yield bonds gained 12%, according to ICE BofAML Indices. Tax-exempt municipal bonds returned 7.4%.

Investors sent a steady flood of cash into bond funds in 2019. While they were likely responding to strong fixed-income performance, the influx of cash started a virtuous cycle that drove further bond-market gains. Taxable-bond funds brought in a net $518 billion of investor cash for the year ended Dec. 25, according to Refinitiv Lipper data, while municipal-bond funds attracted $65 billion of net inflows.

Continue reading.

Barron's

By Alexandra Scaggs

Dec. 31, 2019 10:31 am ET

Fitch Ratings: U.S. Port Ratings Largely Resistant Thus Far to Trade Policy Changes

Fitch Ratings-New York-20 December 2019: Prolonged trade tensions between the U.S. and China has created quite a bit of headline risk for U.S. ports, though Fitch Ratings' latest sector peer review shows that it has not trickled down to financial or rating performance.

Both ratings and Outlooks have largely remained intact for Fitch-rated ports, perhaps most surprisingly for those located on the West Coast. Despite volume declines, which were expected seeing as West Coast ports are the most susceptible to U.S./China trade disruptions, financial and rating performance has remained quite stable. 'Landlord ports are generally not directly exposed to volume volatility, which has insulated cash flow for ports like Long Beach and Los Angeles, CA despite their tariff-related declines in volume,' said Director Stacey Mawson.

The lone rating revision was to Alabama State Port Authority, which Fitch downgraded earlier this year, largely reflecting its exposure to coal. The 'A' category remains the most common rating level for stand-alone U.S. ports. Additionally, prospects for rating change over the next year are highly unlikely with all Fitch-rated ports now having a Stable Outlook.

Fitch has also released its 2019 update to the interactive peer study for standalone U.S. port credits, the Fitch Analytical Comparative Tool, or FACT, concurrently with release of today's peer review.

FACT uses an interactive interface to easily review and compare key credit metrics that underpin Fitch's analysis of U.S. ports, allowing users to select subsets of Fitch's rated ports for comparison. The interactive FACT tool contains key financial information for Fitch-rated standalone port issuers in the U.S., graphical plotting function for annual and median performance and a radar chart that

indicates key risk levels. The tool allows selection of medians by rating category as well as by market size.

For more information, please access the 'U.S. Ports – 2019 Fitch Analytical Comparative Tool (FACT)', as well as the complementary report 'Peer Review of U.S. Ports (Attribute Assessments, Metrics and Ratings)' at www.fitchratings.com or by clicking on the above links.

'United States Seaports – Peer Review' is available at 'www.fitchratings.com'.

Contact:

Stacey Mawson
Director
+1-212-908-0678
Fitch Ratings, Inc.
300 West 57th Street
New York, NY, 10019

Emma Griffith
Senior Director
+1-212-908-9124

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

Additional information is available on www.fitchratings.com

Muni-Bond Safeguards Weakened as Investors Scrounge for Yield.

- **Covenants are meant to guard investors from bond defaults**
- **Market moved 'toward lighter covenants' this year: Fabian**

With interest rates at near record lows and vast amounts of cash seeking a home, some issuers in the municipal-bond market have shed financial safeguards investors once could demand before buying.

The weakening of those covenants, especially on high-yield and lower investment-grade deals, has raised the specter of more defaults in the $3.8 trillion state and local debt market, a haven where failures are still relatively rare. And amid seemingly insatiable demand in a sellers' market, muni buyers likely will continue to accept fewer protections against default or bankruptcy.

"The only movement this year has been toward lighter covenants," says Matt Fabian, a partner at Municipal Market Analytics. "Next year is geared for more of the same — slowly tighter spreads, steadily strong demand."

Covanta Holding Corp., a waste management company, offered no debt service reserve fund or mortgage pledge to investors when it sold $50 million in junk-rated bonds earlier this year. Nor did the Brooklyn Law School, which sold Baa1 rated debt in May. As part of that refunding, the law school terminated a mortgage that prior bondholders had on campus property. And the Pan-American Charter School, which sold unrated debt in July, didn't offer a debt service reserve fund to

investors when it sold bonds to build a new charter school in Phoenix.

Covenants “have definitely gotten lighter” in the last two years given strong demand for municipal debt, said Matthew Stephan, head of municipal bond credit research for Columbia Threadneedle Investments. Bond buyers have accepted “weaker” covenants except in very risky deals that draw narrow interest, he said.

A Covanta spokesman didn’t immediately respond to a call seeking comment. Officials from Brooklyn Law School and Pan-American Charter School weren’t able to immediately comment.

High-yield muni-debt funds have seen $18.5 billion in cash flood in during 2019, the highest since records began in 1992, according to Refinitiv Lipper US Fund Flows data. That’s helped propel high-yield municipals to a 10.6% return this year, the most since 2014, according to Bloomberg Barclays indexes. Municipal-bond mutual funds have enjoyed 50 straight weeks of inflows, including $1.56 billion of new cash during the week ended Wednesday, according to Refinitiv Lipper.

All that demand has helped pressure yields and made borrowing cheaper for issuers with lower credit ratings. Along with the coupon and yield bond investors also receive “pledged security” from borrowers but it appears that “if investors are willing to relent on income, they’re likely willing to relent on security as well,” Fabian said.

With the trend of looser covenants expected to continue, credit surveillance and open access and trust in management becomes more important, said Dora Lee, director of research at Belle Haven Investments, which manages about $10.6 billion of municipal bonds. Investors have to ask themselves whether they want to take additional risk as spreads tighten, Lee said.

“In theory, covenant breaches give bondholders time to intervene before there is a monetary default,” Lee said. “With covenants so weak, there is less time for bondholders to do that.”

Bloomberg Markets

By Shruti Singh

December 20, 2019, 10:30 AM PST

— With assistance by Amanda Albright

Cash-Hungry Cities Seek Buyers for Sewer Systems to Pay Pensions.

- **Illinois city joins peers in exploring sale of waste system**
- **Asset sales offer chance to pay down debt, but carry risk**

As cities across the U.S. struggle under the weight of ballooning pension costs, some are putting their public water and sewer systems on the auction block to come up with cash.

Municipalities took in more than a half a billion dollars over the past five years by selling their water and waste utilities to private companies, according to data compiled by Bloomberg. Such sales are increasing in places such as Illinois, where the state alone owes $137 billion to its pension funds and dozens of cities have saved far less than they need to cover all the benefits promised to police, firefighters and other public employees.

In the last decade or so, selling off municipal assets had become a tool of last-resort used by governments facing dire financial strain. Arizona famously sold its capitol in 2010 as it struggled to fill an historic $3 billion budget deficit. But water and sewer utilities offer municipalities a chance to come up with much-needed cash and relief from maintenance costs at a time when states and localities have a combined $4.2 trillion in unfunded pension liabilities.

“A lot of these municipalities are having other financial pressures,” said Ryan Wobbrock, a senior credit officer at Moody’s Investors Service. “Being able to sell the system can provide cash to meet those other obligations like the pension or put the system in the hands of a much larger entity that can leverage its economies of scale and make the necessary investments.”

Granite City, Illinois, a rust-belt town of 30,000 people on the Mississippi River, is facing a $130.8 million pension shortfall and has put part of its sewer system up for sale to raise funds. Illinois American Water — a subsidiary of American Water Works Co., the largest publicly traded water utility in the U.S. — has offered the only bid, though city officials won’t say yet for how much or how they would spend the cash.

Pension Bond

Granite City sold a $40 million pension obligation bond in 2017 to make a payment into its pension systems that have roughly 42% of the cash they need to pay future benefits, betting that borrowing costs for the bond would be lower than its pension investment returns, according to Moody’s. Still, the city has not made its required pension payments for the past two fiscal years, according to budget documents.

“It wasn’t paying into its pension system when it should have been paying for many years,” Amanda Kass, associate director of the Government Finance Research Center at the University of Illinois at Chicago. “For some places like Granite City, yes the problem has kind of snowballed and they may not be able to remedy it on their own.”

Alton, Illinois earlier this year sold its wastewater system to Illinois American and used the entire $53.8 million to chip away at its $134 million in pension liabilities. Godfrey, Illinois also sold a system this year that desperately needed upgrades to Illinois America. Mayor Mike McCormick says he’s stashing the money in a rainy day fund.

American Water and its rival Aqua America Inc. have spent about $655 million since 2014 buying 135 utilities in states including Pennsylvania, Illinois, Indiana, Virginia and West Virginia and Texas, according to filings with the Securities and Exchange Commission. Both companies say they are on the hunt for more. They are likely to find willing sellers as well, said Michael Bennon, managing director at the Stanford University Global Projects Center.

“There is certainly a bit of a trend in that a lot of the cities that are considering these transactions are burdened by pension liabilities or have other fiscal constraints,” said Bennon, who advised Connecticut when the state was exploring the possibility of an asset sale to shore up its pension system. “That’s not the right reason to consider one of these contracts, of course, but it is a common one.”

Carries Risk

In Pennsylvania, the city of Allentown and Middletown Borough sold long-term leases for their sewer and water systems to pay down pension debt in 2013 and 2014. Jacksonville, Florida, is exploring the sale of JEA — the largest community-owned water, wastewater and electric power utility the state.

The city is seeking at least $3 billion in net proceeds from the profitable utility after paying off $3.6 billion in outstanding debt on its books, according to financial filings.

Jacksonville has cited a changing utilities industry as one of the reasons for a sale of an asset that was able to contribute $132.8 million to the city's general fund last fiscal year. The city's three pension funds are a collective 55.7% funded and have $3.2 billion in unfunded liabilities, according to its most recent financial report.

Still, using proceeds from an asset sale to shore up a pension system carries risk of its own, said Thomas Aaron, a senior analyst at Moody's. An infusion of cash from a sale would immediately increase a plan's assets, but those funds would be invested according to the style of the plan — meaning they are subject to market forces, Aaron said.

"If those proceeds are then invested in high-risk, high-return investments that carries risk," Aaron said. "As you move out a few years into the future, if those assets under perform relative to expectations or in a worst-case, they suffer significant losses, there's no longer an option to bring in additional funds to pay down the pension debt."

Bloomberg Deals

By Fola Akinnibi

December 17, 2019, 7:50 AM PST

CDFA Legislation to Modernize Private Activity Bonds Introduced in Congress.

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 more.

The World Bank Releases 2019 Green Bond Impact Report.

Read the report.

The World Bank | Dec. 26

Big Cities Mostly Prepared to Weather Next Recession, Report Says.

Chicago and Detroit are outliers, least able to withstand a recession, among the big cities examined by Moody's, which looked at how prepared cities are when a downturn comes.

If a recession descends on the U.S., a recent report that looked at the finances of major urban centers found that 23 of the country's largest 25 cities are fiscally prepared.

The analysis by Moody's Investors Services, a business and financial services company, concluded that 17 of those cities are "moderately prepared" for a recession, while six—Boston, Charlotte, Denver, San Antonio, San Francisco and Seattle—are in strong positions. But both Chicago and Detroit are in weaker states if there is a financial downturn, the analysis found.

Moody's does not anticipate a recession in the immediate future, the report notes, though risk of a downturn "remains elevated." The findings are in line with a recent survey by the National League of Cities, which highlighted that finance officials from big cities are concerned about a recession coming as soon as next year, while remaining generally optimistic about their governments' ability to deal with the decreased revenues that would likely follow.

The analysis examined four factors to determine preparedness, including fiscal volatility, reserve coverage, financial flexibility and pension risk. The results reflect a city's ability to handle a recession of similar magnitude to the economic downturn in 2008 and 2009, and show that 23 of the country's 25 largest cities by population can emerge from a similar crisis without a "material adverse credit impact." That's largely due to cities' smart investments in the past decade, said Nicole Serrano, a vice president and senior analyst for Moody's.

"A majority of local governments have used the broad economic expansion of the past decade to strengthen their finances," she said in a statement. "Additionally, they have been able to keep their debt and related fixed costs in check."

In terms of fiscal volatility, most of the largest 25 cities will not experience a "sudden, unexpected drop of revenue" of more than 5% in a future downturn based on past performance. Between 2007 and 2011, the report notes, the median largest one-year decline in revenue was 2.7%, with five cities seeing no decline at all. Most cities have also built "solid reserves" over the past 10 years, including Detroit, one of the two cities identified as least prepared to weather a major recession.

Because of that, Detroit is listed as a positive "outlier" for its funding reserves, which total more than 60% of its revenue. But the report flagged other factors that affect its credit profile, including "continued challenges related to pensions, fixed costs, revenue volatility and capital needs."

"However, Detroit has taken steps to prepare for a potential downturn: establishing an irrevocable trust to smooth spikes in pension contributions, developing a capital improvement plan that

identifies a variety of sources to finance capital investments, and continuing to increase its already strong reserves," the report says. "If these trends continue, Detroit's overall preparedness for a future recession will be more in line with major city peers."

Seattle, meanwhile, remains well prepared thanks to a revenue resurgence in 2011 that helped the city's fund balance rebound, the report notes.

"Despite modest revenue softening in 2008 and 2009, the city increased spending, creating a structural operating imbalance lasting three years," it says. "The city returned to surplus operations in 2011 after a rebound in revenues that year, and fund balance stabilized."

Route Fifty

by Kate Elizabeth Queram

DECEMBER 29, 2019 11:29 AM ET

Kate Elizabeth Queram is a Staff Correspondent for Route Fifty.

New Mobility Public-Private Partnerships May Address Transportation Gaps in the Future: Nossaman

A few weeks ago, I had the privilege of again attending CoMotion LA. Spearheaded by John Rossant, CoMotion LA brings together leaders and innovators of new solutions to solve the mobility issues of our modern world. One of the central themes was adopting new mobility solutions to relieve congestion, an increasingly prevalent reality as populations in cities continue to grow.

During the panel on "Financing the Future: Public-Private Partnering for New Mobility Solutions," a panel comprised of representatives from the Canadian electric school bus manufacturer Lion Electric, the shared electric scooter company Spin, the City of Pittsburgh, and the City of Detroit discussed how reliance on the gas tax is an unsustainable solution for funding transportation and mobility solutions. Revenue from federal, state, and, possibly local (depending on where you live) taxes generally go into a trust fund that pays for transportation and/or highway projects. However, revenues have been falling short for a while now and the solution is not to continually respond with raising gas taxes to make up for the shortfall.

As discussed on the panel, governments are having discussions with new mobility technology companies to address challenges such as first/last mile transport. However, when choosing the right innovation to implement, public agencies need to be mindful of integrating new mobility solutions in an equitable manner. This can be two-fold: (1) utility – a large proportion of the population, if not everyone, should be able to be use the new mobility technology to avoid marginalizing certain population sectors, and (2) accessibility – new mobility technology should be equally accessible to a large proportion of the population, if not everyone, on the same platform to avoid marginalizing certain population sectors.

The biggest message I took home from the CoMotion LA was that while mobility innovators are anxious to rapidly change the future of transportation, in order to work together with the public sector, new mobility innovators will need to demonstrate how their solution truly fills mobility gaps that are holding back large segments of the population. One of the solutions that is gaining momentum is microtransit. Nossaman is currently assisting LA Metro with its MicroTransit Pilot

Project, a first of its kind public-private partnership. LA Metro has entered into contracts with three private entities who will provide customers with on-demand rides through an app or call center for first/last mile trips.

With the public sector looking to solve their transportation problems, tapping the capabilities and resources of private companies and working with them is shaping out to be the future of new mobility.

By Stephanie Kam on 12.10.2019

Nossaman LLP

House Green Bank Bill Aims to Leverage $35B in Government Funding Into $1T in Private Investment.

Dive Brief:

- Rep. Debbie Dingell, D-Mich., introduced on Thursday a House version of a Senate bill to establish a National Climate Bank, which the federal government would capitalize with $35 billion over six years.
- The bank is meant to mobilize up to $1 trillion in private investment over a decade, enabling the creation of more green banks in the country and supporting efforts of existing state and local green banks. Dingell's state green bank, Michigan Saves, has been around for nearly a decade and needs additional funding to support energy efficiency and clean energy programs, its president and CEO, Mary Templeton, told Utility Dive.
- The bill matches a Senate version introduced this summer by a group of Democratic senators. Stakeholders see the bill as an opportunity to consider the policy in broader climate solutions discussions in hopes of getting enough traction for passage in 2021.

Continue reading.

Utility Dive

by Iulia Gheorghiu

December 16, 2019

Mall Shooting Highlights Folly of AAA-Rating of CMBS Backed by a Single Mega-Mall.

Wolf here: Co-author Marc, who worked for Moody's for nine years, told me, "I want to see rating agencies improve their performance before they contribute to another meltdown."

On Black Friday, the Destiny USA Shopping Mall in Syracuse, New York was evacuated after a shooting in the food court. The following day, a knife fight broke out in the mall's entertainment complex, adding to shoppers' apprehension about visiting. This apprehension should be shared by holders of Commercial Mortgage Backed Securities (CMBS) collateralized solely by Destiny USA

loans, including owners of $215 million in AAA-rated senior notes.

While one short-lived catastrophic event will not lead directly to bond defaults, the outbreaks of violence at an already troubled mega-mall cast a harsh light on rating agency decisions to assign their highest grades to structured notes wholly lacking the protection afforded by diversification.

Continue reading.

Wolf Street

by Marc Joffe • Dec 16, 2019

By Marc Joffe and Joe Pimbley, who consult for PF2 Securities. The article was first published on Expect[ed] Loss.

Berkeley's Blockchain Microbond Could Spark A Muni Market Revolution.

Berkeley, California, the progressive playground, is taking steps to pioneer the first application of blockchain technology in the municipal bond market that could transform the industry.

Effectively, Berkeley wants to crowdsource funding for community improvements. But those contributors wouldn't be making a donation, like with GoFundMe, – they'd ultimately receive their money back, with interest.

Muni bonds are the lifeblood of our communities today. Clean drinking water, roads, bridges, public transportation, and even stadiums are built with funding from the $3.8 trillion municipal bond market. Cities, states, towns, counties all issue debt to finance projects to provide the services we use every day.

Typically, munis are not a direct-to-consumer product. For the average individual investor, they're difficult to understand. Munis are less than half the size of the corporate bond market, but there are 1.5 million different types of muni bonds – 20 times the number of corporate bonds. The lack of standardization makes munis difficult for consumers to research and identify suitable bonds to purchase.

They're often purchased by households and nonprofit organizations. Although individuals may own bonds issued by their community, the average investor doesn't know what projects the proceeds support or how the money is put to work.

Trading in the secondary market must be executed by third-party dealers who handle nearly all transactions. That dynamic costs consumers more – retail investors end up overpaying and issuers lose value that could go toward their projects. Pricing inefficiencies costed investors $10 billion in price mark ups between 2005 and 2013.

Blockchain technology, or a distributed digital ledger, will allow for cost-savings and increased disclosure of secondary market trades and ongoing bond administration. It would change the way munis do business and could make them a direct-to-consumer product.

What Berkeley's planning could change that. First, by using blockchain, the bonds could be sold direct to the consumer. It would also lower a major barrier to entry for muni investments – munis

are frequently sold in denominations of at least $5,000, and Berkeley is considering “microbonds” with denominations as low as $100 to maximize investor participation. Other cities, including Denver, have already issued “minibonds” – a term synonymous microbonds.

Berkeley’s $2-$5 million microbond issuance is intended to finance new fire and garbage trucks for the city. It’s operating under the premise that investors will want to make investments in their community and visualize that impact on the community. The message, at face-value, is appealing: make investments in your community and make money.

On a larger scale, it could help support initiatives to address housing, climate change and other infrastructure needs – all the typical uses of muni bonds. It broadens the audience and speaks to the growing desire among investors to make socially conscious investments.

Muni bonds are generally considered a safe investment, but many investors are averse to risk, slow to adapt and resistant to change.

“Governments are still figuring out how to treat this stuff, it’s untested and inherently risky because we don’t know how exactly it will be regulated,” said Julie Hamill, attorney at Harris Bricken Hammil is the author of a white paper for the Government Finance Officers Association about blockchain technology.

Berkeley is a wealthy, populous city with the resources and an open-minded outlook, unafraid of new ideas or concepts – so it could be better positioned to make these kinds of moves toward blockchain than most.

If Berkeley moves forward with the transaction, it will be the first muni bond issuance using blockchain, and probably not the last.

Forbes

by Maria Amante

Dec 19, 2019

Maria Amante is a reporter for Debtwire Municipals, where she covers public finance in several states and higher education.

Check out my website.

Innovative Social Bonds Transaction Secures Funding for HealthRIGHT 360.

SAN FRANCISCO, Dec. 19, 2019 /PRNewswire/ — HealthRIGHT 360 announced today the successful issuance of nearly $50 million in Social Bonds. The financing will allow HealthRIGHT 360 to invest in its mission to provide integrated care to the most vulnerable and underserved communities in California.

The proceeds will also help finance renovations at and purchase equipment for HealthRIGHT 360’s treatment facilities in the San Francisco Bay Area and Los Angeles County that help address local drug addiction and housing affordability challenges.

Vitka Eisen, MSW, Ed.D, President and Chief Executive Officer of HealthRIGHT 360, says: “For over

50 years, a cornerstone of our mission has been innovative leadership in the provision of vital safety net healthcare services. Our innovation continues with the Social Bonds; this is monumental for us. We are now in a much stronger financial position and have the capacity to preserve our existing services for 32,000 Californians, as well as begin to make strategic investments to expand the critical services we provide."

The transaction is the first-ever U.S. municipal Social Bond issued for a non-profit. Barclays Capital Inc. ("Barclays") served as the lead underwriter on the financing. The transaction was a two-part offering, issued via the California Municipal Finance Authority.

Tony Duong, Chief Financial Officer at HealthRIGHT 360, adds: "Our deal represents a milestone for HealthRIGHT 360 and the non-profit sector. Securing long-term financing in the capital markets with Social Bonds sends a powerful signal that social and financial returns truly can go hand-i--hand. We are delighted that some of the world's most well-known investors took this opportunity to invest in and support our mission."

Ahmad Thomas, Director in Public Finance at Barclays, who led the transaction, comments: "This was a win-win and our team could not be more proud of the result for HealthRIGHT 360. The strong level of investor interest shows the ever-increasing demand for social and environmental impact investment. HealthRIGHT 360 now has a much more secure financial future so they can focus on what they do best; serving those most in need in our communities."

HealthRIGHT 360 determined that the projects to be financed and/or refinanced with bond proceeds were social projects based on the social benefits of addressing drug addiction and homelessness. The Social Bonds designation was intended to generally comport with The Social Bond Principles promulgated by the International Capital Market Association.

About HealthRIGHT 360
HealthRIGHT 360 is a statewide healthcare organization headquartered in San Francisco, that for over 50 years has provided nonjudgmental, compassionate healthcare for people who have lived through years of homelessness, poverty, addiction, incarceration, and untreated medical and mental health issues.

Today HealthRIGHT 360 serves over 32,000 people annually, providing primary medical and preventive care to anyone seeking treatment, regardless of ability to pay.

Media contact:
Lauren Kahn, Managing Director of Policy & Com

Small Manufacturing Bonds Bill Would Raise Limit to $30 million.

Bipartisan legislation to raise the limit for small issue manufacturing bonds to $30 million has been filed by two members of the House Ways and Means Committee.

The Modernizing Agriculture and Manufacturing Bonds Act, H.R. 5422, sponsored by Reps. Stepanie Murphy, D-Fla., and Darin LaHood, R-Ill., expands the definition of manufacturing facility and eliminates restrictions on "directly related and ancillary facilities."

The issuance limit on tax-exempt private activity bonds for Industrial Development Bonds would be raised to $30 million from the current $10 million while the limitation for first-time farmers using so-

called Aggie Bonds would be raised to $552,500 from $450,000.

A similar bipartisan bill to increase the limit on Aggie Bonds was introduced in the House last month by six House members from farm states. That bill would raise the borrowing limit for first time farmers slightly less than the Murphy-LaHood bill to $543,800. Aggie bonds are issued in about 16 states with Iowa accounting for $16 million of the approximately $36.1 million issued in 2017, according to a recent survey by the Council of Finance Development Agencies.

Rep. Abby Finkenauer, D-Iowa introduced the Aggie Bonds bill with Rep. Rick Crawford, R-Ark., as her lead Republican cosponsor. The other original cosponsors are Iowa Democratic Reps. Cynthia Axne and David Loebsack along with Republican Reps. Steve Watkins of Kansas and Jeff Fortenberry of Nebraska.

The Murphy-LaHood bill, meanwhile, is meant to address the steady decline of IDB issuance because the current limit is too small to finance most projects.

“The cap was set in the early 1980s and we want it to come into modern times,” said Katie Kramer, vice president of CDFA.

A $30 million cap per issuance would be able to meet most of the demands of small to medium size manufacturers, according to CDFA’s analysis.

There also are substantial limitations on who can use the bonds and how proceeds can be used under the current law.

In 2018 only $152.8 million in IDBs were issued nationally, according to a CDFA survey. That’s a drop of more than 50% from the $316.5 million in IDBs issued in 2017.

Massachusetts was the largest IDB issuer in 2018 with $30.28 million issued, followed by Wisconsin with $28 million, Pennsylvania at $25.8 million, Georgia at $18.43 million, Indiana at $14.4 million and Iowa at $13.27 million.

The bill was introduced in previous sessions of Congress dating back to 2013 but has yet to pick up broad sponsorship among lawmakers despite its widespread popularity among issuers.

Former Republican Rep. Randy Hultgren of Illinois, who lost his re-election bid in 2018, and Democratic Rep. Richard Neal of Massachusetts, who has stepped up to become chairman of the Ways and Means Committee, sponsored the bill previously.

Neal, a former mayor of Springfield, Massachusetts sponsored a number of municipal bond related bills in previous Congresses, but hasn’t since becoming chairman of the committee with jurisdiction over tax legislation. Instead, Neal has looked to members of his committee to take over sponsoring bills that he previously championed.

“Our farmers and manufacturers deserve to have innovative and updated financing tools to invest in their local community and hire more workers,” Murphy said in a press statement announcing her sponsorship of the bill.

Murphy said the legislation “will modernize the way farmers and manufacturers across the country acquire capital, providing them with the resources they need to grow, create more jobs, and bring their businesses into the 21st century.”

LaHood said farming and manufacturing “are critical to the economic success of the constituents I

represent in central and west-central Illinois."

"Our legislation will help entrepreneurs and first-time farmers receive the financing they need to grow, create good-paying jobs, and bolster our economy in the Midwest," LaHood said.

No Senate version has been introduced in this Congress.

A bipartisan Senate version was introduced in September 2016 and again in March 2017 by Sens. Sherrod Brown, D-Ohio and David Perdue, R-Ga.

Brown is awaiting a Republican co-sponsor before he reintroduces the Senate bill.

By Brian Tumulty

BY SOURCEMEDIA | MUNICIPAL | 12/19/19 01:15 PM EST

Funded Ratio for 100 Largest U.S. Public Pensions Climbs to 73.4%, According to Milliman Estimates.

Nearly one-third of PPFS plans lowered interest rate assumptions since 2018 study

SEATTLE, Dec. 23, 2019 /PRNewswire/ — Milliman, Inc., a premier global consulting and actuarial firm, today released the results of its 2019 Public Pension Funding Study (PPFS), which analyzes funding levels of the nation's 100 largest public pension plans, including an independent assessment on the expected real return of each plan's investments.

For Milliman's 2019 PPFS, the estimated aggregate funded ratio of the nation's largest public pension plans is 73.4% as of June 30, 2019, with the estimated combined investment return at 7.34% in Q1 2019 and 2.66% in Q2, and aggregate plan assets reaching $3.84 trillion as of June 30. Total Pension Liabilities (TPL) for these plans crossed the $5 trillion mark for the first time, and as of June 30, 2019 Milliman estimates the PPFS aggregate TPL to be $5.23 trillion.

"Thanks in large part to strong market performance in the first half of 2019, plan assets continue to keep pace with liability growth, buoying public pension funding," said Becky Sielman, author of Milliman's Public Pension Funding Study. "But we're also seeing plan sponsors continue to inject conservatism into their interest rate assumptions, with nearly one-third of these plans lowering rates since the last study. While interest rate assumptions of 8.00% were once the norm, 85 of the public pensions in our study now have assumptions of 7.50% or below."

To view the full Milliman 100 Public Pension Funding Study, go to http://www.milliman.com/ppfs/. To receive regular updates of Milliman's pension funding analysis, contact us at pensionfunding@milliman.com.

About Milliman
Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in healthcare, property & casualty insurance, life insurance and financial services, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe. For further information, visit milliman.com.

About the Milliman Public Pension Funding Study

This Milliman Public Pension Funding Study is based on the most recently available Comprehensive Annual Financial Reports, which reflect measurement dates ranging from June 30, 2015, to December 31, 2018; 91 are from June 30, 2018, or later. For the purposes of this study, the reported asset allocation of each of the plans has been analyzed to determine an independent measure of the expected long-term median real rate of return on plan assets. The sponsor-reported Total Pension Liability for each plan has then been recalibrated to reflect this independently determined investment return assumption. This study therefore adjusts for differences between each plan's reported discount rate and an independently calibrated current market assessment of the expected real return based on actual asset allocations. This study is not intended to price the plans' liabilities for purposes of determining contribution amounts or near-term plan settlement purposes nor to analyze the funding of individual plans.

Muni Bond Defaults Remain Rare.

In August, Moody's Investors Service released its annual municipal bond market snapshot, *US Municipal Bond Defaults and Recoveries, 1970-2018*, with updates through 2018. The report continues to affirm two hallmark benefits offered by muni bonds. First, municipal bankruptcies remain rare overall, even though they may have become more common over the last 10 years. (There were no rated municipal defaults in 2018.) Second, muni bonds continued to be highly rated in 2018, with more issuers upgraded than downgraded. (According to Moody's, though, on average, the size of the downgrades was larger than for the upgrades.)

Last year, we noted that the report featured a significant update to Moody's entire dataset extending back to 1970 and that the recalculation Moody's undertook had not only rendered key metrics more meaningful but also offered greater explanatory power. (This enabled more powerful inferences regarding long-term trends.) One important "observation" noted in this year's report was that, over the 48-year study period: "any one default may only reflect the idiosyncrasies of that individual credit, and not be representative of any general sector trend."

Muni Bond Defaults and Bankruptcies Remain Rare
The report noted, once again, the fundamental difference between municipal and corporate credits.

While the five-year all-rated cumulative default rate (CDR) of municipal bonds throughout the study period (1970-2018) might have increased a tiny bit to 0.10% (1970-2017: 0.09%) it still remains quite low. Likewise when compared to the five-year CDR of 6.6% for global corporates over the same time period. There were neither any rated municipal defaults in 2018, nor any new defaults in Puerto Rico (although many Commonwealth of Puerto Rico entities remained in default during the year). There was, however, one unrated default during the same period.

While there may have been a dearth of new rated defaults in 2018, Moody's did note that there had been "some notable developments concerning default, bankruptcy and recovery," not least in the context of the defaults in Puerto Rico. The rating agency went so far as to say: "One remarkable development in the past year is the number of court rulings that will have bearing on future municipal bankruptcies." It further noted that while pledge still matters, it might not shield against loss in either default or bankruptcy—especially when the payment of pensions is involved. (Muni investors will certainly have to bear this in mind going forward.)

Ongoing Stabilization in Muni Bonds
The report also notes, for the second year running, that nearly a decade after the Great Recession

(2007-2009), the credit quality of the municipal bond sector is now stable. It has been aided in part by growth and economic recovery in many regions of the U.S. For the third year running, in 2018, muni bond rating upgrades outweighed downgrades (480 vs. 392), but there were fewer rating changes than in prior years.

In contrast with the trend of growing positive drift in 2017 (positive since late-2015), ratings drift,1 at 0.003% per credit, was nearly flat in 2018. The trend had been generally negative since mid-2008, and reached a low of -0.083 notches per credit in 2012. In addition, volatility, at 0.09 vs. 0.11 notches per credit in 2017, dropped 23% in 2018. The report added that the municipal sector overall is highly rated, with approximately 92% of all the municipal credits Moody's rates falling into the A category or higher as of the end of 2018. Further, at the end of 2018, the median rating for U.S. municipal credits was Aa3. This stood in stark contrast to the median rating for global corporates, which was Baa3.

Conclusion
As we concluded in our review last year, although it is still a struggle to obtain the same amount of timely disclosure from issuers of municipal bonds as one sees in other asset classes, the pure empirical evidence suggests that muni bonds continue to offer a fiscally sound vehicle for deriving an income stream free from federal, and in some cases, state taxes.

If one looks at defaults alone over the past 48 years, according to Moody's report, across all sectors there have been only 113 defaults in the total amount of a little over $72 billion. Of this figure, Jefferson County, Alabama and the city of Detroit, Michigan accounted for approximately $11 billion and Puerto Rico some $55.5 billion (combined $66.5 billion). There are more than 50,000 different state and local governments and other issuing authorities.

There are, however, as always, caveats. As Moody's states in the report's Introduction: "The once-comfortable aphorism that 'munis don't default' is no longer credible: rating volatility, rating transition rates and cumulative default rates (CDR) have all increased since 2009." The sector does face challenges. These include, among others, democratic shifts (populations both aging and relocating—affecting tax receipts), "substantial increases in pension and retirement health care leverage" and "the associated but new exposure to equity markets."

Moody's goes on to describe the sector's exposure to the equity markets as "unprecedented" and requiring attention. For state and local governments, this exposure has been gained through their pension fund trusts. The concern for Moody's is not only their resulting exposure to "financial market volatility in general," but also the size of this exposure, which is both significant and "a feature never before seen in the U.S. public sector."

Despite this, we still believe that municipal bonds remain important to the core strategy of constructing an individual portfolio.

by VAN ECK GLOBAL on DECEMBER 21, 2019

By Michael Cohick, Senior ETF Product Manager for VanEck Global

---

Teachers Pay High Fees for Retirement Funds. Unions Are Partly to Blame.

Groups representing municipal employees and teachers are often paid to endorse investment products

The pitch from the president of the Indian River County teachers union couldn't have been clearer.

Liz Cannon, who heads the Indian River chapter of the Florida Education Association, urged union members to buy retirement investments from Valic Financial Advisors Inc. through a firm owned by the union. That way "we also make money," she said in a November 2017 newsletter, through regular dividends.

What Ms. Cannon didn't mention was that investments from Valic, a unit of giant insurance company American International Group Inc., can carry high costs that may translate to a smaller nest egg when teachers retire.

The setup is one of an array of similar deals in which unions and other groups get income from endorsements of investment products and services—often at the expense of teachers and other municipal employees.

Continue reading.

The Wall Street Journal

By Anne Tergesen and Gretchen Morgenson

Dec. 18, 2019 10:57 am ET

Hilltop's Kozlik 'Cautious' on State, Local Government Debt.

Tom Kozlik, HilltopSecurities head of municipal strategy and credit, discusses what he sees as the top themes in the municipal bond market with Bloomberg's Taylor Riggs on "Bloomberg Markets."

Watch video.

Bloomberg MarketsTV Shows

December 27th, 2019, 8:37 AM PST

Muni Bond Party Should Continue In 2020: BI's Kazatsky (Radio)

Eric Kazatsky, Municipal Strategist for Bloomberg Intelligence, on why the municipal bond party should continue in 2020. Hosted by Lisa Abramowicz and Paul Sweeney.

Running time 07:33

Play Episode

Bloomberg Intelligence

December 26, 2019 — 8:18 AM PST

Death Bell Tolls For Private Colleges, Hits Bondholders (Radio)

Amanda Albright, municipal bond reporter for Bloomberg, on the death bell tolling for private colleges. Hosted by Lisa Abramowicz and Paul Sweeney.

Running time 04:42

Play Episode

Bloomberg

December 18, 2019 — 8:06 AM PST

Low Sovereign Yields Driving Global Buyers Into Munis (Radio)

Jeff Burger, Senior Portfolio Manager for U.S. Municipal Bond strategies at Mellon Investments, on record muni flows and 2020 outlook. Hosted by Lisa Abramowicz and Paul Sweeney.

Running time 05:48

Play Episode

Bloomberg Business

December 18, 2019 — 8:38 AM PST

U.S. in 'Sweet Spot' for Taking Credit Risk, Federated's Gallo Says.

RJ Gallo, head of the muni bond group at Federated Investors, discusses the outlook for municipal bonds and the credit market in 2020 with Bloomberg's Taylor Riggs on "Bloomberg Markets."

Watch video.

Bloomberg MarketsTV Shows

December 18th, 2019, 8:07 AM PST

Taxable Munis? They're Worth a Look.

***Sound* describes the credit quality. But it doesn't do justice to the stellar performance.**

To herald this new decade, I decree that we quit bemoaning the Great Recession and credit crisis of 2008–09 and its many calamities. It happened, it was costly, we learned something about defaults and diversification—and it's old news. But before we lock the door on those dark days, I offer a

shout-out to one of the meltdown's few rewarding legacies: the taxable municipal bond.

Yes, there is such a thing. A handful are general obligation bonds, issued by municipalities, but the vast majority are construction or infrastructure bonds issued and backed by a public entity. Some 15% of fresh state and local debt today pays interest subject to federal income taxes, and the yields to maturity are considerably higher than Treasuries or regular municipals—often, over 3% for 15-year bonds or 5% for 20-year debt. In 2019, taxable muni issuance spiked amid high demand, and that has carried into 2020 because of the hunt for yield and these bonds' powerful appeal for IRAs, pension funds and foreign buyers who would gain no advantage from tax-frees anyway.

Overseas demand is often the trigger for issuers to add a smaller taxable portion to a large tax-exempt offering. After all, a 3.2%, 15-year bond rated A+ and backed by, say, an international airport's terminal and parking revenue is an easy sell in negative-yield Europe. Taxable muni issuers have recently included the Port Authority of New York and New Jersey, the Dallas–Fort Worth airport, the Multnomah County, Ore. (Portland-area) school district, and several state college and university systems.

Continue reading.

Kiplinger's Personal Finance

By Jeffrey R. Kosnett

December 27, 2019

Fitch Ratings: Affordability and Deleveraging Key for U.S. Public Power in 2020

Fitch Ratings-New York-12 December 2019: U.S. public power utilities are well positioned financially and operationally headed into next year, though Fitch Ratings' 2020 outlook report points to some uncertainty around the 2020 U.S. presidential election and broader climate issues.

The Rating Outlook for the public power sector is Stable. "Continued deleveraging driven by robust rate-setting policies, benign operating conditions and declining capital investment supports Fitch's stable outlook for the U.S. public power sector," said Managing Director Dennis Pidherny.

Low interest rates and robust access to the capital markets will likely continue unabated for the capital-intensive public power sector. A sustained period of lower rates should keep financing costs manageable and ease upward pressure on electric rates. Additionally, more than half of the municipal sector debt issued in 2018-2019 was earmarked for refunding. The benefits of debt refunding should continue through 2020, reflecting the Fed's changed course on monetary policy.

However, uncertainty surrounding the 2020 election and the potential for more aggressive environmental mandates could disrupt longer term performance. A lack of strong federal leadership on carbon emissions reduction has prompted many states to forge their own paths to address climate issues. "Implementation of competing Green New Deal proposals or the prospect that an increasing number of state mandates will become applicable to public power systems are Fitch's primary concerns," said Pidherny. "Material compliance costs and required investment could strain service affordability and challenge the trend of deleveraging observed in recent years."

“Fitch Ratings 2020 Outlook: U.S. Public Power and Electric Cooperatives” is available at www.fitchratings.com

Contact:

Dennis Pidherny
Managing Director
+1-212-908-0738
Fitch Ratings, Inc.
300 West 57th Street
New York NY, 10019

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

Additional information is available on www.fitchratings.com

Fitch Ratings: Outlook Stable for U.S. Water and Sewer Utilities in 2020

Fitch Ratings-Austin-12 December 2019: U.S. water and sewer utilities are in solid fiscal shape headed into next year with infrastructure a likely point of interest leading into the 2020 presidential election, according to Fitch Ratings in its 2020 outlook report.

“Water and sewer utilities continue to enact steady rate adjustments to accommodate operating cost increases and capital needs,” said Managing Director Doug Scott. “Utilities are also well-positioned to absorb any temporary business variations given their robust balance sheets.”

The water and sewer the industry will be paying close attention to infrastructure proposals of the presidential candidates headed into the 2020 election. Based on EPA’s latest figures, $740 billion in capital investment will be necessary to address water and sewer needs over a 20-year horizon. The new WIFIA program has afforded EPA the ability to leverage appropriations at an accelerated rate via credit subsidies compared to traditional state revolving fund loan programs. “Dramatic escalation in water and sewer infrastructure appropriations is unlikely, though WIFIA program expansion is a distinct possibility,” said Scott.

Increased volatility in weather extremes has the potential to escalate sector capital needs as utilities seek to harden assets and enhance water supply capability to ensure service delivery. Added capital demands would likely lead to some increase in moderate sector leverage levels and further erode sector affordability levels.

‘Fitch Ratings 2020 Outlook: U.S. Water and Sewer Sector’ is available at ‘www.fitchratings.com’.

Contact:

Douglas Scott
Managing Director
+1-512-215-3725
Fitch Ratings, Inc.
111 Congress Avenue, Suite 2010
Austin, TX 78701

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

Additional information is available on www.fitchratings.com

Fitch Ratings: Problems to Persist for U.S. Higher Education in 2020

Fitch Ratings-Chicago-10 December 2019: U.S. colleges and universities will continue to struggle against operating pressures and numerous other industry challenges headed into next year, according to Fitch Ratings in its 2020 outlook report.

Fitch maintains its negative sector outlook for 2020 as tuition growth continues to soften. Stagnancy in both high school graduation rates and state and federal funding levels are also key pressure points for the sector, according to Director Emily Wadhwani.

'Online and non-traditional educational alternatives are becoming more commonplace, which could serve as an additional disruptor for a sector already grappling with numerous other pressures,' said Wadhwani. 'State support for schools, while steady, is still below pre-recession levels and not likely to reverse course with states grappling with ongoing revenue volatility, continued demands for infrastructure investment, and projected slower economic growth.'

While these developments are likely to pressure margins for colleges and universities across the sector, the good news is that they are not expected to trickle down into rating performance for Fitch-rated schools. Fitch maintains a Stable Outlook on 91% of its ratings headed into 2020 with Positive Outlooks for another 4% in Fitch's portfolio. That said, 'the credit gap will also continue to widen next year between financially stronger colleges and schools that are more reliant on tuition and/or in demographically challenged or competitive markets,' said Wadhwani.

'Fitch Ratings 2020 Outlook: U.S. Public Finance Colleges and Universities' is available at 'www.fitchratings.com'.

Contact:

Emily Wadhwani
Director
+1-312 368-3347
Fitch Ratings, Inc.
70 W. Madison Street
Chicago, IL 60602

Margaret Johnson
Director
+1-212 908-0545

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

Additional information is available on www.fitchratings.com

Fitch Ratings: Financing Evolving for North American Energy Infrastructure in 2020

Fitch Ratings-New York-11 December 2019: The evolution in financing for energy infrastructure projects will continue into next year, according to Fitch Ratings in its 2020 outlook report.

Fitch is maintaining its stable outlook for North American Energy Infrastructure with most project financings reflecting fixed-price off-take agreements that minimize revenue and margin volatility. However, according to Andy Joynt, Senior Director at Fitch Ratings, shifts are already underway in the typical energy project finance paradigms. “New off-taker types are becoming commonplace and merchant exposure is being incorporated into portfolio financings,” said Joynt. “Additionally, newer technologies like battery storage are also gaining investor confidence and may increasingly be paired with solar or thermal generation in future projects.”

This evolution comes during an increasingly competitive environment for contracts with PPA pricing and terms steadily falling. This is prompting developers to seek finance projects with re-contracting risk on the table. “Even in the absence of a replacement power purchase agreement, a project could sell energy into the wholesale market but this introduces revenue volatility that erodes credit quality,” said Joynt.

Heading into 2020, U.S. liquefied natural gas (LNG) export capacity now exceeds 6 Bcf/day with a handful of projects entering commercial operation in the second half of this year. Asia in general is considered the biggest market opportunity with China a massive consumer of natural gas. However, demand has not materialized due to the ongoing trade war between the U.S. and China. “An ease of trade tensions could lead to a new wave of LNG contracts and trigger final investment decisions on some pending new projects or expansions,” said Joynt. “Conversely, LNG suppliers may look to Europe and Latin America if tensions linger.”

Fitch Ratings 2020 Outlook: North American Energy Infrastructure is available at www.fitchratings.com.

Contact:

Andrew Joynt
Senior Director
+1-212-908-0594
Fitch Ratings, Inc.
300 West 57th Street
New York NY, 10019

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

Additional information is available on www.fitchratings.com

Fitch Ratings: Relief for U.S. State Pension Liabilities Not Likely to Last

Fitch Ratings-New York-10 December 2019: Rising state pension liabilities reversed course this

past year, although this is likely little more than a short-term breather, according to Fitch Ratings in its latest annual state survey.

Fitch's median state pension liability burden fell to 3.1% of personal income in fiscal 2018 from 3.6% in fiscal 2017. States are also seeing a median 6.7% drop in their adjusted net pension liabilities. Despite the improved numbers, they do not reflect a long-term improvement in states' pension situations, but rather the states' exposure to short-term market fluctuations now inherent in pension accounting, according to Douglas Offerman, Senior Director at Fitch. "The lower fiscal 2018 state net pension liabilities are capturing the lagged recognition of strong market gains most pension plans experienced as of their 2017 measurement dates," said Offerman.

State debt burdens drifted lower with the median burden of state direct debt falling slightly to 2.3% of personal income in fiscal 2018 from 2.4% in fiscal 2017. This move, however, is more reflective of a lasting trend. "Unlike with pensions, the drop in the burden of bonded debt continues a longer-term decline underway in many states," said Offerman. With both debt and pensions lower in fiscal 2018, the median state long-term liability burden has also declined year-over-year to 5.7% of personal income from 6%.

Illinois continues to carry the heaviest liability burden (27.5% of personal income) followed by Connecticut, Kentucky, New Jersey, Alaska and Hawaii (rankings unchanged year-over year). By contrast, 37 states have what Fitch views as low liability burdens with Nebraska topping the list at only 1.7% of personal income.

Fitch's "2019 State Pension Update" is available at www.fitchratings.com.

Contact:

Douglas Offerman
Senior Director
+1-212-908-0889
Fitch Ratings, Inc.
300 West 57th Street
New York NY, 10019

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

Additional information is available on www.fitchratings.com

Fitch Ratings: U.S. Transportation Infrastructure Growth to Mirror Slower GDP in 2020

Fitch Ratings-New York-09 December 2019: U.S. transportation infrastructure growth will continue moving more or less in step with leveling off GDP next year, according to Fitch Ratings' 2020 outlook report.

Volume growth remains favorable for U.S. airports, ports and toll roads and will remain largely tethered to U.S. GDP movement, which Fitch projects will fall below 2% for 2020. That said, "Some softness in growth may take hold to the extent issuers are exposed to global economic markets and protectionist trade policies," said Senior Director Scott Zuchorski.

Likely to pace volume growth will be U.S. airports, with Fitch projecting 2%-3% thanks to continued healthy demand for travel. Passenger traffic will also remain healthy for both large and small hub airports following a spike this past year. One outlier to watch next year will be the continued grounding of the Boeing 737 Max.

Moving more closely in tandem with U.S. GDP next year will be U.S. toll roads and ports. Stronger performance is expected for toll roads in the Southeast and Southwest regions in particular, due to stronger demographic trends versus the U.S. overall. Meanwhile, volumes at East Coast ports are likely to continue outpacing those of their West Coast counterparts due to their higher exposure to Chinese tariffs. Over time, revenues may start to decline at West Coast ports the longer the trade impasse with China continues.

Two other key developments are worth close watch next year, the first being the fate of PPPs as developer risk allocation led to some contractors exiting the U.S. market. The second is emerging technologies like driverless cars and connected vehicles. Parking assets and managed lanes appear most vulnerable to this change, though more widespread risk is unlikely to manifest for at least the next decade.

Fitch's "2020 Outlook: U.S. Transportation Infrastructure" is available at www.fitchratings.com.

Contact:

Scott Zuchorski
Senior Director, Head of North American Transportation and P3s
+1-212-908-0659
Fitch Ratings, Inc.
300 West 57th Street
New York, NY, 10019

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

Additional information is available on www.fitchratings.com

Fitch Rtgs: Not-for-Profit Hospitals Outlook Stable in Face of Challenges

Fitch Ratings-New York-10 December 2019: Hospitals' and healthcare systems' ability to respond to operational challenges by cutting costs and improving efficiency has placed these entities on surer footing for the continued headwinds they will face in 2020, says Fitch Ratings. Overall balance sheet stability and slight improvements in operational performance reflect the sector's adaptation to pressures, such as high levels of labor and pharmaceutical costs, cost and implementation risks of moving toward more value-based and at-risk reimbursement models, a shifting payor mix, commercial insurance rate increases, and competition from non-traditional market entrants. Most providers have begun to effectively align their cost models to revenue pressures, despite these challenges. Fitch changed its sector outlook from Negative to Stable for 2020 and is maintaining a Stable Rating Outlook for healthcare issuers in 2020.

We believe many providers will continue to pursue consolidation and alignment in order to extract greater efficiencies and gain contracting leverage with payors and suppliers. Although size and scale alone do not necessarily result in success, further consolidation is a logical outcome given current

industry pressures.

The increase in the share of the US population over age 65 will generally have a negative longer-term effect on payor mix as seniors shift from commercial insurance to Medicare. The aging population should provide an uplift in volumes, as use rates increase proportionally with age; however, this added volume will only be beneficial if providers can manage to break-even, or better, on Medicare rates. Commercial, or managed care, contract negotiations are critical for providers as they seek to offset the effects of comparatively weaker governmental reimbursement with favorable commercial contracts.

The decades-long focus on outpatient services compared with inpatient services has not moderated, resulting in a mismatch of fixed costs and declining inpatient volume. The transition from volume to value-based reimbursement is a longer-term adjustment but in the short term will result in margin pressures for hospitals as they invest in new systems and see a decline in overnight admissions.

Non-traditional healthcare entrants will continue to be a disruptive factor over the medium to long term and are likely to change the way individuals interact with the sector. Technology and large retail companies, with potentially deeper pockets, sophisticated and consumer friendly distribution channels, and data platforms they are able to leverage are expected to make further inroads into pharmacy and low-acuity medical services. This will result in a more competitive operating environment across the patient spectrum.

Balance sheet measures have reached levels not seen since before the Great Recession of 2007-2009. The sector benefited from favorable investment conditions, positive cash flow, and generally manageable spending on capex. As a result, balance sheet strength has largely mitigated operational pressures faced by hospitals in recent years.

While policy direction in the next few years will be determined by the 2020 US elections, the acute care sector would face significant challenges regardless of the outcome. Any systemic change, whether it be the dismantling of the Affordable Care Act or the implementation of a ‘Medicare for All’ plan, would take some time to implement, and places uncertainty on whether or not our Stable sector and Ratings Outlooks will persist beyond 2020.

Contact:

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

Olga Beck
Senior Director, US Public Finance
+1 212 908-0772
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.

Fitch Ratings: U.S. State and Local Governments to Hold Steady in 2020

Fitch Ratings-New York-10 December 2019: Stability is in the cards for most U.S. state and local governments next year even with a slowing economy making revenue forecasting more difficult, according to Fitch Ratings in its 2020 outlook report.

Fitch has a stable outlook for both sectors in 2020 despite uncertainties related to economic growth, the effect of federal policy, and spending demands for labor and infrastructure. 'Governments will continue to exercise their considerable control over revenues and spending to maintain sound financial resilience,' said Arlene Bohner, Fitch's Head of U.S. state and local governments.

Fitch has identified three states to watch in 2020 that could see tangible changes in credit quality. 'Alaska and Illinois both face potential constitutional amendments that could alter Fitch's assessments of credit quality, while Kentucky will have a gubernatorial transition as it deals with ongoing budgetary challenges,' said Bohner.

Alaska will face key questions on gubernatorial proposals that may weaken operating flexibility. Alaska's governor will continue to seek a full dividend payment for residents and legislative approval for a set of constitutional amendments, which, if enacted, could weaken the state's budgetary operating flexibility and negatively affect the state's Issuer Default Rating.

Illinois voters will decide in November on a constitutional amendment to allow a graduated individual income tax. The credit implications depend on whether Illinois uses any increased revenues to address structural budget challenges, or if the state can adequately adjust its budget to work toward structural balance if the amendment fails.

Kentucky's new Democratic governor will need to work with the Republican-controlled legislature to address persistent budgetary challenges with enactment of a new biennial budget due in the first half of 2020. Maintaining structural spending while reducing reliance on non-recurring budget measures could prove challenging if the political environment deteriorates.

'Fitch Ratings 2020 Outlook: U.S. States and Local Governments' is available at www.fitchratings.com.

Contact:

Arlene Bohner
Senior Director, Head of U.S. State and Local Governments
+1-212-908-0554
Fitch Ratings, Inc.

300 West 57th Street
New York, NY 10019

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

Additional information is available on www.fitchratings.com

CUSIP Request Volume for Corporate and Municipal Debt Ebbs in November.

NEW YORK, NY, December 10, 2019 – CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for November 2019. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found monthly decreases in CUSIP request volumes for corporate and municipal debt and a slight increase in requests for corporate debt identifiers in November.

Read Report.

16% Monthly Decline in Muni Requests Puts Crimp in Robust 2019 Issuance.

“The low interest rate environment has spurred historically high volumes of new security issuance across several key asset classes this year,” said Gerard Faulkner, Director of Operations for CUSIP Global Services. “While the November slowdown in muni issuance will likely take us off track for a record-setting year in 2019, we’re still seeing significant volumes on the whole this year.”

Read Press Release.

New Approaches to Large-Scale Green Stormwater Infrastructure Investment Build Climate Resilience.

More frequent and intense rainstorms. Elevated heat and humidity. High water levels and increased shoreline erosion. The realities of climate change, combined with aging and outmoded stormwater infrastructure, create a crisis for Great Lakes stormwater managers.

The good news is many of these challenges can be mitigated through the construction of green stormwater infrastructure–constructed wetlands, porous concrete, and bioswales that help treat stormwater and take the pressure off traditional gray infrastructure like sewers, pipes, pumps, and tunnels. But communities are challenged to fund and implement projects at the scale needed to address the crisis.

Fortunately, new thinking and approaches to funding and constructing green stormwater infrastructure are emerging. These methods, which combine market principles with community benefits, are upending the traditional economics and practice of building green stormwater infrastructure and are bringing climate resilience within reach.

Continue reading.

P3 GREAT LAKES INITIATIVE | TUESDAY, DECEMBER 10, 2019

The Jefferson County, Alabama, Bankruptcy.

The Jefferson County, Alabama, bankruptcy case was slightly more unusual than other municipal bankruptcies, in which the financial downturn severely impacted a municipality's ability to meet its expenditures.

The bankruptcy case of Jefferson County, Alabama, was the epitome of corruption and bribery amongst elected officials, contractors, county employees, and bankers involved in the county's sewer-related debt issuance. This one public work project, often referred to as "the Taj Mahal" of sewage systems, became the epicenter that led to the county filing for bankruptcy and, ultimately, two dozen people, including elected officials, contractors and county employees went to jail for bribery and fraud charges.

In this article, we will take a closer look at the Jefferson County, Alabama, bankruptcy case and what the bankruptcy settlement means for investors and creditors.

Continue reading.

municipalbonds.com

by Jayden Sangha

Dec 11, 2019

How an $8 Billion Municipal Bond Fund Finds Opportunity in a 'Quirky' Market.

Fresh out of college in 1991, Ben Barber joined the management training program at Franklin Templeton in San Mateo, Calif., and rotated through different departments. In the end, it wasn't emerging markets or the up-and-coming technology sector that captured his interest, but municipal bonds.

"I love the aspect of you're financing infrastructure, generally for the common good, whether it's airports, roads, schools, or hospitals," says Barber, 50, who is co-head of municipal investments for Goldman Sachs Asset Management, or GSAM.

The $3.8 trillion muni market is the mechanism by which states, counties, municipalities, and other government entities fund operations and public-works projects. The nuances of every issuer, sector, project, and tax treatment make for a "quirky" market where every deal is different.

That's all the better for Barber, his co-managers Scott Diamond and Joe Wenzel, and their 34-person team to look for upside. Over the past decade, their $7.7 billion Goldman Sachs Dynamic Municipal Income fund has returned an average of 4.6% annually, better than 91% of its peers, and 1.5 percentage points, per year, better than its benchmark.

The fund (ticker: GSMIX) focuses on national tax-exempt bonds but has a broad mandate. “We want to be up and down the entire yield curve, the entire credit spectrum, and across different structures, and we want to be national,” says Barber.

Relative to the rest of the bond market, munis look like a good deal. Default rates tend to be lower than their corporate counterparts, but after-tax equivalent yields are higher. The net supply of new issues is down slightly this year, while demand remains strong. Individual investors own two-thirds of all muni assets—that adds stability to the market but also leaves room for Barber’s team to capitalize on inefficiencies.

After joining the muni team at Franklin Templeton, Barber followed his boss and mentor to GSAM and was named head of the muni team in 2002. Barber—who grew up feeding chickens and milking cows on a hobby farm in the Central Valley of California—is based in San Francisco. The rest of the team works in Salt Lake City and New York, making it easier to cover a market that comprises tens of thousands of issuers around the country.

State government general obligation bonds represent the largest slice of the fund at nearly 12% of assets, and not surprisingly. These perennial issuers account for more than a quarter of the fund’s benchmark. While state bonds are a portfolio staple, their prices can fluctuate on news of state budgets, economic outlooks, and natural disasters. “Our job is to figure out if it’s just noise,” Barber says.

Meanwhile, investors often paint muni bonds with a broad brush—and Barber has been able to take advantage of that. Take Illinois, where a state pension crisis has led to persistent downgrades of state-issued muni bonds, which now sit just above junk status. Investors have turned a skeptical eye to other issuers throughout the state as a result, Barber says. Bonds issued for Chicago O’Hare International Airport, for example, trade at a discount to comparable bonds in other states, says Barber. The fund recently had about 12% of its assets in “all things Illinois,” though only 5% of that exposure is tied directly to the state.

Historically, taxable muni bonds have been the minority, accounting for less than 10% of the market. A provision in the 2017 tax-cut law—which prohibits states from advanced refinancing of tax-exempt bonds—coupled with low interest rates have prompted many states to refinance with taxable bonds. In response, the fund has bought tax-exempt bonds with short calls—a short period before the issuer can cancel the bond—which are more likely to be refinanced.

State munis offer no shortage of opportunity, “but a much more interesting part of the market are the smaller issuers that may come to the bond market once or a handful of times at most,” says Barber. Airports, sports stadiums, and water-treatment facilities fall into this category. So do hospitals, which recently accounted for nearly 8% of the fund’s assets.

Tobacco-settlement bonds, meanwhile, make up 3% of the fund. These high-yield, long-term bonds were issued by states and are backed by annual payments from tobacco companies as part of the landmark 1998 legal settlement that resolved 46 states’ lawsuit against the industry’s major manufacturers. More than two decades later, these bonds are influenced by everything from cigarette sales (settlement payments are based on U.S. cigarette consumption) to broader interest and inflation rates. Recently, the fund has focused on zero-coupon tobacco bonds, which don’t pay out interest but have more potential for price appreciation. The sector “requires very specific analysis to succeed,” Barber says.

The fund can own up to 30% of its assets in junk-rated munis, though Barber and his team have trimmed their high-yield exposure to 16% of assets, down from a high of 23% in 2017. The reason:

valuations. As more investors have ventured into high-yield debt, the difference, or spread, between yields on these lower-rated bonds and comparable investment-grade bonds has narrowed.

Fortunately, the team has the leeway to find deals in many places, including Puerto Rico. It has for years owned Cofina bonds issued by the sales-tax financing authority. Bonds maturing in 2058, for example, yield 4.3%. Recent restructuring of the bonds prompted the team to add to the position, which is the fund's third largest. Yes, Puerto Rico has had its issues, "but bonds tied to sales tax tend to be more stable than any other type of bonds," says Barber. •

Barron's

By Sarah Max

Dec. 11, 2019

Municipal Bonds: Relative Value Versus Absolute Yield

Bloomberg Intelligence's Eric Kazatsky examines the historical reaction of municipal bonds to Federal Reserve rate decisions and looks at relative value versus absolute yield in the municipal bond market. He speaks with Bloomberg's Taylor Riggs on this week's "Muni Moment" on "Bloomberg Markets."

Watch video.

Bloomberg Markets TV Shows

December 11th, 2019, 8:25 AM PST

Wall Street's Muni-Bond Bankers Brace for a Record Year in 2020.

- **BofA, Citi, Oppenheimer expecting more than $400 billion**
- **Bond sales surge as governments seize on lower interest rates**

The Federal Reserve's decision to keep interest rates low is providing stimulus to a once contracting Wall Street business: underwriting municipal bonds.

State and local government debt sales may surge to a record in 2020, extending this year's boom, as borrowing costs hold near the lowest in over half a century, according to forecasts from some of the market's biggest underwriters. That marks a welcome shift for banks that saw bond work dry up in 2018 after President Donald Trump signed legislation that blocked new tax-exempt debt sales for a major type of refinancing known as an advance refunding.

Continue reading.

Bloomberg Markets

By Danielle Moran

December 12, 2019, 10:30 AM PST

Ex-JPMorgan Banker's Career Gamble Pays Off in Muni-Bond Blitz.

- **Mark Melio started firm in 2009 to advise hospitals on debt**
- **Refinancing boom vaults his firm 93 spots to 11th biggest**

A frenzy of debt sales in the $3.8 trillion municipal-bond market is handing a huge win to an ex-banker's career gamble a decade ago.

Mark Melio, who once led JPMorgan Chase & Co.'s public finance department, struck out on his own in 2009 to start a small financial advisory firm catering to health-care systems. This year, that decision is paying off as hospitals seize on low interest rates to refinance old debt or raise money for new projects. His firm, Melio & Co., is having its best year on record and has vaulted 93 spots to eleventh place in Bloomberg's ranking of municipal-bond advisers.

Melio & Co.'s rise marks a coup in an industry increasingly dominated by PFM Financial Advisors and Public Resources Advisory Group, which together advised on nearly a third of municipal-bond deals in 2019.

Bloomberg ranking of financial advisers
It only took 20 deals for Melio's business to leap in the rankings, thanks to massive issues from juggernauts like CommonSpirit Health and the Cleveland Clinic.

Hospitals have sold $28.4 billion in debt this year, a nearly 38% increase from a year earlier. Much of those sales have been driven by decisions to refinance their debt with taxable securities, a tactic that's taken hold because of new limits on tax-exempt refinancings and low interest rates that have made such deals viable.

Melio said he has no plans to expand his advising business beyond health care but does plan to hire more people. His team right now includes Aimee Trepiccione, a former health-care banker for JPMorgan, and Matt Swafford, a former Morgan Stanley banker.

"That gives the clients some insight in how the banks are thinking," he said in an interview.

Melio said his health care advising business has been a "gratifying" shift from his career in public finance at JPMorgan and Goldman Sachs Group Inc., an industry he was critical of in a 2016 memoir.

"Personally, it makes me feel good to do work on a children's hospital, for instance," he said in the interview. "You feel like you're contributing something meaningful."

Bloomberg Markets

By Amanda Albright

December 12, 2019, 6:47 AM PST

As Tiny Underwriters Die, Brothers' Deal Keeps Firm in Family.

- **McLiney, a family owned firm, merging with Texas's Samco**
- **Small underwriters are disappearing in face of competition**

McLiney and Company, a Kansas firm that's been run by the same family for 54 years, is joining the ranks of small, stand-alone municipal-bond underwriters that are disappearing as Wall Street Goliaths expand their dominance of the $400 billion-a-year business.

But under a deal struck to merge with a rival, it's not entirely losing its blood ties.

The Mission, Kansas-based McLiney, which was founded in 1965 by the son of municipal-bond banker George McLiney Jr., said on Tuesday that its seven employees would join Samco Capital Markets, a larger underwriter based in Austin that specializes in Texas debt.

Continue reading.

Bloomberg Deals

By Amanda Albright

December 11, 2019, 7:33 AM PST

Why BlackRock Is Still Bullish on Munis After Market's Big Gains.

- **Trump tax law helped set off record influx into mutual funds**
- **Firm's muni chief Hayes sees demand holding up into 2020**

Here's one reason why BlackRock Inc., the world's largest money manager, doesn't expect a pullback from the municipal-bond market next year: Google searches for the securities jumped in April, when many Americans first felt the impact of President Donald Trump's tax-cut law.

The $10,000 cap on state and local tax deductions it ushered in helped set off a record-setting municipal-bond buying spree by those hunting for ways to drive down what they owe. And that interest is unlikely to subside anytime soon, Peter Hayes, head of such investments for BlackRock, said on Tuesday.

"We think that this demand continues at least into the first half of 2020 at its current pace," Hayes said at a media event hosted by the company.

Continue reading.

Bloomberg Markets

By Amanda Albright and Danielle Moran

December 10, 2019, 10:39 AM PST

[High Yield Munis Can Be An Equity Hedge, But Understand The Risks.]

Summary

- Many investors are looking for ways to hedge against a potential decline in equities, after an impressive run in 2019.
- Municipal bonds are one of my preferred choices for fixed-income exposure, as they have historically low levels of defaults and a low correlation to the equity market.
- High yield munis, however, are less attractive right now. Their spread with investment-grade munis has shrunk, and some bonds in the high-yield sector are struggling to manage debt obligations.

Main Thesis

The purpose of this article is to evaluate the VanEck Vectors High-Yield Municipal Index ETF (HYD) as an investment option at its current market price. As my readers are aware, I have recommended municipal ((muni)) debt in 2019, and that play has been rewarded. However, I have taken a more cautious tone as, similar to equities, valuations have gotten a bit rich and my outlook is less optimistic than when the year started. On that note, I am on the hunt for funds trading at reasonable valuations and which utilize less leverage, which has brought me to HYD, as it is a high-yield muni fund that does not utilize any leverage. While the fund has returned close to 10% this year, and I remain bullish on muni debt, there are a few reasons why I would hesitate to recommend this option. The strength of the high-yield muni sector largely depends on revenue bonds, which offer unique risks to investors that general obligation bonds do not. While this is not necessarily "bad", it is a sector that has been under some short-term pressure. Further, spreads between high-yield munis and investment-grade munis has narrowed recently, suggesting a limited chance of further outperformance from here. Finally, while high-yield munis do offer an attractive way to hedge against downside in the equity market, investment-grade munis offer a similar opportunity.

Continue reading.

Seeking Alpha

Dec. 15, 2019

[A New Look at How States Block Local Laws in Areas Ranging From Guns to Taxes.]

"This is a national preemption movement that is occurring," says the CEO of the National League of Cities.

States around the U.S. have all sorts of laws on the books to block, or "preempt," cities, towns and villages from enacting their own local policies on issues like the minimum wage, gun safety, rent control, plastic bag restrictions, and taxation.

This big-footing by state governments creates obstacles for communities seeking to tailor their own laws in these and other areas and is a source of frustration for many local elected leaders. It's also becoming increasingly common, with an uptick in the past five years or so, said Clarence Anthony, CEO of the National League of Cities.

“This is a national preemption movement that is occurring,” Anthony told Route Fifty on Thursday. “We’re seeing that it’s unprecedented.”

“Local control is under attack,” he added.

It’s against this backdrop that the National League of Cities recently partnered with Temple University on a project to analyze preemption in 12 different policy areas, in all 50 states.

This project culminated in an online tool, where it’s possible to select a state from a map of the U.S. and to then see details about how state laws preempt local ones in each place.

There’s a significant amount of detail for each state and policy area.

For example, the tool shows not only whether a state preempts local gun laws, but also which kinds of regulations are explicitly prohibited (such as those dealing with possession, sales, and concealed carry), and penalties officials can face for trying to regulate in these areas.

NLC says that some of the areas where preemption is the most common include gun laws, rent control and tax policy. The League also notes that there are at least nine states that lack mandatory paid sick leave, while also blocking local laws in this area.

Some of the other areas the project provides information for include: “ban-the-box” policies that restrict employers from asking about a person’s criminal history on job applications, property zoning, municipal broadband, and an array of tax limitations.

Spencer Wagner, a program specialist at NLC who worked on the project, identified two key factors he said are driving the rise in preemption that Anthony mentioned.

One, he said, is that businesses are spending more money to prevent what they often describe as a “patchwork” of local laws.

“We don’t really accept that argument,” Wagner said. “Every day businesses are working in different communities with different tax codes and health regulations.”

Another factor, he said, is the emergence of more “model legislation” from groups like the American Legislative Exchange Council, which can provide state lawmakers with ready templates for introducing bills that stymie local lawmaking.

Anthony flagged Arizona and his home state of Florida, where he served as mayor of South Bay for 24 years, as two states that have been especially aggressive on the preemption front.

“If someone comes into my home, I don’t expect they’re going to go there and tell me what kind of music I can play,” he said. “That’s in a sense how I feel about it. It’s the lack of respect that our local leaders are getting in terms of the policies that they need for their cities.”

ROUTE FIFTY

by BILL LUCIA

DECEMBER 12, 2019

Muni-Bond Ratings Are All Over the Place. Here's Why.

Amid fight for market share, ratings companies struggle to judge creditworthiness of financially troubled cities

Chicago is in bad financial shape, with an unsustainable pension burden and a towering debt load. Yet the city will shortly issue bonds that are likely to be rated as supersafe, even though similar investments have lost money.

Bond-ratings firms are struggling to judge the creditworthiness of cities and local governments with deep financial problems. There have been widely disparate ratings, errors in analysis and a fight for market share that may have produced optimistic outlooks.

Chicago has the most pension debt of any major U.S. city, according to Merritt Research Services, and a shrinking population. To help cover an $838 million budget shortfall, the city is planning to sell up to $1.5 billion in bonds beginning as soon as this month.

Continue reading.

The Wall Street Journal

By Gunjan Banerji

Dec. 6, 2019 5:30 am ET

Fitch Exposure Draft for U.S. Affordable Housing Rating Criteria & Webinar

Fitch's proposed criteria focus on bonds secured by less than 10 cross-collateralized: federally subsidized multifamily affordable housing properties; solely unsubsidized multifamily affordable housing properties; or properties with a combination of subsidized and unsubsidized affordable housing units.

Read the Exposure Draft.

Related Webinar:

U.S. Affordable Housing Criteria Exposure Draft | December 12, 2019 at 2:PM EST

An Ominous Signal in the Muni-Bond Market Now Seen as Just Noise.

- **Governments may start selling debt faster than it's paid off**
- **Barclays sees positive net supply of $80 billion in 2020**

An ominous signal in the municipal-bond market shouldn't scare buyers too much.

State and local governments' frenzy to seize on lower interest rates could leave them issuing new bonds next year at a faster pace than they're paying them off, causing an increase in the net supply

of outstanding securities. Usually, that's viewed as a negative in the $3.8 trillion municipal market, given that the increase in supply can exert a drag on prices.

But this time, the jump may be matched by a flood of cash that's been washing into the market all year as Americans burned by the limit on state and local tax deductions use the investments to drive down what they owe to the federal government. Municipal-bond mutual funds last week alone received a record $2.36 billion of new cash, according to Refinitiv Lipper US Fund Flows data, extending an unprecedented influx that's continued since January.

"Higher net supply is not going to be oversupply," said Peter Block, head of municipal strategy at Ramirez & Co., which is projecting positive net supply of $98 billion next year.

The increase follows what had been a slowdown in new municipal-bond sales, which caused the size of the market to shrink in 2018 and during the first half of this year, according to Federal Reserve figures. That led mutual fund managers to complain about the competition and high prices being paid for new debt issues, though the drop in yields also saved state and local governments money.

With the market's interest rates now holding not far from more than half-century lows, Wall Street underwriters anticipate the pace of borrowing to pick up. Barclays Plc is forecasting that will cause the size of the market to grow by $80 billion in 2020, which the company projects would be the biggest increase since 2016. Bank of America Corp. strategists last month predicted a similar rise.

The ballooning supply is driven heavily by state and local governments' push to refinance their debt with taxable securities. While that may be a drag on that corner of the market, analysts say it's unlikely to trickle into demand for traditional tax-exempt bonds, which will also benefit from interest and principal payments that bondholders will seek to reinvest.

Barclays strategists led by Mikhail Foux said their forecast for positive net supply in 2020 won't be problematic for tax-free buyers because those sales won't increase "materially."

Bloomberg Markets

By Amanda Albright

December 3, 2019, 10:50 AM PST

"Small Claims Court" Lawsuits Could Cost Wall Street's Credit Rating Agencies Billions.

This is truly a story about David verses Goliath. Over the past four to five months, two hundred and forty small claims court lawsuits have been filed with the California Superior Court. The plaintiffs claim that the executives at the three largest credit rating agencies, Moody's, Fitch and S&P engaged in securities fraud, mail fraud, wire fraud, bribery, extortion and racketeering when they issued credit ratings on tens of billions of dollars in Puerto Rico municipal bonds. The plaintiffs are seeking to recover two thousand five hundred dollars.

Unbelievably, the credit rating agencies decided to dispute the claims rather than reach a settlement. I say "unbelievably" because of what you are about to read next.

The credit rating agencies dispute resulted in an evidentiary hearing on November 15, 2019. The

defendants claimed the court did not have jurisdiction in these cases. The court denied that motion and reaffirmed jurisdiction over these disputes. The defendants claimed one of the plaintiffs did not have legal standing to participate in a lawsuit. That motion was also denied by the court. The court asked the plaintiffs to submit evidence justifying these lawsuits.

The following was submitted to the court: A copy of a forensic accounting audit on the bonds reflecting the fact that the municipal agencies were already bankrupt prior to the issuance of these bonds. Sworn testimony from municipal executives claiming that the credit rating agencies knew them to be bankrupt but would issue good credit ratings in exchange for hefty fees. Sworn testimony that the lead auditor for the municipal agencies stating the agencies have been technically bankrupt since 2010. Documents confirming the existence of recorded telephone conversations reflecting payoffs to Department of Justice personnel to prevent any investigations or prosecutions.

The court determined that sufficient evidence exists to move forward with these small claim cases. The evidence was shared with the Riverside District Attorney, Michael Hestrin who then forwarded the evidence on to the California, Attorney General, Xavier Becerra.

One has to ask? What were the credit rating agency executives thinking? Now they are looking at the possibility of billion of dollars in fines from the Securities and Exchange Commission and the real possibility of criminal charges.

The plaintiffs have recently requested that the court issue subpoenas forcing the appearance of the defendants in these small claims court hearings. There is no doubt that there will be law enforcement personnel in the courtroom eagerly listening to the defendant’s testimony. Stay tuned this story can only get better. Honestly, you can’t make this stuff up!

ROCKLAND COUNTY TIMES

BY RICHARD LAWLESS

December 5, 20190 Comments

Richard Lawless is an investigative journalist and one of the plaintiffs involved in these 240 lawsuits. Lawless has written articles on financial fraud that have appeared with major media outlets all over the world. He has 30 years of experience as a senior and executive banker for companies like Wells Fargo Bank and Home Savings and has served on a number of corporate boards.

S&P: U.S. Higher Education Is Learning To Manage Its Own Risk

How Event Risk That Creates A Crisis Can Have An Impact

Colleges and universities are grappling with event risk with increasing frequency, whether from nature (think weather) or man-made (such as campus shootings, management and governance controversies, racial tensions, or sexual assault). These crisis incidents create difficult assessments in terms of their impact on credit quality, with some not resulting in an immediate rating action and many not triggering any credit action at all owing to some combination of factors that can substantially mitigate the associated risks. In our opinion, these factors include a sound enterprise risk management (ERM) program that is in place and followed promptly; strong management and governance controls; ample financial resources, which may include insurance coverage for the specific risk; and the ready availability of and access to external support such as disaster aid

programs. Additionally, we have seen schools with strong market positions that benefit from national brand recognition and solid demand experience little, if any, impact to enrollment or fundraising.

Recent high-profile events of the man-made variety include the Department of Justice's investigation into higher education admission practices ("Varsity Blues," the codename for this examination) and the Harvard admissions lawsuit, which have received widespread news coverage, attracting significant negative attention to the higher education industry. These proceedings have placed a focus on the adequacy and transparency of management and governance and the importance of sound internal controls, such as the need for a well-developed ERM program that can contribute toward an effective response strategy.

While most crisis events represent a significant operational challenge and potentially an immediate headline risk, testing an institution's tactical responsiveness, the long-term effect on a college or university's creditworthiness often takes several months to manifest. Consequently, it is not the actual event but the institution's ability to respond and adapt in light of it that determines whether there will be any credit implications. In most cases, swift corrective actions and effective outreach have enabled institutions to maintain their ratings. On the other hand, some risk management or governance failures have resulted in negative rating actions.

Continue reading.

S&P: U.S. States Are Slow To Reform OPEBs As Decline In Liabilities Masks Increased Risk

Table of Contents

- Liabilities Are Likely To Grow As Nearly All States Fail To Meet Even Static Funding Levels
- Funded Ratios Remain Low For Most States Given Sectorwide Underfunding
- Decline In Liabilities Is Not Driven By Improved Plan Fundamentals
- States Report Responsibility For The Majority Of Net Plan Liabilities
- Understanding Plan Benefit Structure Is Key To Grasping The Credit Story
- Lack Of Prudent Fiscal Management Poses The Greatest Risk To State OPEB Plans
- Related Research

U.S. states continue to severely underfund their other postemployment benefit (OPEB) plans. S&P Global Ratings' latest survey found that for most states, annual plan contributions do not keep up with growth in liabilities. Given the degree of underfunding, unfunded OPEB liabilities will likely escalate absent meaningful reform.

However, most states have not recently pursued reform efforts. Because the size of these unfunded liabilities varies greatly among states, progress toward reducing them is more pressing for some than others. S&P Global Ratings believes it crucial for states to prudently manage plan fiscal health ahead of a tipping point where rising OPEB costs lead to budgetary stress.

Despite contributions that generally fall short of growth in liabilities, S&P Global Ratings' most recent survey data also indicates that total net OPEB liabilities for states fell by 7.3% in fiscal 2018. This drop occurred primarily due to an increase in the discount rate used to measure OPEB liabilities rather than improved funding or OPEB reforms. Generally, state plans have applied a discount rate based on a municipal bond rate due to a general lack of interest earning assets and

Governmental Accounting Standards Board (GASB) methodology.

Continue reading.

Historic US Towns Endured Wars, Storms. What About Sea Rise?

SWANSBORO, N.C. — Historic cities and towns along the Southeastern U.S. coast have survived wars, hurricanes, disease outbreaks and other calamities, but now that sea levels are creeping up with no sign of stopping, they face a more existential crisis.

With a total annual budget of $225 million, Charleston, South Carolina, can't afford the billions of dollars to save itself without federal help. It's counting on the U.S. Army Corps of Engineers to help surround its downtown peninsula with seawalls, harkening to the barriers the city built when it was founded 350 years ago.

Keeping water off the streets and buildings is even more difficult for smaller towns like Swansboro, North Carolina, with 3,200 people and a $4 million budget that doesn't account for climate-related sea rise.

The most vulnerable coastal communities sit only a few feet above sea level and are already getting wet at some high tides. Scientists estimate the sea will rise another 2 feet (61 centimeters) to 4 feet (122 centimeters) in the next 50 years.

Municipal leaders say they need billions of state and federal dollars to save block after city block of low-lying homes and businesses. And while even climate change-denying politicians are beginning to acknowledge the inevitable onslaught, city officials worry that those who control the purse strings won't see the urgency of a slowly unfolding catastrophe that's not like a tornado or earthquake.

Founded in 1783, Swansboro became the center of North Carolina's steamboat industry. In 1862, it saw Union troops burn down a Confederate fort guarding the nearby Bouge Inlet to the Atlantic Ocean. Across its quaint downtown on the White Oak River, almost every building boasts a city seal with the date it was built. Most are much older than the gray-haired tourists strolling around, and can't forever withstand the kind of flooding they suffered last year, when Hurricane Florence's sea surge topped 30 inches (76 centimeters) of rain.

Stunned, the town commissioned a report for the future. It said the water's edge may end up a block or two inland from the historic waterfront, and soberly suggested: "Consider retracting services or strategically abandoning infrastructure in areas that are likely to be risky or dangerous."

Local leaders recognize the importance of Swansboro's charm, but its future is largely out of their hands.

"We're going to be very, very dependent on outside funding," new Town Manager Chris Seaberg said. "We're trying to preserve the history, but trying to accommodate these new issues that weren't there 100, 200 years ago."

North Carolina passed a law in 2012 preventing the state from forming coastal polices based on sea rise predictions. But Republican control of the legislature is waning, and local leaders say hurricanes Matthew in 2016, Florence in 2018 and Dorian in 2019 — along with changing attitudes toward climate science— appear to be shifting the state's outlook. North Carolina created an Office of

Recovery and Resiliency this year to plan for floods and other extreme weather events.

“There will need to be political stressors to get people to understand the importance of climate change,” said Beaufort, North Carolina, Mayor Rett Newton.

An Air Force retiree who is getting his PhD in marine science, Newton sweeps his arm across the Beaufort Channel. One spot is where the pirate Blackbeard scuttled some of his ships 300 years ago. Nearby is where blockade runners hid from British ships while helping supply the U.S. in the War of 1812. And on the horizon is where freed slaves helped Union troops defeat Confederates in 1862.

The historic buildings along Beaufort’s waterfront are gleaming now, reflecting millions in new investment. It wasn’t like that when Newton grew up in the 1960s amid grimy seafood shops, rundown shacks and fish plants. People wealthy enough to buy waterfront property can always move, Newton said, but escaping the seas will be much harder for poorer residents, who often live on low-lying land handed down through generations, are already beset by social and economic problems.

“I can’t tax anyone else. At the local level, we can’t tax our way out of this,” Newton said, noting his town of 4,200 people collects about $3.5 million a year in taxes.

Charleston, with state and federal help, is spending $64 million to raise the lowest part of the seawall guarding its downtown Battery, which should keep that part of the city safe even if the ocean rises more than 6 feet (2 meters) in the next century, Chief Resilience Officer Mark Wilbert said. The city also is spending hundreds of millions of dollars to modernize its storm water system.

But these measures alone probably can’t save a city that was once the most heavily fortified in North America, with a system of walls, moats and drawbridges to keep out the Spanish, French, Native Americans, and occasionally the ocean as well.

The city’s 7 million visitors each year come looking for old charm along the water, but probably not underfoot. Downpours regularly cause flooding these days, and more than once a week on average, Charleston gets “sunny day” flooding when tides push water onto city streets.

Four of the seven highest water levels recorded in Charleston Harbor have happened in the past four years, pushed by Hurricane Matthew in 2016, Hurricane Irma in 2017 and nor’easter type storms that hit in 2015 and 2018.

“What used to only happen occasionally is happening more often,” Wilbert said.

Charleston is working with the Army Corps on solutions, and everyone agrees sea walls aren’t the only answer. Also under consideration are flood gates, enhanced pumps and other potential fixes, and the city hopes for plenty of state and federal help to pay for it.

South Carolina highway funds are already going to raise the downtown sea walls, and Republican Gov. Henry McMaster created the South Carolina Floodwater Commission, which is studying freshwater and ocean flooding and exploring the use of artificial reefs to blunt massive waves in hurricanes.

Charleston also plans to seek at least some of the state’s tourism taxes on hotel rooms and restaurant meals for flood control. Currently, that money must be spent on tourism.

“You are not going to reverse this. The sea level is going to keep rising,” Wilbert said. “It’s not something where you can say how much it will cost or when it will end.”

By The Associated Press

Dec. 5, 2019

Elevated Muni Supply to Be Met With Healthy Demand in 2020, BlackRock's Carney Says.

Sean Carney, BlackRock Financial's head of municipal strategy, discusses the outlook for municipal bonds in 2020 with Bloomberg's Taylor Riggs on "Bloomberg Markets."

Watch video.

Bloomberg MarketsTV Shows

December 4th, 2019, 8:38 AM PST

Historic U.S. Towns Now Face A Rising Sea.

SWANSBORO, N.C. — Historic cities and towns along the Southeastern U.S. coast have survived wars, hurricanes, disease outbreaks and other calamities, but now that sea levels are creeping up with no sign of stopping, they face a more existential crisis.

With a total annual budget of $225 million, Charleston, South Carolina, can't afford the billions of dollars to save itself without federal help. It's counting on the U.S. Army Corps of Engineers to help surround its downtown peninsula with seawalls, harkening to the barriers the city built when it was founded 350 years ago.

Keeping water off the streets and buildings is even more difficult for smaller towns like Swansboro, North Carolina, with 3,200 people and a $4 million budget that doesn't account for climate-related sea rise.

The most vulnerable coastal communities sit only a few feet above sea level and are already getting wet at some high tides. Scientists estimate the sea will rise another 2 feet to 4 feet in the next 50 years.

Municipal leaders say they need billions of state and federal dollars to save block after city block of low-lying homes and businesses. And while even climate change-denying politicians are beginning to acknowledge the inevitable onslaught, city officials worry that those who control the purse strings won't see the urgency of a slowly unfolding catastrophe that's not like a tornado or earthquake.

Founded in 1783, Swansboro became the center of North Carolina's steamboat industry. In 1862, it saw Union troops burn down a Confederate fort guarding the nearby Bouge Inlet to the Atlantic Ocean. Across its quaint downtown on the White Oak River, almost every building boasts a city seal with the date it was built. Most are much older than the gray-haired tourists strolling around, and can't forever withstand the kind of flooding they suffered last year, when Hurricane Florence's sea surge topped 30 inches of rain.

Stunned, the town commissioned a report for the future. It said the water's edge may end up a block

or two inland from the historic waterfront, and soberly suggested: “Consider retracting services or strategically abandoning infrastructure in areas that are likely to be risky or dangerous.”

Local leaders recognize the importance of Swansboro’s charm, but its future is largely out of their hands.

“We’re going to be very, very dependent on outside funding,” new Town Manager Chris Seaberg said. “We’re trying to preserve the history, but trying to accommodate these new issues that weren’t there 100, 200 years ago.”

North Carolina passed a law in 2012 preventing the state from forming coastal polices based on sea rise predictions. But Republican control of the legislature is waning, and local leaders say hurricanes Matthew in 2016, Florence in 2018 and Dorian in 2019 — along with changing attitudes toward climate science— appear to be shifting the state’s outlook. North Carolina created an Office of Recovery and Resiliency this year to plan for floods and other extreme weather events.

“There will need to be political stressors to get people to understand the importance of climate change,” said Beaufort, North Carolina, Mayor Rett Newton.

An Air Force retiree who is getting his Ph.D. in marine science, Newton sweeps his arm across the Beaufort Channel. One spot is where the pirate Blackbeard scuttled some of his ships 300 years ago. Nearby is where blockade runners hid from British ships while helping supply the U.S. in the War of 1812. And on the horizon is where freed slaves helped Union troops defeat Confederates in 1862.

The historic buildings along Beaufort’s waterfront are gleaming now, reflecting millions in new investment. It wasn’t like that when Newton grew up in the 1960s amid grimy seafood shops, rundown shacks and fish plants. People wealthy enough to buy waterfront property can always move, Newton said, but escaping the seas will be much harder for poorer residents, who often live on low-lying land handed down through generations, are already beset by social and economic problems.

“I can’t tax anyone else. At the local level, we can’t tax our way out of this,” Newton said, noting his town of 4,200 people collects about $3.5 million a year in taxes.

Charleston, with state and federal help, is spending $64 million to raise the lowest part of the seawall guarding its downtown Battery, which should keep that part of the city safe even if the ocean rises more than 6 feet in the next century, Chief Resilience Officer Mark Wilbert said. The city also is spending hundreds of millions of dollars to modernize its stormwater system.

But these measures alone probably can’t save a city that was once the most heavily fortified in North America, with a system of walls, moats and drawbridges to keep out the Spanish, French, Native Americans, and occasionally the ocean as well.

The city’s 7 million visitors each year come looking for old charm along the water, but probably not underfoot. Downpours regularly cause flooding these days, and more than once a week on average, Charleston gets “sunny day” flooding when tides push water onto city streets.

Four of the seven highest water levels recorded in Charleston Harbor have happened in the past four years, pushed by Hurricane Matthew in 2016, Hurricane Irma in 2017 and nor’easter type storms that hit in 2015 and 2018.

“What used to only happen occasionally is happening more often,” Wilbert said.

Charleston is working with the Army Corps on solutions, and everyone agrees sea walls aren't the only answer. Also under consideration are flood gates, enhanced pumps and other potential fixes, and the city hopes for plenty of state and federal help to pay for it.

South Carolina highway funds are already going to raise the downtown sea walls, and Republican Gov. Henry McMaster created the South Carolina Floodwater Commission, which is studying freshwater and ocean flooding and exploring the use of artificial reefs to blunt massive waves in hurricanes.

Charleston also plans to seek at least some of the state's tourism taxes on hotel rooms and restaurant meals for flood control. Currently, that money must be spent on tourism.

"You are not going to reverse this. The sea level is going to keep rising," Wilbert said. "It's not something where you can say how much it will cost or when it will end."

The Associated Press

December 5, 2019

The Bond Is in the Mail: Muni Market's New Way Around Trump Ban.

- **So-called forward delivery bonds used to lock in low rates**
- **It's one way to refinance after 2017 law yanked subsidies**

Anyone who agreed to buy the bonds sold by Washington state this month has a long wait until they see a return on their investment: the nearly $400 million of securities won't be delivered until March 2021.

The delay is the result of an increasingly popular maneuver that states and cities are using to get around a provision of President Donald Trump's 2017 tax-cut law, which stripped them of their ability to sell tax-exempt bonds to refinance debt that can't yet be called back from investors.

But with rates hovering near more than half-century lows, local governments are eager to refinance. So they're selling bonds now that investors won't receive until months — or even years — later when the outstanding securities can be bought back. There have been $10 billion of such municipal bonds sold this year, the most since at least 2005, with $1.4 billion in the last month alone, according to data compiled by Bloomberg.

Illinois's Metropolitan Pier and Exposition Authority is planning next week to sell $923 million in bonds that won't be delivered to investors until March 2020. Washington D.C.'s airport authority is selling $364 million in bonds Dec. 12. Those won't settle until July.

"The interest rates are just so favorable right now," said Larita Clark, chief financial officer of the Metropolitan Pier and Exposition Authority, which expects to save as much as $150 million. "We just wanted to lock in those rates."

After the Federal Reserve cut rates for a third time this year, Henry Dachowitz, the chief financial officer for Norwalk, Connecticut, decided to sell about $18 million of forward delivery bonds. He had been talking to multiple underwriters who were marketing the structure.

"The forward structure was new to me. I explored it and when I saw the present value savings were

almost $2 million, it was compelling," he said in an interview. "I thought interest rates if anything would go up. It was time to pull the trigger after the last rate cut."

Washington delayed the delivery date longer than any other borrower this year, according to data compiled by Bloomberg. The nearly year-and-a-half wait did come with a price: the 10-year bonds were priced with a 2.3% yield, or 73 basis points more than top rated debt. Comparatively, the state in September sold 10-year bonds for 1.47%, a 16 basis-point spread.

Sylvia Yeh, co-head of municipal fixed income at Goldman Sachs Group Inc., said the deals are largely suited to bigger institutional investors, given the risks that could crop up between when the bonds are sold and when they're delivered.

"The funds definitely have the opportunity to do this. For them it comes down to spread," she said. "There is appetite at a price. That speaks to how our market continues to develop."

Bloomberg Markets

By Danielle Moran and Fola Akinnibi

November 26, 2019, 10:30 AM PST

— *With assistance by Sowjana Sivaloganathan*

A Missouri Bank is Using Tech to Secure Large Deposits from Public Entities.

Bank of Franklin County, a Washington, Mo.-based bank with $273 million in assets, is using 'cash sweep' technology to gain large deposits from public funds without having to put up its own assets as collateral.

While accepting large deposits is not a pain point for most financial institutions, accepting public funds requires additional steps. If a bank accepts a deposit over the FDIC insurance limit ($250,000) from a public entity, banks have to put up their own assets as collateral, limiting their abilities to use these funds for other purposes.

Becky Buhr, vice president of finance and retail manager at Bank of Franklin County, told Bank Innovation the bank has sought help from the tech company Reich & Tang to seek an alternate solution to this problem that involves spreading out the deposit among a network of institutions.

"All these banks that participate in the [Reich & Tang] network each have $250,000 of FDIC insurance coverage, so they can take my $13 million, put it out there on that network and it gets spread out among all these banks in increments of less than $250,000," Buhr said.

According to Bank of Franklin County, this tool has been used since May of this year, when the bank secured a $13 million deposit from the local school district. "The school district gets full FDIC insurance. They get a good interest rate. I get $13 million that I have access to any time," Buhr explained.

The deposit came from the School District of Washington, which wanted to work with a local bank that could reinvest that money in the community. When Bank of Franklin County was deciding whether or not to bid on the deposit, Buhr said she needed to find a way to secure it without having

to offer up the bank's assets as insurance. Reich & Tang, which has hundreds of banks on its deposit marketplace, told Buhr it could spread those funds throughout its member institutions and provide the required FDIC insurance.

The bank can access the funds by emailing Reich & Tang, which will then wire the money to the bank, explained Buhr. Institutions on the marketplace can also request capital to fund new loans, but they must pay Reich & Tang back with interest.

The technology acts as a two-way street for capital solutions. Banks that need money can request it, and banks that need to insure their deposits can send money. Bank of Franklin County, according to Buhr, actually generates revenue from interest Reich & Tang pays to keep the deposit on its marketplace.

The Bank of Franklin County has five branches in eastern Missouri, slightly west of St. Louis. Although its primary functions are commercial transactions, it also features retail products like personal checking and savings accounts. According to Buhr, the cash sweep technology is part of a bigger effort to digitize operations.

"We have a very robust online banking platform, and we have a very robust mobile banking platform. We offer remote deposit capture so our business customers can scan in their checks right on site," Buhr said. "We really can compete with the big banks, but what limits us is the size of those relationships."

Bank Innovation

by Rick Morgan

December 2, 2019

Fitch Rtgs: Cordon Pricing May Boost US City Public Transit Usage, Revenue

Fitch Ratings-New York-03 December 2019: Well-designed cordon pricing (CP) has the potential to reduce traffic and raise revenue for highly congested US cites, which can help fund public transit, says Fitch Ratings. CP is effective at quickly and materially reducing congestion and vehicle trips, while increasing transit usage, as shown in several European cities using CP. However, CP in isolation may not meet public policy goals unless there is substantial investment in a region's transit system.

Cities must consider the capital costs of the CP system itself and upfront costs required to expand the transit system to accommodate motorists who switch to public transit. Alternate transportation is only valid to the extent there is a robust transit system that serves the cordoned zone and can accommodate additional users. CP zones with transit systems that are unreliable, small, infrequent, or at capacity may find motorists will not respond to CP because driving is preferable to the alternatives.

Unlike European cities using CP, many US cities do not contain a single central business district or urban core. US cities are likely to be lower density, with less public transit alternatives, featuring more diffused traffic patterns and requiring more than one congestion zone with a variety of congestion-pricing methods, such as dynamically priced parking meters and managed lanes. These characteristics do not necessarily rule out CP systems as an effective congestion management

system but they suggest a smaller pool of suitable cities in the US.

Continue reading.

03 DEC 2019

Fitch Rtgs: Managed Lanes Performance Strong but Untested in Recession

Fitch Ratings-New York-03 December 2019: Performance among Fitch-rated managed lanes (MLs) is strong with fiscal YTD 2019 total revenue rising by a median of 21%, says Fitch Ratings. This is in line with a longer trend of robust ML performance. Growth is supported by accommodative economic conditions, low gas prices, and solid population and generally higher growth in regions with MLs.

MLs typically exist in corridors with free general purpose lanes (GPLs) at or near designed capacity and grow much faster than the corridors they operate in. As a result, a high proportion of marginal corridor traffic growth spills into the MLs instead of the more congested GPLs. This same dynamic leaves MLs more vulnerable to corridor traffic declines, whether caused by recession, increased corridor capacity, or new competing routes.

The MLs sector is young and growing quickly. The proliferation of projects, operational and post ramp-up, provides a critical mass of data not available in recent years. Most MLs projects out-performed our base and rating case projections in most years. Fitch uses this data to form its assumptions as it relates to truck traffic, value of reliability, induced traffic and project extensions.

Although MLs performed extremely well under the U.S.'s prolonged economic expansion, only Orange County Transportation Authority's (OCTA) SR-91 MLs were open during the Great Recession of 2007-2009, when the facility's traffic fell 18% and revenue fell by 11%. The lack of robust historical recessionary performance data results in limited visibility as to how MLs will perform in the next recession. Fitch continues to use conservative assumptions in our rating case cash flow projections as it relates to the effects of economic volatility.

Although Fitch-rated MLs growth slowed in each of the past three years, this is to be expected, as newer facilities exit the fast growth ramp-up phase. Over the next year Fitch-rated MLs projects are projected to finish construction in California, Colorado, North Carolina and Texas, and portfolio-wide revenue growth may rise as the proportion of facilities in ramp-up increases. Fitch expects the growth of MLs to continue as they tackle congestion issues while simultaneously producing revenue streams that can be used to pay for roadway maintenance and possibly other capital projects.

Contact:

Scott Monroe, CFA
Director, Global Infrastructure
+1 415 732-5618
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

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.

At Pimco, Climate Change Is Happening Sooner Rather Than Later.

- **Muni analysts treat climate change as more a near-term threat**
- **Traditional credit factors are seen through 'different lens'**

The typical municipal-bond analyst already wields an array of jargony acronyms befitting the niche market: GO, COP, POS. Now comes WUI.

That's wildland urban interface, a term once confined to firefighters and academics. But since 2017, when some of the most destructive fires in California history burned entire neighborhoods, analysts for bond giant Pacific Investment Management Co. have increasingly focused on whether muni-bond sellers reside in that kind of environment, where people live near brush and trees and are at a greater danger from fire.

"When we make investments in California, we take a birds-eye view of where these communities are located," said Sean McCarthy, Pimco's head of municipal credit research, in an interview. "It's not just the warming climate — there are more homes in harm's way, there are more human ignition sources."

That's just one of the ways the firm is assessing the impact of climate change, which for its analysts has moved from a long-term threat to one that could impact local governments within three to five years. They look at traditional metrics such as the size and diversity of the tax base with a "different lens" and evaluate how resilient they would be if there's a fire or other natural disaster, he said.

"It's front and center more on the individual analyst's mind when they're doing their ratings process," said McCarthy, whose firm holds about $50 billion of municipal bonds. "We are more acutely concerned about some of these longer-term risks falling within the shorter-term ratings horizon than we were in the past."

Investment and rating companies are seeking to reassure investors in the $3.8 trillion municipal-bond market that they're accounting for climate change when they evaluate issuers given how state and local government bond sellers are on the front lines. Climate scientists predict hurricanes will intensify and rainfall will increase in a warming globe. In California, the biggest municipal-bond issuer, 10 of the 20 most destructive wildfires have occurred since 2015.

Pimco analysts use an internal tool that pulls up dozens of different financial metrics by zip code. If a jurisdiction is within an elevated risk area, they consider offsetting factors such as support from state and local governments. (For instance, California lawmakers backfilled lost local property-tax revenue due to wildfires in this year's state budget.)

"A geographically desirable city, such as Malibu, California — which has strong credit factors and

occupies prime oceanfront property — will likely show relative resilience after severe wildfires, with residents more willing and able to return to rebuild," Pimco analysts wrote in a report this month.

How essential the project being financed also gets scrutinized. A local government at risk from wildfires is more likely to continue making debt payments on a hospital than an arena, for instance. And important considerations some may overlook, McCarthy said, are technicalities of the deal, such as the ability of an issuer to redeem the bonds before maturity.

A lower internal rating doesn't necessarily mean Pimco would avoid buying the bond altogether, but "we should be compensated with greater risk premiums," he said.

Bloomberg Markets

By Romy Varghese

November 25, 2019, 9:40 AM PST

Cities Should Invest Now to Reduce Climate Change Depreciation.

Cities are beginning to worry that a susceptibility to climate change could reduce the chance that partners will invest in them. No financial support means no funds for the infrastructure to protect against the climate.

(TNS) — Someday soon, analysts will determine that a city or county, or maybe a school district or utility, is so vulnerable to sea level rise, flooding, drought or wildfire that it is an investment risk.

To be sure, no community has yet seen its credit rating downgraded because of climate forecasting. And no one has heard of a government struggling to access capital because of its precarious geographical position.

But as ratings firms begin to focus on climate change, and investors increasingly talk about the issue, those involved in the market say now is the time for communities to make serious investments in climate resilience — or risk being punished by the financial sector in the future.

"We look not just at the vulnerability of state and local governments, but their ability to manage the impact," said Emily Raimes, vice president with Moody's Public Finance Group. "While we'll be looking at the data on rising sea levels and who may be more vulnerable, we'll also be looking at what these governments are doing to mitigate the impact."

Moody's has been especially vocal about its climate change concerns. The firm has issued numerous papers assessing climate risk, and two months ago it purchased a majority stake in Four Twenty Seven, a climate-risk data firm.

Emilie Mazzacurati, Four Twenty Seven's founder and CEO, said that the bond sector's attention to the issue should prompt local governments to make it a priority. "It creates an incentive for them to be better prepared, because it's going to cost them money if they don't."

But some worry that punishing places for their susceptibility to climate change will just make it more difficult for them to finance the infrastructure improvements that might protect them.

"Nobody has yet been penalized for having a bad environmental policy or practice or system," said

Tim Schaefer, California's deputy treasurer for public finance. "I don't know how much longer that's going to go on. I'm assuming not much longer."

Assessing Florida's Future

Governments large and small rely on the $3.8 trillion municipal bond market for much of their infrastructure work. When officials want to build a highway or a school — or a seawall or an emergency operations center — they often issue bonds, bringing in the money needed to complete the project. Investors are repaid with interest over a period that can run for decades or more.

About two-thirds of infrastructure projects in the United States are paid for by municipal bonds, and more than 50,000 states, local governments and other authorities have issued bonds to finance their work.

Governments pay higher interest rates on those bonds when their credit ratings are low. Firms such as Moody's Investors Service and Standard & Poor's Financial Services issue the ratings assessments.

"Investors are in a position of demanding a higher return when they see greater risk," said Kurt Forsgren, managing director of S&P Global Ratings.

Municipal bonds are considered a conservative investment, with a current default rate of around 0.3%, according to Matt Fabian, a partner at Municipal Market Analytics. To date, the bond market has done little to reflect that the risk may be increasing.

"There is almost no impact on muni bond prices with respect to climate change vulnerabilities. Prices do not acknowledge the risk in climate change," he said. "Most investors believe that [climate change] is going to start affecting the market right after their own bonds mature."

As more investors and firms study the risks, however, that might change.

"We are about a year away from climate change beginning to affect the muni market — a little," Fabian said. "Changes on the investor side are going to happen first, [credit] ratings will come second, and issuer behavior will be a distant third."

Some investors already have begun to factor climate change into their decisions. Eric Glass, a portfolio manager with AllianceBernstein, said his portfolio opted to steer clear of a recent three-decade bond in the Florida Keys, which is facing rising sea levels.

"What does [the Florida Keys] look like in 30 years?" Glass said. "I don't know. But I know it's not going to look like what it looks like today. That is a tough calculus to make, and we've decided not to take it."

David Jacobson, vice president of communications for Moody's Public Finance Group, called a downgrade over climate projections a "what-if type of thing." Moody's ratings are based on what its analysts expect a government's creditworthiness to be in the next 12 to 24 months, he said, even though the bonds they issue can run for decades.

"The things that are happening right now or in the next 24 months weigh a whole lot more than things we think will happen in 15 to 20 years," said Lenny Jones, a managing director at Moody's. "We're not scientists."

Credit-rating firms have always acted conservatively, said Justin Marlowe, a professor at the

University of Washington who studies public finance. To some critics, that reluctance to downgrade pre-emptively is leaving the market unprepared for the onslaught of climate effects that so many local governments will face.

That's the conundrum facing the municipal bond market right now: If the market fails to be proactive about future risks, it could lead to billions in ill-fated investments in communities at the forefront of climate change. But making it more expensive for governments with environmental liabilities to borrow money could prevent them from making the improvements needed to strengthen their infrastructure.

And just because a city is likely to be struck by sea level rise or wildfire doesn't necessarily mean it will default on its bonds. Further effects like crop yields and population shifts — and their impact on a tax base — could prove even harder to project.

"It's a pretty big step from 'we have economic impacts' to 'this is going to affect their long-term ability to repay their bonds.' There's a really big difference," Mazzacurati said. "[Ratings firms'] focus is really about counties who repay their debt. That's it. There can be really important impacts that are not going to be reflected in the bond rating, and that doesn't mean the bond rating is off."

Disaster Fallout

So far, the few climate-related credit downgrades have come after specific disasters. New Orleans and Port Arthur, Texas, experienced credit downgrades after major hurricanes. And after a fire nearly destroyed Paradise, California, last year, the pool of pension obligation bonds it was a member of saw its credit downgraded.

As New Orleans rebounded, its credit improved. The city adopted a resilience strategy, bolstered its levee system and pursued other projects, such as turning green space into water reservoirs during periods of flooding. Today, the city sees its biggest climate threat as extreme rainfall, which has increased in frequency in recent years and flooded parts of the city.

Leaders in New Orleans are asking voters to approve $500 million in new bonds, which would pay for infrastructure improvements such as the replacement of outdated pipes, as well as other goals like affordable housing. City officials say it shows New Orleans is "doubling down" on its infrastructure program.

"The environment is changing. More water's coming down in a shorter period, and we have to respond to that," said Norman White, the city's chief financial officer. "Our first responsibility is to the citizens of New Orleans. Fortunately, that lines up with investors."

Coastal cities across the country are building seawalls to stave off rising oceans. Others are elevating roadways to prepare for more frequent flooding. Some are requiring sturdier new construction and retrofitting existing buildings to withstand severe weather events. Communities in drought-prone areas may focus on projects such as water storage, while those with flooding concerns must fortify their sewage infrastructure.

Last year, Moody's surveyed the 50 largest U.S. cities; 28 responded. Among them, they had 240 climate resilience projects, totaling $47 billion. Some 60% of the projects were to combat flooding.

Florida's Miami-Dade County has been praised by analysts for its infrastructure investments focused on climate preparedness. Ed Marquez, the county's deputy mayor, said future financing is a "concern," but officials are trying to address that with capital plans focused on dealing with the changing climate.

“This is a many-year process as we fix our infrastructure, as we add new infrastructure, as new science comes on board,” he said. “Miami is still growing. People are still coming. Investors are buying our bonds. We’re telling them what the odds are, but it’s odds that they’re willing to play.”

Statewide, Florida remains in good shape creditwise, despite the challenges many of its communities are facing. Ben Watkins, the state’s director of bond finance, said that’s likely to continue, even amid hurricanes and rising sea levels. Even the most devastating hurricane seasons have ended up being a “blip on the radar” in terms of Florida’s credit health, he said. But concern remains for smaller governments within the state.

“People are dying to come to Florida and coming to Florida to die,” he said. “Until that changes, we’ll have the economic engines to be able to access credit.”

Cities with climate change risks should follow Florida’s lead and borrow now for local projects, said Fabian, the analytics researcher.

“As investors get smarter about climate change risk, it will become more expensive for governments with the largest need to borrow,” Fabian said. “Their costs to borrow could certainly be higher. Acting earlier is almost always cheaper.”

BY ALEX BROWN, STATELINE.ORG | NOVEMBER 26, 2019 AT 3:01 AM

The Troubling Decline in City Revenue Growth.

The economy continues to grow, yet cities anticipate revenue problems. How can both be true?

The most startling conclusion of The National League of Cities’ new fiscal conditions report was that revenue growth “stalled” last year and that this trend has continued—creating real problems for city budgets.

This came as a particular shock to us because gross domestic product from coast to coast continues to grow. According to the U.S. Bureau of Economic Analysis, “Real gross domestic product (GDP) increased in all fifty states in the first quarter of 2019.”

So, the question emerges: While the economy has remained healthy, why are so many cities experiencing revenue growth stagnation or even declines? Columbia, Missouri (population 122,000), for example, saw annual growth in sales tax revenues of 5.8 percent in 2011, but just 1 percent growth in 2018. The city’s budget report last year noted, “Sales tax growth has been historically low for the last four years. These revenue challenges appear to be long term problems.”

Continue reading.

Route Fifty

By Katherine Barrett & Richard Greene

Nov 24, 2019

Wells Fargo Warns of Mispricing of Risk in Municipal Bond Market.

Gabe Diederich, portfolio manager at Wells Fargo Asset Management, discusses risks within the municipal bond market. He speaks with Bloomberg's Taylor Riggs in this week's "Muni Moment" on "Bloomberg Markets."

Watch video.

Bloomberg MarketsTV Shows

November 27th, 2019, 10:07 AM PST

Understanding Municipal Debt Backed by Transportation Districts.

Transportation debt is unique in the way that it's often issued for projects that can take a long time to complete, involve multiple jurisdictions and may span across a vast region. These initiatives include: bridges, highways, public transit system (including rail and buses), ports and airports. And because these projects are rarely unique to one local government, you will often see a large metropolitan area consisting of many cities and counties taking part in these projects by creating special districts, electing a board with a unanimous consensus and funding these initiatives.

Contrary to popular belief, transportation bonds aren't limited to the big infrastructure projects mentioned above or only issued by larger jurisdictions. In 2016, Kenmore, Washington (population 22,460), passed its first bond measure in the city's history: a Walkways and Waterways bond that supports new sidewalks and buffered bike lanes along two streets in the city. The bond is tied to the city's Target Zero goal, which strives for zero fatalities of people walking and bicycling by 2025.

In this article, we will take a closer look at the transportation debt market, revenues that back up this form of obligation and how it fits in your portfolio as an investor.

Continue reading.

municipalbonds.com

by Jayden Sangha

Nov 27, 2019

Rural Communities Look to Jails for Revenue.

A new report found that rural areas are increasingly renting out jail beds to places with overcrowded facilities in an effort to bring in more revenue.

The jail population in the U.S. has been steadily falling over the past decade. Much of that decline has been driven by cities, like New Orleans, which shrunk the jail population to the lowest numbers

since 1979, and New York, where the jail now holds almost 70% fewer people than it did in the 1990s.

But jail capacity hasn't seen the same shift. Instead, rural communities, as well as some suburban localities and mid-sized cities, are often choosing to build new jails or additions. Overall jail capacity grew by over 11% between 2005 and 2013, according to a new report from the Vera Institute of Justice, a nonprofit that advocates for changes to the criminal justice system.

"Across the country, you see a really interesting trend," said Chris Mai, one of the report's authors. "While the number of people in jail is going down, capacity is going up. Small towns and rural America just keep adding more jail beds."

Continue reading.

Route Fifty

By Emma Coleman

Nov 27, 2019

How Fit Is Your School? The Methodology Behind Forbes' 2019 College Financial Health Grades.

The majority of the nation's institutions of higher education are in precarious financial straits, as many tuition-dependent colleges compete to fill freshman classes in order to stay open. Forbes' sixth report on the financial health of private-not-for profit colleges finds that the overall financial well being of colleges has deteriorated and many are in danger of closing or merging. Student demand is tapering, tuition pricing (and discounting) is growing, and unfortunately many administrations and faculties are loath to adapt to this new reality.

This is not a moment; it's a trend. The outlook for the higher-education sector is negative, according to analysts at credit agencies Moody's and Fitch Ratings. And while both public and private schools are feeling the heat, according to Fitch's Emily Wadhwani, "The typical credit characteristics of a public institution are better suited for weathering with resilience declining demand. … In general, [private colleges] are more pressured than their public counterparts."

That pressure is painfully evident in Forbes' College Financial Health Grades. The number of D-graded colleges, those with GPA's less than 1.5, have swelled from 110 when we started grading finances in 2013 to 177 today—a 61% increase. Only 34 schools, including Harvard, Brown and MIT, earn A+'s.

To grade the schools, we used data from the Department of Education's IPEDS database. We averaged the figures from the two most recent "final release" fiscal years, 2016 and 2017. Only private not-for-profit colleges with at least 500 students and sufficient data were examined, and the lowest grade we gave out was a D.

The GPA's and grades measure financial health as determined by nine components:

1. Endowment Assets Per FTE (15%): This is year-end endowment assets divided by the number of 12-month full-time equivalent students. Denison University was the lowest-scoring school to still

get full credit, with $337,980 per student; Columbia University got 14.9%, with $334,870. Eleven schools boast over $1,000,000 in endowment per student; only one, Princeton, eclipses $2 million.

2. Primary Reserve Ratio (15%): This "liquidity"-oriented ratio analyzes how well a university's "expendable assets" could quickly cover its annual expenses without straining its normal operations. Expendable assets are defined as total unrestricted net assets, plus temporarily restricted net assets plus debt related to property, plant and equipment, minus property, plant and equipment net of accumulated depreciation, divided by total annual expenses. Schools needed just beneath a ratio of 2.5, or two years and six months, to get full credit. Grinnell College in Iowa—whose endowment fund was once under the stewardship of Warren Buffett—is once again the top score, with a ratio over 14. University of Pennsylvania, despite its A+ grade, slides in just under 1.0.

3. Viability Ratio (10%): Similar to the primary reserve ratio, the viability ratio measures the amount of expendable assets a college has relative to its debt load. Many colleges carry no debt and therefore received full credit. The cutoff for a perfect score is just above 2.5. Dartmouth has a ratio of 4.8. Davis & Elkins College, a tiny school in Appalachia, was in the midst of a $100 million fundraising campaign during the years pulled for the list; by paying down its debt, it had a viability ratio of over 65—and the school now boasts no debt, according to its president, Chris Wood.

4. Core Operating Margin (10%): This measures operating profit, otherwise known as "surplus." We looked at core revenues for education, as measured by the DOE, minus core expenses. In other words, how well is a college meeting its annual obligations, like instruction expenses and student services, from the tuition, grant, gift, contract and investment revenue it takes in? Of the 933 schools ranked, 384 had negative margins. Standouts like Bates College and Berea College got near perfect scores, with operating margins around 43%.

5. Tuition As A Percentage of Core Revs (15%): Tuition-dependent schools, where tuition revenues account for more than 60% of their core revenues, tend to be at higher risk. Price discounting can have a big effect on these schools' viability, and enrollment shortfalls can mean budget misses, and potentially layoffs or cost cutting. Any college where tuition dependency is less than 10% of revenues gets a perfect score. Three schools rely on tuition for less than 5% of their revenues: College of the Ozarks, California Institute of Technology and Grinnell College.

6. Return On Assets (10%): This metric divides the change in net assets over the year for an institution by the assets at the beginning of the year. This answers the simple question of whether an institution's assets are actually growing. Only 204 saw their assets shrink; online degree leader Southern New Hampshire University, which Forbes profiled in March, earned a perfect score with an over 30% ROA.

7. Admission Yield (10%): Is a college students' first choice, or a last choice? This measure looks at the percentage of admitted students who actually choose to enroll. For this metric, we averaged the last three available years of data. Near the top of the pack is College of the Ozarks (profiled by Forbes in 2018), with an average yield over 89%. Meanwhile, colleges like High Point University and Drexel University have safety-school-type ratios, of less than 20%.

8. Percent Freshman Getting Institutional Grants (7.5%): Turns out, giving out merit scholarships does not necessarily mean a school is well-endowed and generous; it may just be desperate. This figure measures the percentage of students getting discounts, otherwise known as institutional grants, to entice enrollment. Schools where the percent is less than 40%, like Wake Forest University and Tufts University, get full credit. Fordham University and Wofford College got half credit because 90% of their first-year students receive institutional grants.

9. Instruction Expenses Per FTE (7.5%): This measure is an indicator of how much funding the particular institution devotes to the core mission of higher education per full-time-equivalent student. Washington University in St. Louis, Yale and Stanford all spend over $100,000 per student, though spending over $45,000 per student got a perfect score. The College of Idaho, graded an A, spends less than $10,000 on instruction.

Forbes.com

by Carter Coudriet & Matt Schifrin

Nov 27, 2019

Fitch Rtgs: Shape of Next US Economic Cycle Will Inform USPF Macro Stress

Fitch Ratings-New York-21 November 2019: The federal government's two primary tools to stimulate the economy, fiscal and monetary policy, may be constrained relative to previous cycles, potentially exacerbating cyclical US public finance (USPF) funding deficits and delaying the rebuilding of issuer reserves during and coming out of the next downturn, says Fitch Ratings. More limited possibilities for aggressive macro policy easing could culminate in a slower path of recovery after any future recession. This has the potential to affect the USPF cyclical stress assumption used at that time in our three to five year forward look analysis, but would not represent a change in criteria, as Fitch's criteria anticipates the potential modification of standard sector scenarios in a period of economic decline. Any such change would be communicated publicly and applied consistently from that point.

Fitch's USPF group embeds a forward-looking stress to test the resiliency of its ratings through the cycle by incorporating a multi-year scenario consisting of a theoretical cyclical moderate decline and recovery, specified in GDP terms. While Fitch does not anticipate a recession in the near term, given the long duration of the current recovery, it is useful to explore certain factors, such as the strength of the next recovery, that might inform if and when to modify USPF's standard stress scenario during and coming out of the next recession.

Policy makers may be more limited in the future to confront a future slowdown in the economy. Over the past four recessions, short-term interest rates fell by over five percentage points shortly before the onset of the recession to the low point experienced after the trough or during early recovery. Currently, treasury yields through the intermediate part of the curve are less than 2%, so such a decline would imply interest rates of between negative 3.5% and negative 4%, which is virtually impossible. Consequently, considering even slightly negative rates as the floor, rates can fall less than 2% at most, less than half the average decline relative to past recessions, to help confront a recession and spur consumer and business demand.

Continue reading.

Trump Tax Cut Sets Off Boom in Once Sleepy Corner of Muni Market.

- **Vanguard, Eaton Vance say they're buying more taxable munis**
- **Refinancing causes biggest spike in issuance since 2010**

At Eaton Vance's daily 8:45 a.m. meetings with fixed-income executives, a usually overlooked segment of the bond world has been coming up more often.

That's because a deluge of debt sales unleashed this year in the $485 billion taxable municipal-bond market is luring buyers unfamiliar with the world of public finance.

So traditional corporate-debt investors are getting crash courses on concepts like a general-obligation security pledge — which is basically just a promise to repay — and gauging how easy it will be to resell the securities when they need to raise cash. Others are dialing up their long-standing municipal-bond teams as they wade into a market that dangles higher returns and low odds of default, a standout at a time of negative interest rates overseas and frequent speculation about mounting credit risks in corporate America.

So Vishal Khanduja, who heads Eaton Vance's investment-grade portfolio management, and Craig Brandon, who leads the firm's municipal-bond investing, have been talking about taxable municipals more and more.

"In the morning meeting, the discussions have been lively over the last two months," said Khanduja, who has been buying taxable munis for his corporate-bond portfolios, as his team has in the past on occasion.

Continue reading.

Bloomberg Markets

By Amanda Albright

November 22, 2019, 5:52 AM PST

Muni Returns Will Remain Strong in 2020, BlackRock's Carney Says.

Sean Carney, BlackRock Inc.'s head of municipal strategy, discusses the outlook for the municipal bond market with JOHCM Senior Fund Manager Lale Topcuoglu and Bloomberg's Alix Steel on "Bloomberg Daybreak: Americas."

Watch video.

Bloomberg Daybreak: Americas TV Shows

November 21st, 2019, 8:02 AM PST

Economic Expansion Doesn't Help Underfunded Public Pension Plans.

Tom Kozlik, head of municipal strategy at Hilltop Securities, discusses public pension funding liabilities. He speaks with Bloomberg's Taylor Riggs on this week's "Muni Moment" on "Bloomberg Markets."

Watch video.

Bloomberg MarketsTV Shows

November 20th, 2019, 10:22 AM PST

Climate Change Disasters And Your Municipal Bonds.

There are numerous details for municipal bond investors to stress over: unfunded pensions, other post-employment benefits (OPEBs) owed, cyberattacks and their ransom demands. But the big headlines consuming municipal bond investors today is climate change and man-made disasters—flooding, droughts, hurricanes, tornadoes, and wildfires. Even the conflicted bond rating agencies are writing about this dilemma and their financial impact on states, cities and counties that lay in the path of mother nature's wrath. You can add to this list the huge man-made blunders causing California's wildfires.

Most do-it-yourself municipal bond investors haven't thought about or begun to reject issuers that can be affected by fires, climate change and other natural disasters. They should.

You may already own municipal bonds where the issuer has suffered from cyclones, hurricanes and flooding and you've come out fine. But that doesn't mean you'll still be fine going forward. Granted, a catastrophe doesn't mean a bond will default but the numbers and frequency continue to mount.

These disasters will eventually impact municipal bond ratings, debt service coverage, and in some cases may actually cause defaults.

When you analyze your municipal bond portfolio you must consider location (coastal or inland). Study enhanced infrastructure projects like flood systems, levee systems, storm drains, brush clearings, emergency preparedness to access if the city, school district, or hospital can survive and continue making interest and principal bond payments in the wake of a disaster. Stay away from areas that constantly are in a state of drought such as California's Central Valley. Risks are now everywhere. This isn't an apocalyptic warning, it's reality.

Today In: Money
I'm no tree-hugger. But as a native Californian having lived through multiple earthquakes, I expect the big one will happen someday as will other multibillion-dollar climate events that are increasing in frequency.

The collateral damage for municipalities suffering such events can be overwhelming: economic disruption, citizens leaving and taking with them the sales taxes, property taxes and personal income tax revenues the cities and states rely on. Each is essential to pay the interest on their municipal bonds.

If you invest in essential projects, you'll be better off if a disaster occurs. Los Angeles County can survive without Long Beach Airport. But it cannot survive without Los Angeles International Airport—it's the heart of the economy and the arterial system for commerce. Los Angeles International Airport is essential and one of the main reasons I love the top ten large U.S. airport municipal bonds.

In the past, assistance programs from the federal and state governments have been the climate and wildfire disaster safety nets. But those safety nets cannot coax residents into staying as time and time again floods, fires, hurricanes and tornadoes wreck lives and damage property.

Is having insured municipal bonds a safety net? Only if the insurer runs the business properly, doesn't over-commit and is profitable. We saw little of the above during the man-made financial disaster of 2008-2009.

Eventually all these factors appear in the Official Statements when newly issued municipal bonds come to market. Still, after 40 years of dealing with bonds and individual investors, I've met only a handful of people who have ever read such offering documents.

Bottom line: Geographic diversification is helpful as is investing in multiple different issuers. Make sure your issuers aren't in harm's way when a disaster hits. Remember, stadiums, aquariums, museums, hockey rinks, libraries and concert halls are not essential and don't deserve your bond investment dollars. But airports, municipal water districts and sewers are indispensable and worthy of investment. Just use common sense.

If you own municipal bond funds, you'll need to read their quarterly reports for climate change and disaster commentary. If the bond mutual funds aren't commenting, then they aren't being prudent with your money. You might need to change horses to one that doesn't just value yield and total return—but equally values preservation of your capital.

Forbes

by Marilyn Cohen

Nov 17, 2019

With Overall State Spending Up, Transportation Sees Notable Gains.

At least 18 states raised spending on transportation programs by 10% or more in fiscal 2019, based on estimates in a new report.

State government spending across the U.S. increased to an estimated $2.1 trillion in fiscal year 2019, with the amount of money going toward transportation notably growing, according to a report that the National Association of State Budget Officers released on Thursday.

Overall spending was up from $2 trillion in fiscal 2018. That means spending grew in 2019 at an estimated rate of 5.7%, slightly above a 33-year average of 5.6%, NASBO said. The findings were included in the latest edition of the group's State Expenditure Report.

Brian Sigritz, NASBO's director of state fiscal studies, said the spending increases can be traced to some extent to more robust tax collections states have seen in the past two years. General fund revenues were more sluggish during fiscal years 2016 and 2017.

"The relatively strong national economy, that has led to gains in state revenues," Sigritz said.

Amid these windfalls, some states are putting more money toward transportation.

During 2019, NASBO's report indicates that 18 states increased spending of state funds on transportation by at least 10%. Overall state transportation spending, including proceeds from bonds and federal funds flowing to states, grew at a rate of 8.9%.

Transportation spending by states in 2019 was roughly $172 billion, about 8% of total expenditures.

Sigritz pointed out that there are both Democratic and Republican states that have prioritized transportation in the past five years or so.

In some places this has meant raising gas taxes, imposing fees on electric vehicles and adding toll lanes. Some of the revenue from sources like these is now working its way through budgets.

NASBO tracks spending in seven program areas, all of which saw estimated increases in spending during fiscal 2019, which ended on June 30 for most states.

Along with transportation, the area where spending grew the most was an “all other” category that can include a range of items, such as pension contributions, employee pay raises, “rainy day” or reserve fund savings, and expenses tied to natural disasters.

Seventeen states spent at least 10% more state funds in this “all other” category in fiscal 2019, while the overall growth rate was 7.5%. What share of this spending went toward specific areas, like pensions or rainy day funds for instance, isn’t outlined in the NASBO report.

Education and Medicaid continue to be big cost drivers for states. Excluding federal funds and bonds, in fiscal 2019 about 25% of state spending went toward K-12 programs and 13% went toward higher education, while about 16.4% was allocated to Medicaid.

When including federal funds, Medicaid accounted for nearly 29% of state spending in fiscal 2019.

Medicaid has increased as a share of state spending since the Great Recession and after the Affordable Care Act, or Obamacare, was enacted, growing from around 20% in 2008 to its current level, although in 2019 it fell slightly as a proportion of state spending.

The Affordable Care Act gave states the option to expand Medicaid to cover more people. The program, which provides health insurance coverage for low income Americans, is “counter-cyclical,” meaning costs tend to go down when the economy is better.

A copy of NASBO’s report can be found here.

Route Fifty

by Bill Lucia

November 21, 2019

The Bond Buyer to Celebrate 2019's Deal of the Year Honorees at Annual Gala.

18th Annual Awards Ceremony to be held on December 4 at the Conrad New York Downtown.

NEW YORK, Nov. 22, 2019 /PRNewswire-PRWeb/ — The Bond Buyer has announced its finalists for the 18th Annual Deal of the Year Awards. Those honored will be recognized on December 4 at the annual Bond Buyer’s Awards Gala at the Conrad New York for their outstanding achievement in municipal finance.

This year’s awards include the addition of three new categories, ESG/Green, Public-Private

Partnership (P3), and Innovation. The total number of categories of deals eligible for awards has been increased to 10; all 10 of these winners are also finalists for the national Deal of the Year Award, which will be presented at the NYC ceremony.

“This year’s lineup reflects the full range of communities and public purposes this market comprises,” said Mike Scarchilli, Editor in Chief of The Bond Buyer. “The deals honored vary in size, complexity and structure — as were the nominations we received, which were deeper and more diverse than ever. We’re excited to honor these creative and resourceful institutions and highlight their incredible achievements. ”

Submissions for the awards were open to all transactions that closed between October 1, 2018 and September 30, 2019. Those ultimately deemed finalists were selected by The Bond Buyer’s editorial board. Judging criteria included the following: creativity, the ability to pull a complex transaction together under challenging conditions, the ability to serve as a model for other financings, and the public purpose for which a deal’s proceedings were used.

A full list of finalists can be found below:

- Innovative Financing: Cities of Dallas and Fort Worth, Texas
- ESG/Green Financing: Los Angeles County Metropolitan Transportation Authority
- Public-Private Partnership Financing: Virginia Small Business Financing Authority
- Health Care Financing: CommonSpirit Health
- Smaller Issuer Financing: Vermont Municipal Bond Bank
- Northeast Region: Battery Park City Authority
- Midwest Region: Indianapolis Local Public Improvement Bond Bank
- Southwest Region: City of Austin
- Southeast Region: Solid Waste Authority of Palm Beach County, Florida
- Far West Region: San Diego Association of Governments

In addition to recognizing the Deal of the Year finalists, the December 4 gala will include the presentation of the Freda Johnson Award for Trailblazing Women in Public Finance to two public finance professionals, one from the public sector and the other from the private. The 2019 recipients are Ritta McLaughlin, most recently the MSRB’s Chief Education Officer and Courtney Shea, the owner and managing member of Columbia Capital Management, LLC.

“The Bond Buyer has developed as an essential resource for municipal finance and real time market data. We are so honored to be presenting these prestigious Deal of the Year awards for the 18th annual year,” said Gemma Postlethwaite, CEO of SourceMedia. “I am also truly pleased to recognize Ritta McLaughlin and Courtney Shea for their leading-edge work as public finance professionals.”

For more details on each finalists and their award winning initiative, please visit bondbuyer.com. The National Deal of the Year recipient will be announced at the December 4 gala and will be listed on bondbuyer.com that evening.

About The Bond Buyer
The Bond Buyer is the only independent information resource serving the entire municipal finance community. Its comprehensive paid-subscription package of news, analysis and data is unique in the industry, serving a complete spectrum of senior industry professionals, through its website, e-newsletters and alerts, and daily print edition.

About SourceMedia
SourceMedia is a business information and marketing services company that advances professional

communities. The company engages professionals in financial services, as well as leaders in advisory and data management, with deep, agenda-setting content, peer networks, and provocative research and benchmarking. Our brands drive the transformative conversations shaping these industries, and include American Banker, The Bond Buyer, PaymentSource, Financial Planning, Digital Insurance, Accounting Today, and National Mortgage News.

Seeing Green: Investing in Municipal Green Bonds to Support Local Climate Projects.

New York – Responsible investment vehicles seek to align investments with investors' values through programs and projects that contribute to local communities in a positive way. Green municipal bonds offer investors the opportunity to support climate-aligned projects in such sectors as transportation, water and waste infrastructure, pollution control and renewable energy, which includes wind and solar power.

Green bond issuance

Green bonds are standard municipal bonds whose proceeds are used specifically to fund environmentally beneficial projects, as well as social and governance improvements.1 These bonds can encompass not only climate-related issuers in public power, water and sewer, but also issuers in the education, health care and affordable housing sectors of the market.

Green-labeled issuance remains small. In 2017, there was $12 billion of green bond issuance in the US municipal market, an increase of 85% over the $6.5 billion of municipal green bond issuance in 2016.2 Total par declined to $4.9 billion in 2018 — a drop of 50% from 2017 and 33% less than was issued in 2016 — reflective of lower municipal issuance overall.

Continue reading.

Eaton Vance

by Lauren Kashmanian

Municipal Portfolio Manager
Eaton Vance Management

November 20, 2019

Future Returns: ESG Investing in Nonprofit Municipal Debt

The environmental, social, and governance (ESG) investing trend has taken a leap forward recently from a stock-centered approach to include fixed income, but it has largely overlooked debt issued by community-based organizations that can have direct, measurable impact on pressing local issues.

Municipal bonds issued by small nonprofit groups working to bring about change in their communities can satisfy investors' growing appetite for impact investing ideas while paying yields ranging from 4.5% to 6%, says Buck Stevenson, managing director and portfolio manager at

Silvercrest Asset Management Group in New York.

In contrast to green municipal bonds issued by large entities such as the Massachusetts Water Resources Authority or San Francisco Public Utilities, many smaller municipal bonds with the potential for social rather than environmental impact—the "S" in ESG—have been strikingly absent from the values-based investing dialogue, Stevenson says, adding that he is working hard to change that.

"We are educating our clients that you don't have to look far to do good in your community," he says. "We're talking about issuers that fly under the radar—you wouldn't know them unless you were in their local area."

Nonprofits Fill Vital Needs With Debt

Community hospitals, charter schools, and organizations providing mental health care and veterans services are among the groups that are typically structured as nonprofit organizations with 501c(3) status, and can issue debt to raise funds for improvements, new facilities, equipment, and other needs.

These services fill a critical need and are nothing new, "but they've never been looked at as an impact investment, which is what they really are," Stevenson says. "We're not reinventing anything; we're trying to highlight the good that these financings do to communities. You can visit facilities and see exactly what your investment built."

Consider the New Dawn Charter School in the Carroll Gardens neighborhood of Brooklyn, N.Y. The school's mission is to draw kids back to school who have fallen out of the education system. Earlier this year, the school issued $20.6 million in 30-year debt to buy and renovate a new facility. The yield: a tax exempt 5.37%.

"This is a very good investment, and to top it off, the school focuses on finding kids who have dropped out and could have had problems down the road," Stevenson says. "It has 300 students with an 80% matriculation rate."

Another example in Silvercrest's portfolio is the Hopeway Foundation, a Charlotte, N.C., area provider of both outpatient and inpatient mental health services that focus on substance abuse rehabilitation, post-traumatic stress syndrome for veterans, and other issues.

A 30-year bond paying 6% is being used to renovate structures on 12 acres and attract top professionals. Hopeway has built referral services in its area, so when hospital services fall short, doctors can refer patients to its facilities.

These munis are considered to be riskier than investment-grade issues, because they are nonrated. But that's typically because they are such small deals, "not because the credit is no good," Stevenson says. "If you're talking about a $20 million deal or a $7 million deal, to pay an extra $100,000 to get a rating doesn't make sense."

Making Sure the Deals are Strong

Due diligence is where Silvercrest's credit research team pulls its weight. Stevenson wants to see a solid balance sheet with manageable debt levels, strong demand, and sustainable revenues. He avoids rules of thumb when it comes to what constitutes too much debt, particularly for health-care facilities because their compensation methods vary. Medicare reimburses at a higher level than Medicaid, for example—so a manageable level of debt will vary depending on the composition of

reimbursements, among other factors.

Beyond a financial analysis, Stevenson wants to see a good answer to the question, “Does this facility need to be there?” he says. “If there is a problem and people work together to solve it, that’s an important factor that’s not going to show on a balance sheet.”

Strong community support is a powerful driver of these organizations’ success and an important sign to investors that an issuer has the potential to make good on its debt. For example, when the folks in King Fisher, Okla.—a city with a population of roughly 4,900—voted overwhelmingly to raise the local sales tax by 1% to help support their local 25-bed hospital, the resounding support caught Stevenson’s attention. The hospital’s debt, issued to rebuild its facility, is currently a part of Silvercrest’s portfolio.

Really, All Munis Have a Social Bent

Taking a step back from these smaller issuers, which account for about $220 billion, the $3.7 trillion municipal bond market in general can be viewed as strong investments for values-based investors. Muni bonds, by definition, bring about improvements in water systems, infrastructure, schools, and other aspects of daily life.

But it can be harder to feel as connected with, say, a massive international airport renovation than with solving a problem in a community you feel connected to. Says Stevenson, whose firm has relationships with 30 small broker dealers around the country that help scout out smaller deals, “these munis are the ‘S’ in ESG.”

Barron’s

By Karen Hube

Nov. 19, 2019 11:29 am ET

Green Banks and Green Bonds are Bringing Billions to Utilities for the Energy Transition.

The financial mechanisms are bringing investors to renewables and distributed energy as utilities, co-ops and munis move away from uneconomic legacy assets.

Hundreds of billions of dollars in untapped new money can finance the U.S. power system’s transition away from legacy fossil assets to renewables and distributed generation.

Utilities like Duke Energy and Xcel Energy have issued billions in green bonds to fund renewables development. Green banks in New York, Connecticut and other states are backing investments in distributed resources and energy efficiency. It appears much more institutional money wants in on the green opportunity.

“Green bonds are a capital-raising mechanism that a wide range of institutions could use to raise capital,” Coalition for Green Capital Executive Director Jeff Schub told Utility Dive. “A green bank is an institution [capitalized by public funds] that invests capital in clean energy projects. [They] are complementary, capital raising and capital deploying.”

Continue reading.

Utility Dive

by Herman K. Trabish

Nov. 19, 2019

S&P U.S. Not-For-Profit Health Care Rating Actions, October 2019

View the Rating Actions.

New Approaches to Large-Scale Green Stormwater Infrastructure Investment Build Climate Resilience.

More frequent and intense rainstorms. Elevated heat and humidity. High water levels and increased shoreline erosion. The realities of climate change, combined with aging and outmoded stormwater infrastructure, create a crisis for Great Lakes stormwater managers.

The good news is many of these challenges can be mitigated through the construction of green stormwater infrastructure–constructed wetlands, porous concrete, and bioswales that help treat stormwater and take the pressure off traditional gray infrastructure like sewers, pipes, pumps, and tunnels. But communities are challenged to fund and implement projects at the scale needed to address the crisis.

Fortunately, new thinking and approaches to funding and constructing green stormwater infrastructure are emerging. These methods, which combine market principles with community benefits, are upending the traditional economics and practice of building green stormwater infrastructure and are bringing climate resilience within reach.

Continue reading.

P3 GREAT LAKES INITIATIVE | THURSDAY, NOVEMBER 21, 2019

FAA Focuses on Controlling Revenue Diversion.

The concern of the Federal Aviation Administration ("FAA") regarding the use by airport operators of airport generated revenues to soften budget shortfalls off the airport appears to be growing. In a speech delivered at the November 11, 2019 National Air Transportation Association Leadership ("NATA") Conference, Kirk Shaffer, FAA's Associate Administrator for Airports, solicited the assistance of the aviation community in working with jurisdictions on compliance. Mr. Shaffer went on to opine that jurisdictions that operate airports are sometimes unaware of the laws governing revenue diversion, or confused by revenue flows, particularly as related to state and local taxes. He illustrated the problem by sharing the fact that, of the 177 jurisdictions with which the FAA has worked over the past five years on revenue diversion issues, 107 still remain noncompliant.

That number of noncompliant jurisdictions is somewhat surprising as the rules governing the use of airport revenues from airports are fairly explicit. The general rule is that revenues generated by a public airport may only be expended for the capital and operating costs of: (1) the airport; (2) the local airport system; or (3) other facilities owned or operated by the airport operator and directly and substantially related to the air transportation of passengers or property. 49 U.S.C. §§ 47107(b)(1) and 47133(a). The use of airport revenue for purposes other than airport capital or operating costs is generally considered "revenue diversion" and is prohibited by federal law. See Policy and Procedures Governing the Use of Airport Revenue, 64 Fed.Reg. 7696, 7720 (February 15, 1999) ("Revenue Policy"). Airport revenues subject to the revenue use requirements include all fees, rents, charges, or other payments received from anyone who makes use of the airport and from the airport sponsor's activities on the airport. Id. at 7716.

The third prong provides unique revenue allocation opportunities to airport sponsors that own or operate other facilities.

Specifically, the statute permits sponsors to use airport revenue for other facilities owned or operated by the airport owner and directly and substantially related to the air transportation of passengers or property. "Owned" means that the airport owner or operator holds legal title to the facilities for which airport revenue is used. FAA Bulletin 1: Best Practices – Surface Access to Airports (2006). "Operated" means that the local or state government or authority that owns or operates the airport is legally responsible for the operation of the facility and operates the facility either with its own employees or through a management contract with another public agency or private firm. Id. "Directly and substantially related to the air transportation of passengers" is a standard that FAA interprets on a case by case basis with a focus on whether the project of facility is intended primarily for users of the airport. Where revenues are not expended wholly or primarily for users of the airport, they must be prorated to the actual or forecasted use of the facility. For example, if 10% of actual or projected use of the facility will be for non-airport purposes, the airport revenues can only be used to pay for 90% of the project.

Finally, federal law and policy permit the use of airport revenues for certain costs of off-airport environmental mitigation incurred for an airport development project. "Airport revenue may be used where airport development requires a sponsoring agency to take an action, such as undertaking environmental mitigation measures contained in an FAA Record of Decision approving funding for an airport development project, or constructing a ground access facility that would otherwise be eligible for the use of airport revenue." Revenue Use Policy at 7720.

In short, airport operators are allowed to spend airport generated revenues on airport operation and development, including an off-airport project that contributes substantially to that operation and/or development. Off-airport uses that are unrelated, or marginally related, to airport operation or development are explicitly precluded by the airport revenue use policy.

This emphasis is particularly interesting in light of FAA's recent decision to allow the City of Santa Monica to use airport revenues to tear up portions of its runway to make access by jets less likely. (See blog post FAA Ignores Its Own Regulations in Allowing Expenditure of Airport Revenue to Demolish Runway at Santa Monica Municipal Airport, November 11, 2019). Nevertheless, revenue diversion occupies a central position in the complex of policies directed at airport development. It is essential for any airport operator to understand and apply these policies scrupulously, for the purpose of avoiding FAA retribution, including, but not limited to, repossession of grant funds already allocated, sometimes amounting to millions of dollars. In the long run, being safe is more effective than being sorry.

by Barbara Lichman

November 15 2019

Buchalter

Homespun Firms Challenge Wall Street's Muni-Bond Supremacy.

The SEC is considering allowing advisers to arrange sales to skilled investors without the involvement of large banks and midsize brokers

Wall Street's longstanding hold on the $4 trillion municipal-bond market faces a challenge from an onslaught of small, independent firms known as municipal advisers.

The Securities and Exchange Commission is considering allowing these advisers to arrange private bond sales to skilled investors without the involvement of the large banks and midsize brokers that have for decades dominated the market for high-grade local government debt.

Though private sales make up only a small portion of the overall market, broker-dealers—as these banks and brokers are known because they price and sell new bonds and trade existing ones—aren't eager to face further inroads.

Continue reading.

The Wall Street Journal

By Heather Gillers

Updated Nov. 13, 2019 6:04 pm ET

Muni-Bond Trading Evolves.

Slowly but surely, change is coming to municipal bond trading.

For brokers, tech providers and trade-venue operators seeking to modernize transactions, the $3.8 trillion muni-bond market has all the challenges, in spades — small issue size, little standardization, and a highly dispersed network of buyers and sellers. When a local savings and loan needs to buy a municipal bond backing a toll road on behalf of a wealth management client, the S&L representative historically has picked up the phone to do so.

Electronic trading has gained traction in government and corporate bonds, so technology providers and trading-platform operators are looking to export advances in those markets to their fixed income cousin. It is expected to be a long path with incremental gains, very much an evolution rather than a revolution.

"It's not going to be an overnight change where all the tools and protocols that happen over voice will appear on a platform on day one," said Amanda Meatto, Head of Sales and Relationship Management at fixed income marketplace Tradeweb Direct. "The wide range of securities and deals in the municipal marketplace make it more complex."

“What we see happening in munis is a phased approach, where step one is enhancing liquidity, connecting people with as many broker-dealers as possible, and automating small workloads that are very manual today,” Meatto continued. “Those are the simpler parts of electronifying a product. There will be multiple stages of innovation from there, driven by the needs of buy-side and sell-side institutions.”

While only 12 to 15 percent of municipal bond trading volume is conducted electronically, uptake by financial institutions is moving the needle. In 2018, 62% of buy-side firms traded munis on a screen, up from 51% two years earlier, according to a Greenwich Associates report published in 2Q 2019.

“Investors — primarily asset managers and hedge funds — are increasingly looking to e-trading platforms for order execution,” Greenwich wrote. “The largest institutions are a leading indicator of technology adoption.”

One unique characteristic of the muni market is a comparatively small average trade size, in the order of $100,000-$200,000. High net worth individuals are an important presence in the muni market, especially via the $6.8 billion parked in separately managed accounts; Tradeweb is aiming to better connect institutions with this retail order flow.

Last month, the platform operator announced a partnership with InvestorTools, a provider of portfolio management and credit analysis systems for institutions, to enable straight through processing for municipal bond trades executed by Tradeweb Direct clients.

“The portfolio manager sits in InvestorTools to make decisions, and the next part of the workflow is execution,” Meatto explained. “It was a natural progression for us to link up to streamline the PM’s or trader’s pivoting from choosing bonds, to looking for liquidity and then executing.”

Meatto noted that the muni-bond market lends itself to electronic trading in the sense that buyers often search on criteria, such as duration and coupon, rather than coming in to buy one specific issue as is often the case in corporates and Treasuries. As there were an estimated 1.02 million different muni issues as of February according to Greenwich, electronic platforms can make inventory searches manageable.

Going forward, the challenge for electronic trading is to move beyond just the smaller, so-called odd lot trades and make headway in deals north of $1-$2 million. “How do we electronify two people speaking to each other to agree on a price?” Meatto asked. “That is going to be a huge part of electronifying the round-lot marketplace for muni bonds.”

By Markets Media’

11.13.2019

Municipal Bond CEFs - Pressure For The Sector After The Treasury Yields Increase

Summary

- All of the net asset values of the municipal bond closed-end funds finished the week in negative territory.
- We continue to follow the most important yields and municipal/Treasury spread ratio.

- Most of the funds from the sector are still trading at positive Z-scores, and we do not see a statistical edge to include some of them in our portfolio.

Continue reading.

Seeking Alpha

Nov. 14, 2019

Municipal CUSIP Request Volume Surges in October.

NEW YORK, NY, November 11, 2019 – CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for October 2019. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found significant increases in CUSIP request volume for municipal debt and a slight decline in requests for corporate debt identifiers in October.

Read Report.

34% Monthly Increase in Muni Requests Puts Year-to-Date Volume on Record Pace.

“The favorable interest rate environment for debt issuers has put municipal bond CUSIP request volume on pace for a record year,” said Gerard Faulkner, Director of Operations for CUSIP Global Services. “While we have seen some month-to-month volatility in the municipal bond category over the course of 2019, the general trend for the first three quarters has been toward steady growth.”

Read Press Release.

The MSRB Adds Links to Additional Indices on EMMA®

View the new links.

MSRB’s Quarterly Trade Statistics Report.

Municipal market trading declines to $723 billion in the third quarter.

Read the MSRB’s quarterly trade statistics report.

Denver Supportive Housing Social Impact Bond Initiative: Housing Stability Payments

Abstract

In February 2016, the City and County of Denver and eight private investors closed on the city's first social impact bond, an $8.6 million investment to fund a supportive housing program for 250 of the city's most frequent users of the criminal justice system. The city will make outcome payments over five years based on the initiative's goals of housing stability and a decrease in days spent in jail by participants. This report details the third assessment of housing stability payment outcomes and interim housing stability outcomes for the program.

Read the full report.

The Urban Institute

by Mary K. Cunningham, Sarah Gillespie, Devlin Hanson, Mike Pergamit, Alyse D. Oneto & Prasanna Rajasekaran

November 12, 2019

Fitch Ratings: Upgrades Again Outpace Downgrades for U.S. Public Finance in 3Q19

Fitch Ratings-New York-14 November 2019: Last quarter saw a bump in rating activity for U.S. municipal credits with upgrades again exceeding downgrades, according to Fitch Ratings in its latest Rating Actions & Sector Updates report for U.S. public finance.

As of third-quarter 2019 (3Q'19), the quarterly special report consolidates content from previous U.S. Public Finance Rating Actions and Sector Briefing special reports, and discusses the latest key credit issues for each sector.

Fitch upgraded 45 U.S. public finance security ratings and downgraded 31 in 3Q'19, compared with 34 upgrades and 19 downgrades in 2Q'19. Positive Rating Outlooks and Watches also increased by four to 99 (from 95 in 2Q'19) while Negative Rating Outlooks and Watches fell to 102 in 3Q'19 compared with 106 in 2Q'19.

On Oct. 7, 2019, Fitch resolved all 42 public power long-term ratings placed Under Criteria Observation after revisions to the U.S. Public Power Rating Criteria in April 2019. Nine out of 16 public power long-term rating upgrades and all four downgrades in 3Q'19 were the result of the criteria revision.

'U.S. Public Finance Rating Actions & Sector Updates: Third-Quarter 2019' is available at 'www.fitchratings.com'.

Contact:

Laura Porter
Managing Director, Head of U.S. Public Finance
+1 (212) 908-0575

Fitch Ratings, Inc.
300 West 57th Street
New York, NY, 10019

Dennis Pidherny
Managing Director, U.S. Public Power Analytical Lead
+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

Haskell and Richbourg on Municipal Bond Market (Podcast)

Lisa Abramowicz and Paul Sweeney speak with Patrick Haskell Managing Director of Municipal Securities at Morgan Stanley and Scott Richbourg, Head of Public Finance at Build America Mutual.

Play Episode

Bloomberg Markets

November 14, 2019 — 8:19 AM PST

Fitch Ratings: U.S. Water Utilities' Financial Profiles Strengthen

Fitch Ratings-Austin-11 November 2019: Net margins accelerated for U.S. water utilities over the last year while sector leverage declined, according to a new report from Fitch Ratings.

Surplus cash flows climbed to 135% of annual depreciation in the current median cycle as revenues expanded over 5% and expenses were held in check. Most of the revenue growth occurring continued to come from rate adjustments. Water sales were marginally positive while sewer flows were flat, similar to recent results. 'Revenue growth is expected to continue expanding at about 3% annually based on planned adjustments, with revenue volatility sufficiently mitigated by residential rate structures that typically recover 40% of charges from fixed components,' said U.S. Public Finance Managing Director Doug Scott.

With the current medians, sector debt service coverage reached its highest levels observed by Fitch. Strong operations and robust reserves allowed the sector to utilize more pay-go funding for capital, which in turn drove virtually all debt metrics lower. Despite some drawdown of cash balances, liquidity levels continue to be among the highest seen and are more than 55% above those a decade ago, providing a significant degree of flexibility to utilities in managing their business.

Capital spending dipped to a four-year low of around 130% of depreciation, but was sufficient to maintain the age of facilities. The drop in capital deployment appears to be relatively short-term as utility capital projections for the next few years jumped around 20% relative to the last medians. 'While planned outlays have increased, sector leverage is expected to remain relatively unchanged given two-thirds of capital funding is anticipated to come from available resources,' said Scott.

Fitch's '2020 Water and Sewer Medians' is available at 'www.fitchratings.com'.

Contact:

Doug Scott
Managing Director
+1-512-215-3725
Fitch Ratings, Inc.,
111 Congress Avenue, Suite 2010
Austin, TX 78701

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

Additional information is available on www.fitchratings.com

Muller and Dewey on Municipal Bond Market (Podcast)

Lisa Abramowicz and Paul Sweeney speak with Mark Muller, Senior Portfolio Manager at Loews Corporation and Grant Dewey, Head of Municipal Capital Markets at Build America Mutual.

Play Episode

Bloomberg Markets

November 14, 2019 — 8:44 AM PST

Bond and Market Analysis from Build America (Podcast)

Paul Sweeney and Lisa Abramowicz broadcast from Build America in New York City. Their guests include: Sean McCarthy, CEO Build America Mutual, Scott Richbourg, Build America Mutual Head of Public Finance, Patrick Haskell, Morgan Stanley Head of Public Finance, Grant Dewey, Build America Mutual Head of Capital Markets, Mark Muller, Head of Municipal Investments at Loews Corp, David McIntyre, Build America Mutual Chief Information Security Officer and Jonathan Couch, Sector Cyber-Security Expert. Hosted by Paul Sweeney and Lisa Abramowicz.

Listen to podcast.

Bloomberg Markets

November 14, 2019 — 9:17 AM PST

Multifamily Private Activity Bond Issuances Decline 3.7 Percent in 2018.

Housing finance agencies issued $14.7 billion in tax-exempt multifamily rental housing bonds in

2018, a 3.7 percent decrease in multifamily issuance from last year, according to the Council of Development Finance Agencies (CDFA).

The issuance of single-family mortgage revenue bonds increased more than 50 percent, from $5.6 billion in 2017 to $7.4 billion in 2018. The combined multifamily and single-family mortgage revenue bond issuances increased by 5.3 percent to $22.1 billion. The percentage of volume cap private activity bonds (PAB) issued in 2018 for single and multifamily housing in the 50 states and the District of Columbia was 91.5 percent of all volume cap PAB activity, a record high.

The decrease in multifamily PAB issuance is not surprising, because of the risk of repeal of PABs at the end of 2017 as part of the tax law commonly known as the Tax Cuts and Jobs Act (TCJA) of 2017. Many planned 2018 multifamily issuances were accelerated into 2017 to eliminate the risk, evidenced by the fact that multifamily PAB issuance in 2017 was nearly $15.3 billion, compared to $14 billion in 2016.

This year's CDFA report, "CDFA Annual Volume Cap Report: An Analysis of 2018 Private Activity Bond & Volume Cap Trends," states that total annual private activity bond cap in 2018 increased 5.1 percent to $37.1 billion. The CDFA report surveys agencies from the 50 states and District of Columbia that allocate private activity bond cap among the eligible uses.

In addition to the $37.1 billion in new 2018 bond volume cap available, state agencies had an additional $53.1 billion in existing carryforward allocation. The resulting total available amount of national volume cap was approximately $89.8 billion in 2018. Of that, $24.1 billion in bond volume was issued, a slight 2.9 percent decrease from 2017.

CDFA also reported a total of $4.75 billion in total private activity bond cap abandoned, as states have three years to use such authority before it expires. Such a total represents a more than 50 percent decrease from the last time CDFA reported on abandoned cap in its 2016 report. However, 10 states—Alaska, Arizona, California, Florida, Iowa, Mississippi, Missouri, New Hampshire, New York and Tennessee (a list that includes some significant bond-issuing states)—did not report on how much bond cap was abandoned in 2018, and so the total 2018 reported amount likely under-reported the actual amount. See list below for full details.

Published by Michael Novogradac on Tuesday, November 5, 2019 – 12:00am

---

Fitch Ratings: U.S. Water Utilities' Financial Profiles Strengthen

Fitch Ratings-Austin-11 November 2019: Net margins accelerated for U.S. water utilities over the last year while sector leverage declined, according to a new report from Fitch Ratings.

Surplus cash flows climbed to 135% of annual depreciation in the current median cycle as revenues expanded over 5% and expenses were held in check. Most of the revenue growth occurring continued to come from rate adjustments. Water sales were marginally positive while sewer flows were flat, similar to recent results. 'Revenue growth is expected to continue expanding at about 3% annually based on planned adjustments, with revenue volatility sufficiently mitigated by residential rate structures that typically recover 40% of charges from fixed components,' said U.S. Public Finance Managing Director Doug Scott.

With the current medians, sector debt service coverage reached its highest levels observed by Fitch. Strong operations and robust reserves allowed the sector to utilize more pay-go funding for capital, which in turn drove virtually all debt metrics lower. Despite some drawdown of cash balances, liquidity levels continue to be among the highest seen and are more than 55% above those a decade ago, providing a significant degree of flexibility to utilities in managing their business.

Capital spending dipped to a four-year low of around 130% of depreciation, but was sufficient to maintain the age of facilities. The drop in capital deployment appears to be relatively short-term as utility capital projections for the next few years jumped around 20% relative to the last medians. 'While planned outlays have increased, sector leverage is expected to remain relatively unchanged given two-thirds of capital funding is anticipated to come from available resources,' said Scott.

Fitch's '2020 Water and Sewer Medians' is available at 'www.fitchratings.com'

Contact:

Doug Scott
Managing Director
+1-512-215-3725
Fitch Ratings, Inc.,
111 Congress Avenue, Suite 2010
Austin, TX 78701

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 Report Shows Some States Are In Terrible Financial Shape.

By Jose Nino, includes "… The bottom three states — Connecticut, Illinois, and New Jersey — have the highest debt burden per taxpayer. … These states are also known for having forced unionization, sub-optimal tax policies, bad environments for starting a business, and their lack of affordable housing options thanks to heavy land-use restrictions. None of these are policy coincidences. …"

Read the full article on: Advocates for Self-Government

Jose Nino | November 14, 2019

Learnings from the Private Sector for Local Government Operations.

The concept of public private partnership is nothing new and you will often see a strong presence of private companies in local, state and federal government operations – including IT, public finance consulting, wealth management, HR and many other areas where public finance relies heavily on the industry experts from the private sector.

These partnerships are often formed either because there isn't enough in-house knowledge/expertise to take on the project or simply because the private sector has already completed similar projects for

other jurisdictions and has the experience to complete the work. For example, let's assume that a local government is looking to raise capital to build a public library. Many of the local and state government will hire the right private sector partners to see the project to fruition, from the municipal advisor to the bond counsel to the fixed income underwriters.

It's quite evident that, given the business potential, there are many private companies that are rapidly changing their business models to include and go after local government business pretty aggressively. However, you may also hear the term "red tape" often used when describing the local government operations, or government operations in general, which simply means "excessive bureaucracy or adherence to rule and formalities".

In this article, we will take a closer look both at private sector involvement in local government operations and learnings for local governments from the private sector.

Continue reading.

municipalbonds.com

by Jayden Sangha

Nov 13, 2019

America's Housing Crunch Is So Bad It May Hurt City Bond Ratings.

- **Moody's foresees long-term impact if problem keeps worsening**
- **San Francisco approves $600 million bond for affordable homes**

Not only is the shortage of affordable housing and the number of homeless on America's streets a social and public policy crisis, it's increasingly becoming a risk for municipal-bond buyers as residents of high-cost cities struggle to make ends meet.

Home prices are up 33% nationwide over the past five years and the homeless population increased in Los Angeles, New York City and the Seattle metro area between 2014 and 2018, according to a report from Moody's Investors Service. Failure to deal with these changes puts local governments's bond ratings at risk as residents move to cheaper jurisdictions, spend less and use more social services.

It's an issue that has a growing importance for investors in the $3.8 trillion municipal-bond market, especially those with long-term horizons like life-insurance companies. That's because bad economic development policies and housing stresses can factor into decisions to buy a bond or not, said James Lyman, director of research for the municipal fixed-income team at Neuberger Berman.

"This has been evolving more quickly as a credit factor in recent times," Lyman said. "It really depends on the type of client, the duration of the bond you're buying and the speed at which the problem is evolving."

The rising cost of living in America's major cities isn't posing much of an immediate risk for investors, with governments including San Francisco, Los Angeles County and New York City all winning bond-rating upgrades as the rising values increase property tax revenues that are one of their biggest sources of cash. But widening inequality could pose a challenge if it continues to run its

course over the next decade, particularly in places like California where housing already eats up a large share of residents' incomes.

Related: America's Worst Housing Market Is Desperate to Find More Supply

The growing problem has pushed municipalities to try addressing these issues. San Francisco residents Tuesday approved selling $600 million of bonds to pay for public housing rehabilitation and the purchase of new affordable housing units, according to preliminary results, seeking to address the city's increasingly visible homelessness epidemic.

University campus housing expansion and hospital housing for the homeless have also emerged as options to stem the housing issues, according to Moody's.

Bloomberg Markets

By Fola Akinnibi

November 6, 2019, 10:35 AM PST

Investing In Senior Housing Muni Bonds Amid Demographic Change.

Summary

- Continuing care retirement communities (CCRC) fall within a broader category of municipal bonds called private activity bonds (PABs).
- The overall size of the CCRC market is still relatively small ($5 billion of issuance in 2018), but it's doubled in size over the past decade.
- With a potential yield advantage over AAA munis, CCRC issues can offer attractive tax-exempt income in a well-diversified portfolio.

This credit sector can offer attractive opportunities, but investors shouldn't be drawn in by high yield alone.

Continuing care retirement communities (CCRC) and senior housing facilities have historically been a sought-after category by institutional investors, who are often attracted to this credit sector because of its higher yield. Yield aside, investing in the senior living sector is supported by positive demographic fundamentals that should expand opportunities in this sector.

Continue reading.

Columbia Threadneedle Investments

By Catherine Stienstra, Head of Municipal Investments; Douglas Rangel, CFA, Vice President, Fixed Income Client Portfolio Manager

Nov. 8, 2019

S&P Criteria | Governments | Request for Comment: Methodology For Rating U.S. Public Finance Rental Housing Bonds

Read the S&P Request for Comment.

S&P Proposed Methodology For Rating U.S. Public Finance Rental Housing Bonds.

CENTENNIAL (S&P Global Ratings) Nov. 4, 2019–S&P Global Ratings is requesting comments on its proposed update to its methodology for rating rental housing bonds in the U.S. (see "Methodology For Rating U.S. Public Finance Rental Housing Bonds").

This proposed methodology, if adopted, would apply to ratings on bonds backed by rental income from residential properties that serve a public purpose. In particular, the proposed methodology would apply to bonds backed by revenues from:

- Affordable multifamily housing (including mobile home parks);
- Age-restricted independent or assisted-living rental housing;
- Privatized military housing;
- Privatized student housing affiliated with a university, college, or community college; and
- Pools of loans secured by affordable multifamily housing.

The primary purpose of the proposed methodology update is to recalibrate our rating analysis, following observed volatility and sharp deterioration in creditworthiness within subsectors of the issues in scope.

S&P Global Ratings is seeking responses to the following questions, in addition to any other general comments on the proposed criteria:

- What is your view of the overall structure of the proposed methodology and clarity of its scope (type of entities rated with the proposed methodology)?
- In your opinion, does the proposed methodology contain any significant redundancies or omissions?
- Are our proposed criteria principles and adjustments comprehensive and clearly defined?
- Do you believe that the proposed methodology appropriately captures credit risks and do you agree with the manner in which we propose to assess these risks (selection of key factors, their weighting, associated ratios and measures to assess these risks, associated caps)? If not, what alternative(s) would you propose?
- Do you agree with our proposal to focus on borrower default risk rather than property liquidation value, and therefore to use DSC as the key quantitative metric of our coverage and liquidity reserves analysis rather than loan-to-value?
- Do you agree with our proposal to apply a negative adjustment to the rating for transactions with multiple tranches of varied seniority that include a "springing-lien" provision, which results in a pro rata distribution of recovery proceeds following a default of the most senior tranche (see Table 1, and the proposed guidance document in Appendix B)?
- Are there any other views regarding this methodology proposal that you would like to bring to our attention?

We encourage interested market participants to submit their written comments on the proposed

criteria by Dec. 18, 2019, to http://www.standardandpoors.com/en_US/web/guest/ratings/rfc where participants must choose from the list of available Requests for Comment links to launch the upload process (you may need to log in or register first). We will review and take such comments into consideration before publishing our definitive criteria once the comment period is over. S&P Global Ratings, in concurrence with regulatory standards, will receive and post comments made during the comment period to www.standardandpoors.com/en_US/web/guest/ratings/ratings-criteria/-/articles/criteria/requests-for-comment/filter/all#rfc.

Comments may also be sent to CriteriaComments@spglobal.com should participants encounter technical difficulties. All comments must be published but those providing comments may choose to have their remarks published anonymously or they may identify themselves. Generally, we publish comments in their entirety, except when the full text, in our view, would be unsuitable for reasons of tone or substance.

This report does not constitute a rating action.

The report is available to subscribers of RatingsDirect at www.capitaliq.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@spglobal.com. Ratings information can also be found on S&P Global Ratings' public website by using the Ratings search box located in the left column at www.standardandpoors.com. Members of the media may request a copy of this report by contacting the media representative provided.

S&P Credit Conditions: In The Mist Of Mixed Economic Signals, U.S. State And Local Credit Quality Remains Strong

Table of Contents

- What To Look For
- Federal Policies Increase The Potential Pressure At The Local Level
- ESG, Cyber And Fixed Cost Pressures Are Here To Stay
- What To Look For: Regional Variations

Despite some indications of a weakening economy at the national level, state and local government credit quality has not shown any signs of broad deterioration. States continue to project revenue growth, and local revenues also appear to be on solid footing. Signs that we typically look for to indicate economic slowness, such as an increase in Medicaid enrollees or falling sales tax revenues, haven't materialized and therefore the end of 2019 looks to be on track for states and locals.

Even with cautious revenue projections, most states expect that fund balances will be maintained or grow in fiscal 2020, helping to project stability over the near term. Supported by this solid financial backdrop from states, local government credit quality remains stable with limited signs that state governments intend to cut aid or otherwise negatively impact local government operations. Overall we expect most local governments will be able to weather the changes; however, a confluence of events such as a weakening economy and a cyber- or weather-incident would result in a different scenario.

Continue reading.

Fitch Ratings: North American Infrastructure Projects Are Complex, Require Unique Solutions

Link to Fitch Ratings' Report(s): North American Project Finance: Lessons Learned (Decades of Challenges and Successes)

Fitch Ratings-New York-05 November 2019: North American Infrastructure projects are complex undertakings that require careful coordination among multiple parties to adequately address risks and avoid delays, according to Fitch Ratings in a new report.

Fitch's new report highlights over 30 case studies in North American infrastructure from the 1990s to the present, highlighting projects that faced considerable challenges and lessons learned from the experience. Earlier projects are found to have been most frequently stymied by revenue underperformance relative to missing original traffic and revenue projections. More recently, Fitch observes that a larger portion of project challenges are tied to completion risk, including issues during construction and counterparty exposure.

While recognizing that several projects have faced challenges and that project teams cannot anticipate every potential development, Fitch notes that risks to lenders have ultimately been well managed, with very few projects ending in default. "With the complexity of this asset class, some problems are to be expected," said Senior Director Emma Griffith. "These projects require unique solutions, and smart risk transfers from beginning to end can do a lot to protect lenders when challenges occur."

A point to note is that terminations for convenience that have occurred have not reimbursed investors their make-whole premiums. While this is consistent with the terms of the transaction, investors can view this negatively, as it constitutes a loss for them. Fitch expects investors will likely raise this issue as terms are agreed for new financings going forward.

'North American Project Finance: Lessons Learned' is available at 'www.fitchratings.com' or by clicking on the above link.

Cases are also accessible in an interactive map format on FitchRatings.com, where the projects are sortable by industry, highlighting the primary risk for each project.

Contact:

Emma Griffith
Senior Director
+1-212-908-9124
Fitch Ratings, Inc.
300 West 57th Street
New York, NY 10019

Victoria Babcock
Analyst
+1-646-582-4608

Scott Zuchorski
Senior Director; Head of North America Transportation and P3s
+1-212-908-0659

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

Additional information is available on www.fitchratings.com

Bond Buyers Hit by Negative Yields Around the Globe Flock to U.S. Muni Debt.

- **Taxable bond boom drawing increased interest from overseas**
- **Foreign holdings hit record high as U.S. yields stay higher**

Jeffrey Burger, a money manager at Mellon Investments Corp., in September swung through Zurich, where government bonds are yielding less than nothing, to pitch his U.S. municipal debt funds to investors hunting in unfamiliar places for positive returns.

So he brought up one of Switzerland's most famous men, the professional tennis player Roger Federer, who competed in the U.S. Open in New York's Arthur Ashe Stadium, a venue financed with the types of securities Burger's funds buy.

"Even though he lost, what can give you some joy, is that he did it in a U.S. muni-funded stadium," said Burger, who held meetings with investors in London, Paris and Milan. "And if you go four kilometers to the north, guess what you run into? LaGuardia Airport, another example."

The unprecedented era of negative interest rates in Europe and Asia is turning some of America's most domestic securities into a valuable export. Even with interest rates holding near a more than half-century low, the returns promised by the $3.8 trillion municipal-bond market look good compared with the $13 billion of sovereign debt that it winds up costing investors to own.

Foreign buyers have been a steadily growing presence in the U.S. municipal market, doubling their direct holdings over the past decade to a record $102 billion by the end of June, according to Federal Reserve Board data. But the interest has been given an added jolt in recent months because of a torrent of refinancing by states and cities, who have seen rates fall so much that they are selling taxable debt — which carries higher yields — to refinance tax-exempt securities. Oversees buyers are primarily interested in taxable bonds because they have no need for the U.S. income-tax shelter typical municipal securities provide.

U.S. governments have sold about $48 billion of taxable bonds this year, an 119% increase from the same period in 2018 and the most in almost a decade, according to data compiled by Bloomberg. Such debt has delivered a 10.5% return this year, according to the Bloomberg Barclays index.

"This supply really helps to get focus and attract the broadest possible investor base," said Patrick Brett, head of municipal capital markets at Citigroup Inc., which has a municipal-bond banker stationed in London. "We've had quite a bit of interest from overseas for these issues."

The influx of foreign cash is similar to what happened in the wake of the recession, when President Barack Obama's recovery program covered part of the interest bills on Build America Bonds that were issued to finance public works projects intended to jump-start the economy. They were structured as taxable securities to expand the market for the bonds beyond traditional buyers of municipal debt.

International investors are buying municipal securities both directly and through mutual funds like those run by Mellon's Burger. MFS Investment Management offers a fund to institutional investors in Europe and Asia that is registered in Luxembourg, for example. Its top holdings include debt issued by Illinois, Denver's water system and New York City.

Lori Cohane, a portfolio manager at Credit Suisse Asset Management, said such big, well-known issuers have benefited from the global interest.

"If the state of Texas issues taxable municipal bonds, global buyers are going to know the state of Texas. Or if Harvard University issues taxable municipal bonds there's a familiarity there," Cohane said.

The Dallas Fort Worth International Airport is one that's tapped into the trend. The largest airport in Texas sold $1.2 billion in taxable bonds in August that were specifically marketed to international buyers. Christopher Poinsatte, the chief financial officer for the airport, traveled to London, Paris, Seoul, Hong Kong and Taipei ten months before the sale to educate potential investors about his airport and the mechanics of the U.S. industry.

"We understand that international investors are very interested in U.S. infrastructure," he said. "There's an entirely untapped market out there."

Poinsatte said the sale received $465 million in direct international orders from buyers in London, Norway, Tokyo and Taipei, with about 15% of the total deal eventually allocated to foreign accounts. The airport plans to sell another billion in taxable bonds next summer and Poinsatte is planning another trip — both to the places he visited previously and to new cities in Italy and Norway.

"There are tens and hundreds of billions of dollars in international money that is very anxious to invest in infrastructure," he said. "We are playing the long game. We are trying to tap that market."

Bloomberg Markets

By Danielle Moran

November 7, 2019, 4:30 AM PST

— With assistance by Chikafumi Hodo

KBRA Releases Research – Environmental, Social and Governance (ESG) Considerations by Sector

NEW YORK–(BUSINESS WIRE)– Kroll Bond Rating Agency (KBRA) publishes sector-specific research pieces on Environmental, Social and Governance (ESG) factors as they relate to credit analysis.

KBRA's public finance ratings incorporate all material credit factors including those that relate to ESG factors. This report serves to increase transparency around how KBRA views ESG factors as they relate to credit risk. It does not introduce new credit variables but, rather, expands upon the many factors that KBRA considers in our ratings analysis as they relate to ESG.

While ESG factors may influence ratings, it is important to underscore that KBRA's ratings do not

incorporate value-based judgments around credit factors. Rather, KBRA's ratings incorporate expectations for the credit impact of such factors, which include an evaluation of risk management and mitigation efforts.

KBRA's analytical approach intends to capture all meaningful factors into our ratings when we believe there will be an impact on the credit in the near term or in the future, after considering risk mitigation efforts. Factors that may influence credit analysis are not always static and require continuous surveillance. As credit factors develop more clarity, they are incorporated into KBRA's surveillance reviews. And as new information comes available and as future expectations evolve, the information and expectations may trend in a way that could materially impact KBRA's credit analyses and ratings.

To view the report, click here.

November 6, 2019

The Imperfect Art of Tracking Local Government Financial Stress.

California is the latest state to launch a program to shed light on the financial conditions in localities. Systems like this can have benefits, but also limitations.

When the California auditor's office recently rolled out a new online system that tracks and ranks local governments based on their levels of financial risk, David Dale, the city manager in Calexico, was caught somewhat off-guard when he found his town listed as fifth worst-off.

The city of 40,000 about 100 miles east of San Diego has certainly had its share of problems.

Its police department was raided by the FBI back in 2014 amid allegations of various criminal conduct by officers and other city staff. Just a couple years later, Dale said poor financial management led the city to the brink of bankruptcy.

"The city was a complete mess politically, financially," Dale said. "It was bad all around." Lately, however, he said that things within Calexico's city government are improving. "We've made a lot of strides and sacrifices," Dale said. "People are doing two jobs, pay cuts."

Calexico's designation as financially at risk appeared on a list along with the release of California's new "local government high-risk dashboard," a system that is designed to provide a snapshot of how 471 cities around the state are doing financially.

Information for it is pulled from publicly available, audited financial statements, which cover past years. The dashboard currently shows where cities stood as of June 30, 2017—part of the reason the progress Dale touts in Calexico isn't necessarily reflected in the rankings.

"When this came out in the news," he said, "they painted the picture that the city was currently in a financial debacle."

California is the latest state to develop a public facing program that provides a way to monitor the finances of local governments statewide. New York has had a system like this for about six years now and Michigan has done similar work since before the Great Recession.

“It definitely is a trend,” said Justin Marlowe, a professor who specializes in public finance at the Daniel J. Evans School of Public Policy and Governance at the University of Washington, and who advised California on its program.

“You’ve seen, I think, a big uptick in interest,” he added.

There are a number of ways that the systems can prove useful. But they also have limitations, including issues like Dale keyed in on concerning the timeliness of the data.

Dale explained that during the bad years Calexico’s general fund was $4 million in the hole and the city borrowed $3.5 million from its own wastewater account to backfill it.

He said the city is now on track to pay back the loan about a year early and ended the last fiscal year with a roughly $1 million surplus. The city’s total general fund budget is about $16 million annually.

“We’ve gotten so far,” Dale said, which is why he says it was frustrating to unexpectedly see the city in the No. 5 spot on a list of the state’s most fiscally distressed municipalities.

Marlowe agreed that a dashboard like California’s is going to fail to capture all information. “The perfect system does not exist,” he said.

California’s dashboard was built as part of the high-risk local government audit program within the state auditor’s office. That team is responsible for identifying local governments that may have troubled finances, and in some cases auditing them.

“We thought it was important to do a comprehensive analysis of all the cities as opposed to looking at a subset,” said Mike Tilden, a deputy state auditor who was involved in the project.

The dashboard and the rankings it presents rely on a set of 10 “financial indicators” meant to assess how well a city can cover its near-term and long-term costs. Some indicators include a city’s cash position, debt burden, financial reserves and revenue trends.

ROUTE FIFTY

BY BILL LUCIA

NOVEMBER 7, 2019

Schroders Sees Value in Municipal Bonds Over Treasuries.

Julio Bonilla, U.S. fixed income portfolio manager at Schroders, discusses the advantage municipal bonds have over U.S. Treasuries. He speaks with Bloomberg’s Taylor Riggs in this week’s “Muni Moment” on “Bloomberg Markets.”

Watch video.

Bloomberg MarketsTV Shows

November 6th, 2019, 1:07 PM PST

KBRA Municipal Ratings Available on Bloomberg Terminal Calendar Screens.

Kroll Bond Rating Agency (KBRA) ratings on municipal securities and new issues are now available on the Bloomberg Terminal.

Bloomberg subscribers can find KBRA's ratings for municipalities by accessing the following functions: MUNI DES (Description), CDRA (Calendar), CDRN (Negotiated Calendar), and CDRC (Competitive Calendar).

"Bloomberg's decision is a very welcome affirmation of KBRA's accelerated growth and coverage in public finance, where we now rate over $310 billion of municipal debt. More and more of the municipal market's largest and most complex issuers are choosing to use KBRA on their transactions because of the seniority of our analysts, the quality of our reports, and the timeliness of our service," said William Cox, Senior Managing Director and Senior Analyst in the Funds, Insurance, and Public Finance Ratings groups at KBRA.

To view a full list of KBRA's Public Finance ratings, please visit www.kbra.com.

Business Wire

November 7, 2019

First Foundation Bank Launches Municipal Lending Offering with the Appointment of Trevor Mael as Vice President, Director of Public Finance.

First Foundation Inc. (FFWM) ("First Foundation"), a financial services company with two wholly-owned operating subsidiaries, First Foundation Advisors and First Foundation Bank, announced the new municipal lending and public finance service offering with the appointment of Trevor Mael as Vice President, Director of Public Finance. In his new role, Mael will oversee the department for First Foundation Bank which seeks to add to its existing strong loan portfolio with a new public finance footprint.

"As First Foundation Bank continues to expand, we continue to search for service and product offerings that complement our existing capabilities," said Scott F. Kavanaugh, CEO. "The opportunity to offer municipal lending and government banking is a nice fit with our Sacramento location and comes at a time when we found a proven and well-connected leader in Trevor to lead this effort."

Mael began his 10-plus years banking career with Umpqua Bank, and grew to a role as a Vice President, Relationship Manager, where he managed the bank's municipal finance portfolio. He has built a strong reputation as a banker committed to helping communities build and grow by utilizing bank-financing. He comes to First Foundation Bank with experience also as an operator in loan administration, underwriting and credit, allowing him to effectively manage the loan process from application to funding.

The new offering will seek to focus on community development projects such as schools, transportation, infrastructure improvements, economic development, and other major projects to help grow and enrich the community. The initial offering by First Foundation Bank will include

general financing for the needs of cities, counties, and special purpose districts across the First Foundation Bank footprint.

“I am honored by this opportunity to work with a relationship-driven bank with so many strong resources to support the local communities. First Foundation Bank’s expansion into financing local projects will now bridge the gap to making integral investments into the communities in which our clients and team both live and work,” said Mael.

About First Foundation

First Foundation, a financial institution founded in 1990, provides private wealth management, personal banking, and business banking. The Company has offices in California, Nevada, and Hawaii with headquarters in Irvine, California. For more information, please visit www.firstfoundationinc.com.

Business Wire

November 7, 2019

How Transparent Should Government Be After a Cyberattack?

City tech leaders and cybersecurity experts confront the tension between elected officials beholden to the public and IT bosses whose primary concern is limiting the information available to bad actors.

Atlanta was one of the first major cities hit, waylaid by a costly ransomware attack. As headlines about what happened continued in the months to come, similar incidents besieged other government agencies across the country. There was Baltimore. There was the Colorado Department of Transportation, twice. There were half a dozen small cities in Massachusetts. There was Albany, N.Y.

In the past 18 months or so, cyberattacks on government have accelerated. Experts say this is an evolution wherein bad actors have moved from targeting individuals at random, to going after governments, school districts, companies, and other institutions, which often have more to lose and are thereby more lucrative. Another factor in the recent acceleration is that many of these entities have been traditionally underfunded in the realm of cybersecurity.

As such, public-sector IT leaders have begun to view a successful cyberattack as a matter of when, not if. Essentially, regardless of how well-prepared government is, a breach is still coming, and so a larger onus is now being placed on response, specifically on best practices for the aftermath of a cyberattack. Within this conversation, however, a major point of tension has arisen — transparency.

A question local government leaders must grapple with is this: How transparent should government be after a cyberattack? Should they tell citizens everything, or should they downplay incidents altogether, obscuring details under the assumption that any information on their vulnerabilities can and will be used against them?

It’s a complicated debate, and with this wave of cybercrime showing little sign of slowing, finding answers has become imperative.

Being as transparent as possible with citizens has evolved as of late, fueled by technology that

enables easier sharing of data as well as more convenient lines of communication between government and the citizens it serves.

There is, perhaps, a growing expectation that local government should tell residents everything, provided it doesn't infringe on the privacy of others. But what about emergency situations like cyberattacks?

In March, Albany was hit by a cyberattack on a Saturday. Thanks to an alert about the breach, the city had most major systems up and running again by Monday, except for getting birth, death and marriage certificates. City offices were closed Monday morning, though, as the city worked to ensure a full recovery.

Albany Mayor Kathy Sheehan was open with information throughout, announcing via social media that an attack had occurred the same day she found out. On Sunday, she again took to social media to let residents know city officials had been working to prevent any interruptions in government service. Then on Monday, the city let residents know when it was open again.

It all seems innocent enough, but at a recent breakfast roundtable discussion about cybersecurity and cities, hosted during the CityLab DC summit, Sheehan said not everyone in City Hall agreed with that open approach.

"Our CIO would have preferred saying nothing at all," Sheehan told a collection of other elected officials and IT leaders, the majority of whom had similar anecdotes to share.

Other CIOs in attendance agreed with the stance, or at least the desire to be able to maintain silence. But Sheehan felt obligated as an elected official to let the public know all that she could about what was happening. Moreover, she said her CIO and the rest of the IT staff had "done a phenomenal job" and she wanted the public to know that as well.

The reason for advocating silence, however, is in part a concern that a larger cybersecurity target will be put on local governments, and that bad actors will see detailed news of a successful defense as a challenge. Another layer is that releasing detailed information will help bad actors find a new vulnerability to exploit. Cyberattacks are, after all, a crime, and so some of the details will always be sensitive.

Brian Nussbaum, who is a fellow with New America's Cybersecurity Initiative and an assistant professor of cybersecurity at the University of Albany, said a balance must be struck between giving citizens necessary info and obscuring the scope of defenses and recovery, noting that "it's possible to describe in general what's being done without being specific about what's being done."

Sometimes, Nussbaum added, public organizations withhold information not in the name of secrecy, but rather because they are still sorting out "second order effects," which basically means assessing the problem and understanding the damage. For organizations like government or public health systems, which keep private data subject to regulations, this is paramount.

Nussbaum, however, was optimistic that more answers about transparency after a cyberattack will emerge as this particular challenge matures. As cybersecurity defenses, response plans and general knowledge evolves in the public sector, so too will best practices around what information to share with the public.

This is also far from a new tension within government.

"This is not an unusual problem in the abstract," Nussbaum said. "Elected officials who are

accountable to citizens often have impulses to do things that people in the business line don't have the same incentives to want to do, because they are not directly talking to the citizens in the same way. I don't think this is a problem that's unique to local government cybersecurity, but rather a problem for government writ large."

Gary Brantley, the Atlanta CIO, continues to oversee that city's cybersecurity in the wake of its recovery. Also in attendance at CityLab DC, Brantley said his goal is always to share as much information as he can without compromising operations or inciting fear. One thing that gets lost, he added, is just how common failed attacks are.

"These attacks are widely unsuccessful," Brantley said, "and that's one thing we don't talk about."

BY LUCAS ROPEK, GOVERNMENT TECHNOLOGY | NOVEMBER 8, 2019 AT 3:01 AM

Investors Reap Rewards Using Conduit-Issued Municipal Bonds.

Summary

- Conduit-issued munis are little-known area of the muni market that can increase yield.
- Investors benefit from higher yields and maintain the same tax-free status.
- Look under the hood of conduit issuers to avoid getting burned.

The search for safe and generous tax-free income with individual municipal bonds is becoming more difficult each day. But rest easy, there's an obscure area of the muni market that can offer generous yields. Conduit-issued muni bonds often offer much higher yields than their traditional municipal counterparts and at the same time carry the same tax-free status. Many are safe and stable, but others can be very high risk. Investors must exercise due diligence. Safe conduit issues are a great alternative to municipal ETFs and mutual funds. Mutual funds carry redemption risk, meaning they will likely suffer value erosion during periods of large outflows. Individual bonds – including conduit-issued munis with good credit ratings – have no such redemption risk.

What Are Conduit Bonds?

Conduit bonds are bonds issued by an organization (usually a government agency) to fund projects on behalf of a third party who is the actual borrower. The borrower is usually responsible for the bond payments. Most conduit securities are issued to benefit the public at large (hospitals, airport improvements, housing, veterans, and pollution reduction). These issues can vary widely in size, purpose, and geography. They range from well-known public projects like hospitals to smaller projects like museums, airplane hangars, or maternity centers. In most cases the more obscure it is, the more risk.

Continue reading.

Seeking Alpha

by Alexander Anderson

November 1, 2019

Lukewarm Bond Yields Belie Mayors' Climate Alarm.

If politicians believe what they say on the campaign trail, why don't their cities disclose it to borrowers?

Dire climate-change warnings have become a mainstay of politics. This is particularly true for state and local politicians whose coastal constituents stand to be most affected by rising sea levels. Mayors declare that impending eco-dangers represent an "existential threat," and that significant portions of their cities will be submerged without swift and dramatic action. But do municipalities disclose these perilous environmental risks to potential bond investors?

The Government Accountability Institute undertook a yearlong study of 40 major cities to find out if mayors' apocalyptic projections about climate risks are factored into the interest rates on the municipal bonds their cities issue. The results revealed a gulf between the words municipal leaders speak and the disclosures cities make. There was no statistically significant difference in the interest rates for bonds issued by cities in high-risk locations for climate-change devastation versus those issued by low-risk cities.

The study compiled 100 bond issuances for 20 cities at risk of climate-induced sea-level rises such as New York and New Orleans, as well as 100 issuances for 20 low-risk, inland cities such as Chicago and Kansas City. Greater risk to investors should produce a higher bond interest rate, or "coupon rate." But the average rate for at-risk cities was 4.21% versus 3.99% for low-risk cities, and our analysis found that this difference of 22 basis points was not statistically significant. The study controlled for factors like type of bond, maturity and purpose, which also affect interest-rate variation.

The study also found scant mention of climate change in bond disclosure documents. The disclosure statements of the 20 at-risk cities totaled 4,361 pages. Phrases like "climate change" and "sea-level rise" appeared fewer than 100 times across all 20 at-risk cities in the context of the issues addressed in this study. Further, 12 out of the 20 disclosures for at-risk cities did not mention climate language in the same context.

The contrast between what mayors say in public and what cities disclose in bond language is often stark. New York's Bill de Blasio has called climate change an "existential threat" and a "dagger aimed straight at the heart" of the city. Yet New York and the Port Authority of New York and New Jersey barely mentioned climate change or rising sea levels in their risk statements to investors.

The city's official 297-page disclosure for its April 2018 $1.1 billion general-obligation bond issuance contains four paragraphs with generic mentions of rising sea levels and climate change. This issuance was composed of $250 million in taxable bonds with an average coupon rate of 3.2% and $850 million in tax-exempt bonds with an average coupon rate of 4.21%. These interest rates hardly reflect the "dagger to the heart" threat Mr. de Blasio says is imminent.

California municipalities evinced a similar pattern. In a 2017 lawsuit against Exxon Mobil Corp. and four other oil companies, the city of Oakland painted a dystopian portrait of looming environmental calamities. "Global warming has caused and continues to cause accelerated sea level rise in San Francisco Bay and the adjacent ocean with severe, and potentially catastrophic, consequences for Oakland," the city's lawsuit stated. Worse, "by 2050, a '100-year flood' in the Oakland vicinity is expected to occur on average once every 2.3 years and by 2100 to occur 44 times per year or almost once per week." The lawsuit added that "Oakland is projected to have up to 66 inches of sea level

rise by 2100." The city alleged this would "imminently threaten Oakland's sewer system" and harm property with a "total replacement cost of between $22 and $38 billion."

Contrast that detailed, dramatic language with Oakland's bland, measured 2017 bond risk disclosure to investors: "The City is unable to predict when seismic events, fires or other natural events, such as sea rise or other impacts of climate change or flooding from a major storm, could occur, when they may occur, and, if any such events occur, whether they will have a material adverse effect on the business operations or financial condition of the City or the local economy."

Politicians can't have it both ways. If climate change is the existential threat they claim, then why aren't municipal-bond investors being rewarded with higher interest rates for taking greater risks? And why don't bond disclosure statements contain the grave and granular data from climate-change projections those same municipalities tout elsewhere?

If mayors are serious about leading on climate change, they should align the rhetoric they speak on the campaign trail with the interest rates and disclosures they offer on municipal bonds. And if they need another motivation, there's this: While campaign promises aren't legally binding, bond disclosure statements are.

The Wall Street Journal

By Peter Schweizer

Oct. 28, 2019 6:50 pm ET

Mr. Schweizer is president of the Government Accountability Institute.

U.S. City Revenue Lags Inflation for First Time in Seven Years.

- **Collections to decline by inflation-adjusted 1%, report says**
- **Two thirds of large cities foresee recession as soon as 2020**

U.S. cities' revenues are failing to keep pace with inflation for the first time in seven years, signaling an increase in the financial pressure on local governments despite the nation's record-long economic expansion, according to a survey released by the National League of Cities.

On average, municipal finance officers estimate general-fund revenues will decline by 1% when adjusted for inflation, the survey found. At the same time, officials have grown more cautious about the economic outlook, with almost two-thirds of those from large cities now forecasting a recession as soon as next year.

"Fiscal trends are beginning to align with some of the negative economic trends that we've seen in past downturns," Christiana McFarland, the director of research for the National League of Cities, said during a televised discussion on the report.

The findings come amid rising global geopolitical tensions that are frightening investors and dampening business confidence. U.S. manufacturing reached its lowest since the last recession in September and the pace of home sales has slowed.

Yet, cities are still largely benefiting from the more-than decade long economic expansion, even if their revenue isn't keeping up with inflation. Three out of four finance officers said they are

confident their cities are able to meet their financial obligations, roughly the same as last year, according to data from 554 cities.

The local governments are poised to spend 2.3% more in 2019 than they did the previous year, as the cost of goods and services, including health care, rises.

“The purchasing power of the public sector is weakening in relation to other parts of the economy, and having a large impact on city budgets,” the report said.

Property-tax collections, typically the biggest source of municipal revenues, are expected to increase by 2% in 2019, about the same pace as a year earlier. Sales taxes, which are more sensitive to economic swings, are anticipated to grow 0.3% after a jump of 1.9% in 2018.

Bloomberg

By Maria Elena Vizcaino

October 28, 2019, 1:29 PM PDT

MSRB: Trends in Municipal Bond Ownership.

What are the possible implications of the recent increase in holdings of municipal bonds by mutual funds and ETFs?

Read the MSRB’s issue brief on municipal bond ownership trends.

How Does PG&E Impact the Utilities Market?

Nisha Patel, municipal portfolio manager at Eaton Vance, examines credit risk for utilities from PG&E Corp. and how overall climate change affects municipal water and sewer bonds. She speaks with Bloomberg’s Taylor Riggs on “Bloomberg Markets.”

Watch video.

Bloomberg Markets TV Shows

October 30th, 2019, 8:55 AM PDT

Is Public Finance Ready to Rely on Blockchain Technology?

Governments often contend with many issues when attempting to link public dollars to real-world outcomes captured by data in disparate systems. EY claims its OpsChain Public Finance Manager will reduce those struggles.

The stewardship of public dollars is a challenge as old as government itself, but nascent technologies are coming into the space with the intention of streamlining it. Blockchain-enabled tools are one

such example.

The OpsChain Public Finance Manager (PFM), a new blockchain-based tool from Ernst & Young, is designed to allow governments to "focus more directly on the things that matter," said Mark MacDonald, EY global public finance management leader.

The potential of this tool lies in helping governments track the "financial integrity of the way public money is spent" and the related outcomes that are achieved, MacDonald said. Essentially, the PFM promises to enhance the ability of governments to see how public dollars are connected to actual results, which should support further decision-making.

"In simple terms, it's the integration between a financial view and non-financial view that can really help public managers manage more effectively, public budgeters budget more effectively, and ultimately it's about trying to advance that cause of 'better finance, better government,'" MacDonald said.

The PFM is based on the EY Ops Chain, which is a blockchain platform that entered its second generation earlier this year. According to EY, this platform can "support up to 20 million transactions per day on private networks" and has reportedly led to efficiency gains of more than 90 percent in certain cases.

Most governments utilize an enterprise resource planning (ERP) system to keep up with public funds. MacDonald said those systems are generally well understood, but he suggested a critical piece of the organizational puzzle is missing when it comes to linking ERP data to outcome data in other systems.

"The question becomes when I have an opportunity to try and connect financial data and information to another system that perhaps has my non-financial information in it, how easily am I able to do that?" MacDonald said.

Mike Mucha, deputy executive director of the Government Finance Officers Association, said his organization helps governments prepare and procure ERP systems, so he understands the challenge that MacDonald refers to. Mucha cited an example involving a school district. A district will have its financial data in one system (ERP), but student performance data will be stored in a student information system (SIS).

"If you're trying to calculate like an academic ROI … you need to basically, through some sort of third-party tool or some sort of third tool, correlate your spending on various programs with the academic return that you're getting out of your student data system," Mucha said.

Additionally, MacDonald said governments often deal with a "complicated array" of contractors, partners and not-for-profits in delivering public services. The chances of these external agents being on the government's ERP system are essentially zero, which creates a "hard organizational interface to try to overcome." The blockchain component can help manage this kind of chaos, almost acting as an "ERP across ERPs."

Another challenge is simply the idea of the government running multiple systems itself. Almost no organization runs just one ERP system, Mucha said. Then there's the fact that public entities frequently house their own information even though those entities might need to work together for the common good. Although Mucha admits that he doesn't know anything about the EY tool, he can imagine great potential for public entities wishing to work together.

"From a business intelligence perspective, you might want to pool that information together … so if

you had an ERP across ERPs, then you could conceivably use data from each one of those individual entity's ERP system in sort of a shared resource," Mucha said.

MacDonald stressed that the blockchain aspect of the PFM is not "technology for technology's sake." Rather, the blockchain platform presents a logical opportunity for technology to address long-standing business challenges within the complexity of a government system.

"It [blockchain] has the ability to work at that network level across organizational boundaries, across different authorities, and so forth," MacDonald said.

According to EY, the PFM has been tested by multiple governments around the world. MacDonald would not reveal all of those governments due to concerns related to privacy and confidentiality. It is public knowledge, however, that Toronto has tested the tool, but Toronto's chief financial officer Heather Taylor could not be reached for further comment.

BY JED PRESSGROVE, GOVERNMENT TECHNOLOGY | OCTOBER 30, 2019 AT 3:01 AM

Muni-Bond Desks Stand to See Big Wins If Trump Loses.

- **Tax-the-rich plans of Democrats may boost muni-bond market**
- **Tax-exempt debt saw outsize gains early under Clinton, Obama**

Elizabeth Warren wants to tax those she calls ultra-millionaires. Bernie Sanders has targeted the top 0.1%. And Joe Biden is seeking to reverse President Donald Trump's tax cuts.

On the whole, Wall Street may not be very excited about the tax-the-rich push that's front and center in the Democrats' efforts to unseat Trump next year. But a $3.8 trillion corner of the bond market could reap big gains if one of them wins the White House.

That's because the value of tax-exempt state and local government debt tends to rise when taxes head higher as wealthy investors buy those bonds to hold down what they owe.

Continue reading.

Bloomberg Markets

By Amanda Albright

October 31, 2019, 6:30 AM PDT

The Grand Experiment: The State and Municipal Pension Fund Diversification into Alternative Assets

By Jeff Hooke and Ken Yook, includes "Over a nine-year period (2008–2016), state and municipal pension funds embarked on a grand experiment. They boosted their commitments to alternative assets, spending tens of billions of dollars per year on additional third-party money management fees. … We conclude that the states and municipalities obtained neither lower risk nor higher returns with the higher level of active management and diversification implied by alternative assets.

The experiment is thus a failure.”

Read the full article on: Portfolio Management Research

Truth In Accounting

Jeff Hooke, Ken Yook | November 1, 2019

Risky Business: As Some Major Contractors Pull Back from P3s, Others Embrace the Approach

Most public-private partnership contracts are for design-build, fixed-budget, fixed-schedule work that Skanska, Fluor and others say is just too risky to guarantee profit.

When President Donald Trump announced his campaign pledge to upgrade the country’s infrastructure, he endorsed public-private partnerships (P3s) as a way to help finance and build the $1 trillion worth of projects subject to his proposal.

He said he would leverage the power of P3s to turn $200 billion of public dollars into $1 trillion of investment, refurbishing crumbling infrastructure without emptying public coffers.

But just a year later, he had soured on the idea, telling a group of legislators in 2017 that private financing of public infrastructure isn’t likely to work and that P3s are “more trouble than they’re worth.”

Continue reading.

Construction Dive

by Jenn Goodman

Oct. 25, 2019

Building Demand in US Water Quality Trading Markets.

IN BRIEF

- WATER QUALITY TRADING MARKETS ALLOW THE OPERATORS OF POINT SOURCES OF WATER POLLUTION — such as sewage treatment plants or factories — to offset that pollution by purchasing credits representing reductions elsewhere.
- BUT DESPITE THE PRESENCE OF FUNCTIONING PROGRAMS ACROSS THE COUNTRY, the overall volume of trading remains low.
- TO EXPAND TRADING, STAKEHOLDERS NEED TO ADDRESS THE LACK OF NUMERIC DISCHARGE LIMITS, transaction costs, risk aversion, and the absence of empirical data on programs.

Environmental credit trading programs have gained traction for pollutants like carbon emissions, at least in concept. Is water quality trading the next frontier? The mechanism offers the possibility of

more flexible and cost-effective water quality control, but in contrast to some environmental credits, markets have struggled to gain momentum.

Water quality trading markets allow the operators of point sources of water pollution — such as sewage treatment plants or factories — to offset that pollution by purchasing credits representing reductions elsewhere. Just as the purchase of a carbon offset gives its buyer credit for reducing their carbon footprint, a water quality trading market allows participants to buy and sell the credit for reduction of water pollution into a given water body.

Trading is a tool that may be well-suited to address the evolving nature of water pollution in the United States.

“The Clean Water Act was written at a time when the major pollution in our waterways was coming from pipes,” said Kristiana Teige Witherill, clean water project manager at the Willamette Partnership, a nonprofit focused on market-based conservation in the American West. “Today, depending on what watershed you’re looking at, 80 to 90% of pollution is coming from non-point sources, not coming from the end of a pipe.”

After establishing parameters for water quality trading in 2003, the Environmental Protection Agency (EPA) reiterated its support for the tool in a statement in February. A 2017 Government Accountability Office (GAO) report tallied 19 water quality trading programs operating in 2014 in a diverse set of 11 U.S. states, from California to Idaho to Florida.

But despite the presence of functioning programs across the country, the GAO noted that the overall volume of trading remains low. “According to stakeholders, two key factors have affected participation in nutrient credit trading — the presence of discharge limits for nutrients and the challenges of measuring the results of nonpoint sources’ nutrient reduction activities,” the report stated.

Now, proponents of water quality trading are working to bring more participants into the fold. What can be done to scale up use of trading?

How Water Quality Trading Works

Under the U.S. Clean Water Act, states are responsible for regulating the quality of water discharged into water bodies. Water quality trading markets provide an alternate way for any point source regulated by the National Pollutant Discharge Elimination System to meet requirements set by states through the act.

Water quality trading credits most often deal with nitrogen and phosphorus pollution, but they can be generated for other purposes as well. To protect temperature-sensitive salmon species, for example, Oregon has a functioning trading market for water temperature, according to Witherill. Less commonly, markets can also facilitate trades for credits that represent reduced stormwater quantity.

Credits are frequently generated through reduced pollution from agricultural land, but can also come from point-source sites that have exceeded pollution-reduction requirements. States are responsible for approving and verifying credits.

Water quality trading has the potential to provide massive increases in the cost-effectiveness of pollution reduction. According to the World Resources Institute, reducing nitrogen pollution through water treatment plant upgrades costs an average of about $15 per pound of nitrogen, but under $5 per pound through planting cover crops on farms.

Generating Demand

The GAO's 2017 report stated that in the year they surveyed, 2014, the majority of trading occurred in Connecticut, Pennsylvania and Virginia. In those states, most point sources didn't purchase credits, resulting in a substantial share of generated credits going unused. State officials told the GAO, however, that trading programs still provided other benefits, like flexibility in complying with water quality regulations.

"I would say that there are a number of programs across the country that are working well, like here in Oregon where we have a number of facilities and municipalities that are successfully using water quality trading," Witherill said. "But I think we haven't yet reached a tipping point where water trading becomes a mainstream solution for meeting water quality regulations."

Often, the issue centers around the question of bringing buyers to the table.

In October 2018, the National Network on Water Quality Trading — facilitated by the Willamette Partnership — published its report "Breaking Down Barriers: Priority Actions for Advancing Water Quality Trading." The group aimed "to diagnose why, in contrast to other environmental markets, interest in water quality trading and demand for water quality credits has been slow."

Along with discharge limits, the "Breaking Down Barriers" report points to transaction costs, risk aversion, and the absence of empirical data on programs as deterrents to trading. When it comes to discharge limits, the regulatory structure of a given state plays a big role. Under the Clean Water Act some states, but not others, have set specific quantitative limits on pollution.

"In places like Wisconsin that have numeric criteria for nutrients, they have a really strong driver for cities and municipalities to be looking at options like water quality trading," Witherill said. "It's kind of a precondition for it to have some kind of regulatory driver."

Wisconsin has a statewide trading program for the variety of pollutants regulated by the state Department of Natural Resources, but the difficulty of conducting trades has limited its use, according to Wisconsin Public Radio. Critics of the program's current design have blamed low participation on inflexible rules and trouble connecting buyers and sellers.

In the absence of a "regulatory driver" like quantitative pollution limits, water quality trading programs have limited options for attracting buyers.

The Ohio River Basin Trading Program, run by the Electric Power Research Institute (EPRI), manages a trading market in Ohio, Indiana and Kentucky. The program aims to address nutrient pollution into the Ohio River — and ultimately, the Gulf of Mexico — by generating credits from conservation practices on agricultural land. According to Program Manager Jessica Fox, the Ohio River Basin Trading Project has over 100,000 of the $12 to $14 credits — each representing a pound of verified reduced nitrogen or phosphorus discharge — "on the shelf" waiting to be sold.

EPRI has sold credits to power companies, a university and individuals, Fox said, but not at the volume necessary to make the program self-sustaining. "When every transaction requires me to take a business trip," she said, "that's not going to work. It has to be more liquid than that."

There are other preconditions needed for water quality trading in addition to quantitative criteria, the "Breaking Down Barriers" report argues. First, unless the technology required for polluters to meet limits is expensive or nonexistent, managers of point sources are unlikely to turn to trading. Regulatory agencies must also support purchasers interested in pursuing credits. "We've also seen that the utilities who pursue water quality trading often have a champion supporting the program

within their own organization," the report stated.

Building Markets and Confidence

Through stakeholder interviews and other research, the "Breaking Down Barriers" authors identified seven steps that stand to increase use of trading. They advocate for simplifying trading programs; making sure state regulators have the capacity and resources they need; clarifying the policies of EPA and states; reducing buyer risk, real and perceived; addressing the legal risk that stems from a lack of case law on trading; developing more direction for stormwater trading; and building relationships.

For its part, the Ohio River Basin Trading Program is looking to stimulate more demand of its own accord. In May, EPRI announced a partnership with First Climate, a firm that specializes in selling environmental credits, to sell credits on international markets and make them available to a wider range of domestic buyers. Before, the trading program wasn't able to accommodate transactions of less than $25,000, according to Fox. Through First Climate, however, the program is taking a more retail approach to trading.

"You can go on now, and you can buy one credit with a credit card or Paypal account," Fox said. The program has a calculator online that individuals can use to determine their personal nitrogen footprint, and provides buyers a photo of the farmer who generated their credit. It even sells t-shirts.

"It's kind of like 'adopt a sea lion,'" she said. "It's getting it to be a more publicly accessible thing."

First Climate and EPRI are also pitching large corporate buyers on water quality credits as a way to meet voluntary sustainability commitments.

But as trading programs continue to try to break into the mainstream, Willamette's Witherill cautioned that they are just one tool in the toolbox for "expanding the number of options utilities have to invest in their watersheds," she said. "Maybe that doesn't necessarily look exactly like water quality trading, maybe that looks like a source water protection program or some kind of groundwater irrigation management."

On the policy front, Fox also wonders if EPA could do more to support markets. The agency's February memo was "a huge signal that the administration is strongly behind water quality trading," she said, but it doesn't actually change implementation on the ground.

One possibility worth exploring, Fox said, would be whether EPA could allow states to use their own share of funds from joint federal-state programs — such as Clean Water State Revolving Funds, for example — to buy credits.

"Any way to incent the buyer side is a great solution," she said.

Conservation Finance Network

Chris Lewis

September 25, 2019

With Interest Rates Low, Colleges Get In On 100-Year Debt.

Colleges in need of capital are eyeing a financing option that lets them pay back their investment over a longer period than most bonds.

The University of Pennsylvania wasn't necessarily looking to issue bonds this summer, much less bonds that would take 100 years to repay. But as its analysts watched the debt markets, they saw an opportunity that was too good to pass up.

Colleges and universities regularly secure funds to improve their facilities by issuing bonds that they'll have to repay, with interest, over several years. Usually, the longest they will take to repay the bonds is 30 years. Since the Great Recession, however, a dozen elite public and private universities, including Penn, have issued century bonds, which don't mature for 100 years.

That timeframe lets schools pay off massive investments over a lifetime or more, usually at a fixed, low interest rate. For the investors that buy them, such as insurance companies, century bonds are a chance to lock in guaranteed returns even in tough market conditions. But the opportunity to issue them doesn't come up often.

So far this year, the pieces have fallen into place for four universities: Penn, the University of Virginia, Rutgers and Georgetown. Together, they have issued more than $1.23 billion in 100-year financing.

Penn's finance team knew the university was interested in issuing debt sometime in the next year, said MaryFrances McCourt, vice president of finance and treasurer. The university had issued century bonds once before — $300 million in 2012 — to help upgrade its facilities to meet environmental goals. Several developments moved university officials to consider those bonds again.

The first major signal was that interest rates were low — really low. In July, interest rates for 30-year municipal bonds were lower only about 1% of the time, while rates on 30-year U.S. Treasury bonds were only lower about 2% of the time, according to McCourt's office. "It kind of takes you aback," she said.

The second factor was that lenders weren't paying a significant penalty for long-term bonds. Investors usually demand higher interest rates for longer-term investments. But when Penn analysts looked at the market, they found little difference in interest rates for shorter- and longer-term investments.

Other market indicators were also favorable: The interest rates Penn would have to pay on its bonds were lower than usual relative to U.S. Treasury bonds. And the interest rates for taxable bonds were not significantly higher than the rates on the tax-exempt municipal bonds that public and private universities typically depend on.

Plus, Penn's fiscal models showed that the century bonds would help, not hurt, its financial situation in an economic downturn. If cash ran short or if interest rates in the bond market spiked, having access to a low-interest pool of money could let the university meet its capital needs.

"You don't know what's going to happen tomorrow. All we knew was what was staring at us then," McCourt said. "We decided we've got to move quickly on this."

Education Dive

by Daniel C. Vock

Oct. 29, 2019

Cities Prepare for Climate Risk. Bond Prices May Not Reflect It.

An analysis covering 620 municipalities shows there's plenty of room for improvement.

Climate change is no longer the problem of the future—some 70% of cities worldwide are already experiencing its effects. The good news is that many of them are doing what they can to prepare, according to an analysis of global disclosures by the nonprofit CDP.

There's a direct connection between identifying climate-related threats and taking steps to reduce them, according to Kyra Appleby, global director of CDP's program on cities, states and regions. Climate change "is affecting cities now," she said. That reality is not, however, always reflected in local real estate and municipal bond markets.

The three U.S. cities identified by CDP as having the highest climate hazard scores (St. Louis, Boynton Beach, Fla., and Lakewood, Col.) have about $218 million in outstanding municipal bonds, including utility debt sold by Boynton Beach.

The hazards outlined by CDP aren't reflected in the prices of state- and local-government securities, which continue to hover near record-low yields. "These risks will undermine your tax base. They'll undermine your economy, and ultimately they will undermine the ability to pay back the debt, which is what investors really care about," said Eric Glass, a portfolio manager for fixed income impact strategies at AllianceBernstein. "They are material risks, and I don't think investors are entering this into their credit analysis."

CDP asks companies and sub-national governments to submit reports every year explaining the specific concerns they have about climate change and what they're able to do about them. At least 620 cities filled out those surveys for 2018, which the British nonprofit scored by type and quantity of threat, in its eighth annual assessment. Fewer than half of those cities have conducted citywide climate vulnerability assessments, which Appleby linked to increased action to lessen risk.

More than 40% of the hazards that cities reported last year are likely to occur in the relatively short-term, according to the group's seven-page analysis, well-within that 30-year time-frame of a typical muni bond. That's an improvement compared with trends before the 2015 Paris Agreement, Appleby said, but still insufficient. Climate threats are going to keep increasing, particularly after mid-century, according to the UN's Intergovernmental Panel on Climate Change, which means, theoretically, that cities should report more threats in the future, not fewer.

"What cities are reporting doesn't line up with what the science tells us the future will be like," Appleby said.

St. Louis, for example, is planning for drought when it's also at risk of flash floods, which can bring water-borne diseases. The city was struck with outbreaks of Legionnaires' and cryptosporidium in 2014 and 2015. Heavy rain and ever-higher tides threaten low-lying businesses in Boynton Beach. In its 2018 survey, the city noted local snorkeling and scuba trips could diminish as more coral reefs die. Lakewood is staring down the barrel of extreme heat, heavy snow, drought, forest-fires and greater insect infestation.

Banks and other businesses are preparing for future threats as well. The Federal Reserve Bank of

San Francisco last week published an 18-chapter volume dedicated to climate risks in low- and moderate-income U.S. communities. The report calls for an entirely new system for financing resilient infrastructure.

“Historically, cities have taken the approach of willful ignorance because actual notice of a problem often legally required them to do something about it,” said Jesse Keenan, a climate risk and adaptation specialist at Harvard University and the editor of the new Federal Reserve volume. “Some cities are actively disclosing the risks and uncertainties with the hopes that they can dictate the terms of how they will invest in the adaptation.”

Bloomberg

By Eric Roston and Danielle Moran

October 22, 2019, 1:00 AM PDT

Smaller Muni Issuers Face Some of the Biggest Climate Risks.

The threats posed by a changing climate spell trouble for a number of small municipal-bond issuers, including some in South Carolina, Kentucky, and Texas.

Muni investors face long-term risks in the $3.8 trillion market, *Barron’s* wrote recently, because climate change raises an issuer’s credit risk by damaging its assets and tax base. Absent efforts to curb emissions, BlackRock estimates that within a decade more than 15% of the S&P National Municipal Bonds index will come from metropolitan issuers that probably will suffer climate-related losses of 0.5% to 1% of local gross domestic product a year.

The recent article looked at some of the largest constituents of the popular ICE U.S. Broad Municipal Index and their climate risks, based on analysis by HIP Investor, a San Francisco-based sustainability ratings, data and analytics provider. (HIP stands for “Human Impact plus Profit.”)

Continue reading.

Barron’s

By Leslie P. Norton

Oct. 22, 2019 5:30 am ET

Climate Change Has Probably Hit Your City Already.

Some 70% of cities around the world are already experiencing the effects of climate change, according to a new study by the CDP, formerly known as the Carbon Disclosure Project.

Flash floods, heat waves, rainstorms, extremely hot days, and droughts are among the top hazards.

Investors in municipal bonds are already facing climate risk. Smaller cities and counties, in particular, are already struggling to generate sufficient cash flow to deliver city services, let alone

funding efforts to mitigate damage from climate change.

In addition to plans to address risks such as storms, cities will need to provide more public services, given that changing temperatures are likely to allow diseases to spread.

Continue reading.

Barron's

By Leslie P. Norton

Oct. 22, 2019 12:56 pm ET

Fitch Rtgs: P3s Can Fund Higher Ed Projects While Preserving Balance Sheets

Fitch Ratings-New York-21 October 2019: Public private partnerships (P3s) can help fill infrastructure funding gaps for colleges and universities, says Fitch Ratings. In the face of flat or reduced state funding, public universities in particular will need to find other sources of funding to address aging infrastructure and ongoing capital needs. By allocating costs to the private sector, universities are able to preserve balance sheet capacity. While potential benefits make P3s a useful funding tool, the strength of a P3 is dependent upon sensible risk allocation and the university's and operator's contractual commitments.

Most four-year institutions face limitations in tuition-raising flexibility to offset operating and capital expense pressures, especially public universities, which are facing a persistent expense and revenue mismatch. State appropriations remain below pre-recession highs compared with rising operating expense levels. Subsequently, universities are entering into P3s for a wide variety of infrastructure needs. Recent P3s have been used for major capital projects, notably campus utilities at Ohio State University, Dartmouth University and the University of Iowa. Projects requiring specialized technical expertise, such as campus utility systems or laboratories, necessitate a qualified operator and contractor and available replacements that have the technical and organizational resources to manage major projects with intensive capital needs.

Continue reading.

Century Bonds Make No More Sense Than Millennium Bonds.

- **Century bonds are not an appreciably "safer alternative" to corporate bonds.**
- **Taking on more interest-rate risk when rates are at near-record lows is not an attractive idea.**
- **The current bond rating for a 100-year bond is meaningless 10, 20 or 80 years from now.**

Except for bonds that are rated CCC-, I can think of few decidedly worse investments for an individual fixed-income investor than so-called "century bonds" that are touted in an article titled, "For Yield, Look to 2119" (available behind the Barron's paywall, or in the print edition) in the Oct. 7, 2019 issue of Barron's magazine. Virtually all of the purported benefits cited in the article are flawed.

First, these bonds, most of which are municipals, are presented as a “safer alternative” to corporate default because they enormously extend the maturity date and thereby take on more interest-rate risk. That’s quite a leap of logic. How does that make them safer? Municipal-bond defaults do, in fact, occur, and the odds only increase over a 100-year period. Moreover, taking on more interest rate risk at a time when rates are at near-record lows can hardly be an attractive idea. They’re not going to stay that way forever, and when rates inevitably rise, a bond’s value will fall. When, precisely? Well, that’s the problem: no investor will hold a bond for 100 years, but where will rates, and the principal value, be when he does want to sell 10, 20… or 80 years from now? That’s not just rate risk – that’s a lot of rate risk.

Although the article earnestly tries to make a case for these bonds, such as tax exemption in the issuer’s home state (so what, that’s true of most munis), and inconsequential track records about particular issuers’ payout histories (“Rutgers has been around in some form since 1766, and hasn’t had any problems repaying debt in recent decades”), I simply can find no silver lining for individual investors unless they’ve been given medical, actuarial or divine assurance that they’ll live past 100 – at least as to bonds bought at issuance.

And stellar investment grades? How can any long-term bondholder take seriously a current high-quality rating for a bond of virtually infinite maturity? Changes in bond ratings occur on a regular basis, and the likelihood increases substantially over a period of 10 decades. For a century bond, therefore, the current rating is practically meaningless.

The article ends by noting that a century bond issued by a hospital in 2016 is currently yielding 3.8% compared to the 3.2% offered by the lowest tier of investment-grade debt. Well, there’s a good reason for that: the hospital bond is at the far reaches of the maturity spectrum, and, as with junk bonds, investors demand to be paid for taking unattractive risk, in this case time risk. Perhaps some audacious municipality will offer a millennium bond sometime soon, at an irresistible rate of 4%! Who could turn that down?

It would be far more judicious for an income-oriented investor to buy, say, a 2028 target-date exchange-traded fund that is currently yielding about 3.3%.* Why would you go out 100 years on a single bond when you can hold one for just 10 years for only slightly less yield?

* Note: The 3.3% yield cited for a 2028 target-date ETF pertains to the Invesco BulletShares 2028 Corporate ETF (BSCS), priced at $22.08 on 10/7/19, the Barron’s issue date. The distribution of $0.0613 on Sept. 23, 2019 would result in an annualized yield of 3.3%: $0.0613 x 12 = $0.7356. $0.7356/$22.08 = 3.3%.

Oct. 23, 2019 2:05 PM ET|2 comments | Includes: BSCS
John Gerard Lewis

Munis In Focus: Amanda Albright (Radio)

Amanda Albright, Municipal Bond reporter, will discuss the huge uptick in supply of taxable bonds. Hosted by Lisa Abramowicz and Paul Sweeney.

Play Episode

Bloomberg

October 25, 2019 — 8:36 AM PDT

Fixed Income Is Still a Mystery to Many Investors.

A survey underscores a lack of understanding, but the bond market doesn't have to be an impenetrable enigma.

The top-line takeaway from a BNY Mellon Investment Management national survey on fixed-income investing was stunning: A measly 8% of Americans were able to accurately define fixed-income investments.

The 29-question online survey of just more than 2,000 adults, conducted in July, clearly shows that many Americans admit to having little knowledge about various fixed-income markets and how to invest in them. Here's a rundown of those who answered "I do not understand it at all" with regard to the following types of bonds: Treasuries, 39%; municipal bonds, 45%; high-yield bonds, 46%; corporate bonds, 51%; structured products, 53%; Treasury Inflation Protected Securities, 63%. Of the 849 respondents who don't own fixed income or don't have any investment portfolio, 44% said they don't buy bonds because they don't understand the different types of securities.

Continue reading.

Bloomberg Opinion

By Brian Chappatta

October 24, 2019, 3:00 AM PDT

Housing PABs See Increase of More than $1.1 Billion in 2018.

Combined multifamily and single-family tax-exempt private activity bond (PAB) issuance was $22.1 billion in 2018, an increase of more than $1.1 billion over 2017, according to a report issued by the Council of Development Finance Agencies (CDFA). Today's report contains revised numbers from an original report that was posted Oct. 15. Housing bonds made up 91 percent of total PAB issuance, the highest percentage since the CDFA began tracking the amounts in 2007. Multifamily housing bonds–which are paired with 4 percent low-income housing tax credits–totaled $14.7 billion in 2018, a decrease of $600 million from 2017. States used 65 percent of their PAB allocation 2018, a drop of 5 percent from 2017. California ($4.3 billion) was one of five states to top $1 billion in total PAB issuance, with New York, Texas, Florida and Tennessee also topping that figure.

Wednesday, October 23, 2019 – 3:15pm

Is Public Finance Ready to Rely on Blockchain Technology?

Governments often contend with many issues when attempting to link public dollars to real-world outcomes captured by data in disparate systems. EY claims its OpsChain Public

Finance Manager will reduce those struggles.

The stewardship of public dollars is a challenge as old as government itself, but nascent technologies are coming into the space with the intention of streamlining it. Blockchain-enabled tools are one such example.

The OpsChain Public Finance Manager (PFM), a new blockchain-based tool from Ernst & Young, is designed to allow governments to "focus more directly on the things that matter," said Mark MacDonald, EY global public finance management leader.

The potential of this tool lies in helping governments track the "financial integrity of the way public money is spent" and the related outcomes that are achieved, MacDonald said. Essentially, the PFM promises to enhance the ability of governments to see how public dollars are connected to actual results, which should support further decision-making.

"In simple terms, it's the integration between a financial view and non-financial view that can really help public managers manage more effectively, public budgeters budget more effectively, and ultimately it's about trying to advance that cause of 'better finance, better government,'" MacDonald said.

The PFM is based on the EY Ops Chain, which is a blockchain platform that entered its second generation earlier this year. According to EY, this platform can "support up to 20 million transactions per day on private networks" and has reportedly led to efficiency gains of more than 90 percent in certain cases.

Most governments utilize an enterprise resource planning (ERP) system to keep up with public funds. MacDonald said those systems are generally well understood, but he suggested a critical piece of the organizational puzzle is missing when it comes to linking ERP data to outcome data in other systems.

"The question becomes when I have an opportunity to try and connect financial data and information to another system that perhaps has my non-financial information in it, how easily am I able to do that?" MacDonald said.

Mike Mucha, deputy executive director of the Government Finance Officers Association, said his organization helps governments prepare and procure ERP systems, so he understands the challenge that MacDonald refers to. Mucha cited an example involving a school district. A district will have its financial data in one system (ERP), but student performance data will be stored in a student information system (SIS).

"If you're trying to calculate like an academic ROI … you need to basically, through some sort of third-party tool or some sort of third tool, correlate your spending on various programs with the academic return that you're getting out of your student data system," Mucha said.

Additionally, MacDonald said governments often deal with a "complicated array" of contractors, partners and not-for-profits in delivering public services. The chances of these external agents being on the government's ERP system are essentially zero, which creates a "hard organizational interface to try to overcome." The blockchain component can help manage this kind of chaos, almost acting as an "ERP across ERPs."

Another challenge is simply the idea of the government running multiple systems itself. Almost no organization runs just one ERP system, Mucha said. Then there's the fact that public entities frequently house their own information even though those entities might need to work together for

the common good. Although Mucha admits that he doesn't know anything about the EY tool, he can imagine great potential for public entities wishing to work together.

"From a business intelligence perspective, you might want to pool that information together … so if you had an ERP across ERPs, then you could conceivably use data from each one of those individual entity's ERP system in sort of a shared resource," Mucha said.

MacDonald stressed that the blockchain aspect of the PFM is not "technology for technology's sake." Rather, the blockchain platform presents a logical opportunity for technology to address long-standing business challenges within the complexity of a government system.

"It [blockchain] has the ability to work at that network level across organizational boundaries, across different authorities, and so forth," MacDonald said.

According to EY, the PFM has been tested by multiple governments around the world. MacDonald would not reveal all of those governments due to concerns related to privacy and confidentiality. It is public knowledge, however, that Toronto has tested the tool, but Toronto's chief financial officer Heather Taylor could not be reached for further comment.

GOVERNING.COM

BY JED PRESSGROVE / OCTOBER 25, 2019

Charter Schools Are an Opportunity for Impact Investors.

High interest rates are a barrier to buying new facilities, even though such loans have proved a safe bet.

With more than three million students in charter schools nationwide, and an estimated five million families who would send their child to a charter if a spot were available, why aren't many more of them opening? One reason is the higher cost of capital they bear compared with traditional public schools. While both types of school receive public funding for operating expenses, charter schools cannot issue general-obligation bonds to purchase or construct their properties. That forces charter schools to find facilities, and the funds to renovate or build them, on the open market.

Charter schools enter the market at a distinct disadvantage. When they do find a site and draw up plans for a new school building, the organizers often find interest rates far steeper than those enjoyed by traditional public schools—about 1.5 percentage points higher. That's because teachers unions and other advocacy groups dissuade school districts from sharing the proceeds of their bonds or guaranteeing charter-school bonds. The extra interest charter schools pay consumes dollars they could otherwise spend to hire more teachers, increase salaries and buy resources for students.

Yet compared with many real-estate investments, charter schools are an extremely safe bet. A 2011 report on charter-school loan performance from Ernst & Young's Quantitative Economics and Statistics Practice assessed 430 outstanding and paid-off loans totaling $1.2 billion. Only five loans, which amounted to 1% of the set in dollar terms, ended in foreclosure. And just 0.2% of the total loan amount was reported as being written off. Among outstanding loans, only eight (3.6%) had been delinquent for any period of more than 60 days.

This strong performance makes charter schools an ideal opportunity for impact investing. Impact

investors are those who aim to “do well by doing good”—i.e., generate a measurable social benefit along with a commensurate financial return.

While impact investors are already funding auxiliary features of education like tutoring programs, few have gotten involved in core activities like helping schools buy their physical plants. Historically, supplemental funding for schools has come in the form of donations and grants. Yet supporters of charter schools could have a greater impact by making larger, lower-cost loans that would allow the schools’ organizers to finance capital expenditures at lower rates of interest than are available on the open market.

Low-interest investors would help charter schools spread and flourish in the long term. The infusion of affordable capital would make it possible to extend spots to many of the students waiting to enroll in charter schools. Millions of dollars in interest could be saved and reinvested to pay teachers and spend on student learning—more spending in the classroom, rather than on it. The discrepancy between charter schools’ high cost of capital and their demonstrated stability and low default rate is exactly the sort of gap impact investors should naturally seek to fill.

Investors in social causes have made valuable contributions in recent decades to fields like public health that had long been occupied exclusively by nonprofits, but too many investors seem to focus more on improving their public image instead of finding the areas with the greatest potential impact. This may have dissuaded some from funding charter schools, which have lost some of their luster among political liberals because of the supposed threat they pose to traditional public schools.

Charter schools are an untapped opportunity for impact investors. Investors in charter schools have the satisfaction of knowing that their investments would finance expenses that donors can’t cover with gifts, and can rest comfortably in the knowledge that their investments are very likely to pay off. What’s more, they can help meet a goal that should be beyond the divisiveness of politics: better education for America’s children.

The Wall Street Journal

By Mark Medema

Oct. 27, 2019 4:44 pm ET

Mr. Medema is managing director for the Charter School Facility Center at the National Alliance for Public Charter Schools.

CDFA Releases Annual Volume Cap Report.

Read the Volume Cap Report.

CDFA | Oct. 17

Climate Change Could Make Borrowing Costlier for States and Cities.

As ratings firms begin to focus on climate change, those involved in the market say now is the time for communities to make investments in climate resilience or risk being punished

by the financial sector in the future.

(TNS) — Someday soon, analysts will determine that a city or county, or maybe a school district or utility, is so vulnerable to sea level rise, flooding, drought or wildfire that it is an investment risk.

To be sure, no community has yet seen its credit rating downgraded because of climate forecasting. And no one has heard of a government struggling to access capital because of its precarious geographical position.

But as ratings firms begin to focus on climate change, and investors increasingly talk about the issue, those involved in the market say now is the time for communities to make serious investments in climate resilience — or risk being punished by the financial sector in the future.

“We look not just at the vulnerability of state and local governments, but their ability to manage the impact,” said Emily Raimes, vice president with Moody’s Public Finance Group. “While we’ll be looking at the data on rising sea levels and who may be more vulnerable, we’ll also be looking at what these governments are doing to mitigate the impact.”

Moody’s has been especially vocal about its climate change concerns. The firm has issued numerous papers assessing climate risk, and two months ago it purchased a majority stake in Four Twenty Seven, a climate-risk data firm.

Emilie Mazzacurati, Four Twenty Seven’s founder and CEO, said that the bond sector’s attention to the issue should prompt local governments to make it a priority. “It creates an incentive for them to be better prepared, because it’s going to cost them money if they don’t.”

But some worry that punishing places for their susceptibility to climate change will just make it more difficult for them to finance the infrastructure improvements that might protect them.

“Nobody has yet been penalized for having a bad environmental policy or practice or system,” said Tim Schaefer, California’s deputy treasurer for public finance. “I don’t know how much longer that’s going to go on. I’m assuming not much longer.”

Assessing Florida’s Future

Governments large and small rely on the $3.8 trillion municipal bond market for much of their infrastructure work. When officials want to build a highway or a school — or a seawall or an emergency operations center — they often issue bonds, bringing in the money needed to complete the project. Investors are repaid with interest over a period that can run for decades or more.

About two-thirds of infrastructure projects in the United States are paid for by municipal bonds, and more than 50,000 states, local governments and other authorities have issued bonds to finance their work.

Governments pay higher interest rates on those bonds when their credit ratings are low. Firms such as Moody’s Investors Service and Standard & Poor’s Financial Services issue the ratings assessments.

“Investors are in a position of demanding a higher return when they see greater risk,” said Kurt Forsgren, managing director of S&P Global Ratings.

Municipal bonds are considered a conservative investment, with a current default rate of around 0.3%, according to Matt Fabian, a partner at Municipal Market Analytics. To date, the bond market

has done little to reflect that the risk may be increasing.

“There is almost no impact on muni bond prices with respect to climate change vulnerabilities. Prices do not acknowledge the risk in climate change,” he said. “Most investors believe that [climate change] is going to start affecting the market right after their own bonds mature.”

As more investors and firms study the risks, however, that might change.

“We are about a year away from climate change beginning to affect the muni market — a little,” Fabian said. “Changes on the investor side are going to happen first, [credit] ratings will come second, and issuer behavior will be a distant third.”

Some investors already have begun to factor climate change into their decisions. Eric Glass, a portfolio manager with AllianceBernstein, said his portfolio opted to steer clear of a recent three-decade bond in the Florida Keys, which is facing rising sea levels.

“What does [the Florida Keys] look like in 30 years?” Glass said. “I don’t know. But I know it’s not going to look like what it looks like today. That is a tough calculus to make, and we’ve decided not to take it.”

David Jacobson, vice president of communications for Moody’s Public Finance Group, called a downgrade over climate projections a “what-if type of thing.” Moody’s ratings are based on what its analysts expect a government’s creditworthiness to be in the next 12 to 24 months, he said, even though the bonds they issue can run for decades.

“The things that are happening right now or in the next 24 months weigh a whole lot more than things we think will happen in 15 to 20 years,” said Lenny Jones, a managing director at Moody’s. “We’re not scientists.”

Credit-rating firms have always acted conservatively, said Justin Marlowe, a professor at the University of Washington who studies public finance. To some critics, that reluctance to downgrade pre-emptively is leaving the market unprepared for the onslaught of climate effects that so many local governments will face.

That’s the conundrum facing the municipal bond market right now: If the market fails to be proactive about future risks, it could lead to billions in ill-fated investments in communities at the forefront of climate change. But making it more expensive for governments with environmental liabilities to borrow money could prevent them from making the improvements needed to strengthen their infrastructure.

And just because a city is likely to be struck by sea level rise or wildfire doesn’t necessarily mean it will default on its bonds. Further effects like crop yields and population shifts — and their impact on a tax base — could prove even harder to project.

“It’s a pretty big step from ‘we have economic impacts’ to ‘this is going to affect their long-term ability to repay their bonds.’ There’s a really big difference,” Mazzacurati said. “[Ratings firms’] focus is really about counties who repay their debt. That’s it. There can be really important impacts that are not going to be reflected in the bond rating, and that doesn’t mean the bond rating is off.”

Disaster Fallout

So far, the few climate-related credit downgrades have come after specific disasters. New Orleans and Port Arthur, Texas, experienced credit downgrades after major hurricanes. And after a fire

nearly destroyed Paradise, California, last year, the pool of pension obligation bonds it was a member of saw its credit downgraded.

As New Orleans rebounded, its credit improved. The city adopted a resilience strategy, bolstered its levee system and pursued other projects, such as turning green space into water reservoirs during periods of flooding. Today, the city sees its biggest climate threat as extreme rainfall, which has increased in frequency in recent years and flooded parts of the city.

Leaders in New Orleans are asking voters to approve $500 million in new bonds, which would pay for infrastructure improvements such as the replacement of outdated pipes, as well as other goals like affordable housing. City officials say it shows New Orleans is "doubling down" on its infrastructure program.

"The environment is changing. More water's coming down in a shorter period, and we have to respond to that," said Norman White, the city's chief financial officer. "Our first responsibility is to the citizens of New Orleans. Fortunately, that lines up with investors."

Coastal cities across the country are building seawalls to stave off rising oceans. Others are elevating roadways to prepare for more frequent flooding. Some are requiring sturdier new construction and retrofitting existing buildings to withstand severe weather events. Communities in drought-prone areas may focus on projects such as water storage, while those with flooding concerns must fortify their sewage infrastructure.

Last year, Moody's surveyed the 50 largest U.S. cities; 28 responded. Among them, they had 240 climate resilience projects, totaling $47 billion. Some 60% of the projects were to combat flooding.

Florida's Miami-Dade County has been praised by analysts for its infrastructure investments focused on climate preparedness. Ed Marquez, the county's deputy mayor, said future financing is a "concern," but officials are trying to address that with capital plans focused on dealing with the changing climate.

"This is a many-year process as we fix our infrastructure, as we add new infrastructure, as new science comes on board," he said. "Miami is still growing. People are still coming. Investors are buying our bonds. We're telling them what the odds are, but it's odds that they're willing to play."

Statewide, Florida remains in good shape creditwise, despite the challenges many of its communities are facing. Ben Watkins, the state's director of bond finance, said that's likely to continue, even amid hurricanes and rising sea levels. Even the most devastating hurricane seasons have ended up being a "blip on the radar" in terms of Florida's credit health, he said. But concern remains for smaller governments within the state.

"People are dying to come to Florida and coming to Florida to die," he said. "Until that changes, we'll have the economic engines to be able to access credit."

Cities with climate change risks should follow Florida's lead and borrow now for local projects, said Fabian, the analytics researcher.

"As investors get smarter about climate change risk, it will become more expensive for governments with the largest need to borrow," Fabian said. "Their costs to borrow could certainly be higher. Acting earlier is almost always cheaper."

BY ALEX BROWN, STATELINE.ORG | OCTOBER 18, 2019 AT 3:01 AM

City Bonds May Be Hit by Climate Change. Moody's Can Now See How.

- **Rating company to gauge how cities tackle environmental risks**
- **Cities may see downgrades if plans fall too far from average**

For Moody's Investors Service, it's no longer enough for cities to have plans addressing their risks from climate change. The company's municipal-bond analysts, armed with data, will soon determine how those strategies compare with others — and may change their credit ratings as a result.

Moody's in July purchased a majority stake in climate research firm Four Twenty Seven Inc., which provides information the company is now using to evaluate how well local governments are girding for threats such as floods, fires and storms.

"We're starting to get a sense of who's really putting in the effort and putting together a quality plan and those that haven't. We're gaining a lot of expertise very quickly," said Eric Hoffmann, a senior vice president. "We're going to incorporate these particular risks and the degree to which the exposure has been mitigated by the hazard mitigation plan into the rating."

Moody's efforts show how the company is trying to distinguish itself among its rivals to meet the needs of municipal-bond buyers who want to assess how extreme weather events, exacerbated by climate change, will affect their investments in local governments. S&P Global Ratings and Fitch Ratings say they account for such threats in their ratings.

Some investors have grown frustrated with the companies — which during the financial crisis a decade ago came under fire for underestimating the risk of toxic mortgage-backed securities — over high ratings for communities vulnerable to risks from rising sea levels and devastating storms. In California alone, the biggest municipal-bond issuer, wildfires have not only become more frequent but more devastating. Last year's Camp Fire, the deadliest in state history, wiped out most of the town of Paradise, killed 85 people and scorched 240 square miles.

"Anytime we see climate risk as being added on top of the credit story and not being integrated into the credit story, we tend to be a little bit more concerned about the value of the rating," said James Lyman, director of research for the municipal fixed income team at Neuberger Berman. "It's not a toggle switch."

Moody's recognizes that environmental risks eventually can lead to strains on local economies if left unaddressed, said Leonard Jones, the rating company's managing director for public finance. "We want entities to have a mitigation or resiliency plan so that they don't face that pressure and their ratings stay at a quality level," Jones said. "If they can't do anything about it, they're going to face that pressure even sooner."

Moody's approach so far appears inconsistent, and it's clear that it may take a while for its ambitions to be reflected in its thousands of bond ratings. Megan Kilgore, auditor of Columbus, Ohio, said analysts didn't ask about climate risks in the review ahead of the AAA-rated city's bond sale on Oct. 3 even though the company a few weeks earlier had published a report noting that the Midwest has about $69 billion in debt it rates exposed to high heat stress, the second-most vulnerable U.S. region after the Southeast.

Philadelphia Treasurer Christian Dunbar said that he thinks Moody's — and the other rating companies — will eventually "benchmark" cities on how they gird for similar environmental, social and governance threats and incorporate that into the ratings.

“Over the last year or so, ratings agencies are starting to get more sophisticated in their questioning about ESG and especially about climate risk,” Dunbar said.

Bloomberg Markets

By Romy Varghese

October 15, 2019, 5:56 AM PDT

CUSIP Request Volume Sends Mixed Signals for Corporate and Municipal Debt Issuance.

NEW YORK, NY, October 10, 2019 – CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for September 2019. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found increases in CUSIP request volume for corporate debt and decreases in request volume for municipal debt in September.

CUSIP: Corporate Debt Volumes Rise in September While Muni Volumes Slow.

“The significant monthly growth in requests for new corporate debt identifiers in September is noteworthy,” said Gerard Faulkner, Director of Operations for CUSIP Global Services. “While most of this year has been marked by relatively moderate swings in month-to-month request volume volatility, the 38.0% monthly increase in volume for domestic corporate debt identifiers is a sign that corporate issuers are indeed seizing the current interest rate environment to raise capital.”

Read Press Release.

MUNIS IN FOCUS: Joe Mysak (Radio)

Joe Mysak, Munis Editor for Bloomberg Briefs, will discuss how the municipal market could see $400 billion of total supply if the new-issue calendar remains elevated in coming weeks Hosted by Lisa Abramowicz and Paul Sweeney.

Listen to audio.

Bloomberg

October 11, 2019 — 8:58 AM PDT

Pension Obligation Bonds May Soon Have Their Moment.

Issuing bonds to wipe out unfunded liabilities is risky. For some municipalities, it might soon be worth a shot.

In some corners of the finance world, the phrase “pension obligation bonds” is practically a four-letter word. The debt, which raises money to plow into public retirement systems, is deemed risky and dangerous, nothing more than a gamble on future market moves by state and local government leaders who are too clever for their own good.

It’s true that some of the most infamous municipal bankruptcies, from Detroit to the California cities of Stockton and San Bernardino, involved pension obligation bonds, or POBs. Indeed, an oft-cited study by the Center for Retirement Research at Boston College found that “the jurisdictions that issue POBs tend to be the financially most vulnerable with little control over the timing.” Chicago, which has a junk rating from Moody’s Investors Service, floated the idea of using POBs last year.

That kind of deal would be asking for trouble. For one, Chicago pays a hefty premium to borrow, making it tougher for investment returns to exceed the bonds’ fixed interest rate and turn the financing into a victory. Also, the city would be buying into a stock market that remains close to all-time highs, just as concerns about a potential economic slowdown are reaching a fever pitch. It doesn’t add up.

But consider a scenario 12 months from now in which the U.S. economy enters a recession. That’s hardly a bold call: A Federal Reserve Bank of New York model in August put the odds at 1 in 3.

In such an environment, equities, which have become the cornerstone of public pension plans, will likely have slumped as corporate earnings suffer and consumers close their wallets. Benchmark U.S. Treasury yields, already near all-time lows, will head even closer to zero as investors seek safety.

Would POBs make sense financially at that point? Absolutely.

Take South Carolina. As of 2017, its pensions were 54.3% funded, the sixth-worst level in the nation. And yet it maintains a pristine triple-A bond rating from Moody’s, so the yield on its 30-year tax-exempt debt is a measly 2%.

Now, POBs must be taxable securities, after the Tax Reform Act of 1986 closed a loophole that exploited an almost risk-free opportunity for states and cities to sell tax-free debt and buy higher-yielding Treasuries. So for South Carolina, that yield would have to be higher. Still, even if the state could borrow at 3%, is there really much doubt that a broad basket of public stocks, not to mention hedge funds and private equity firms, will beat that mark in the coming decades? From the height of the dot-com bubble in early 2000 until now, the S&P 500 has returned on average 5.4% annually. Since March 2009, it’s delivered 17.5% a year. Adding in an allocation to the Bloomberg Barclays U.S. Aggregate Bond Index over either of those periods still leaves returns comfortably above the going rate on U.S. state obligations.

If this sounds like market timing, that’s because it is. And with prudent management—and under the right conditions—it’s not so much a gamble as an automatic stabilizer.

These massive funds have trillions of dollars in assets and depend on sustained market gains to meet their promises to retired public employees. recession is precisely the time for those focused on the long term to buy risky assets on the cheap. Yet that’s exactly when states and cities see tax revenue dry up, affording them little room to ramp up investing. Instead, as they did during the last

downturn, governments are inclined to skip pension payments as they grapple with budget shortfalls.

Matt Fabian, a partner with independent research company Municipal Market Analytics, could be called a POB skeptic. He published a report this year with a section titled “Fourteen Pension Obligation Bond Problems.” But even he sees some merit in them when they’re managed properly. “If there’s a correction in the stock market, and you can time it at the bottom, sure,” he says. “But think about the political will at that point. That’s when you do it, but that’s also when you don’t do it.”

It’s true that austerity is still a virtue in many statehouses, unlike at the federal level. But financial advisers should have no trouble doing the math and coming up with scenarios in which selling POBs and investing in a mix of stocks and bonds would be a windfall with a high degree of confidence. Nothing is certain, of course, but using historical performance as a guide is at least informed speculation rather than an outright gamble.

Even when a positive spread between investment returns and the securities’ interest rate is all but ensured, opponents of POBs may still have some valid criticisms. For one, issuing the debt is not a substitute for making required contributions. As Fabian points out, “pension bonds are rarely done to help the pension—they’re done to help the budget.” POBs should be considered a way to go above and beyond typical funding at an opportune time, when the prospects for future gains are greatest.

Another concern is that the transaction substitutes pension debt for comparatively inflexible muni bonds. The Government Finance Officers Association notes that POBs often restrict the option for borrowers to “call” the debt, “which can make it more difficult and costly to refund or restructure.” The GFOA also correctly points out that the structures are sometimes tied to swaps and derivatives, and these can get messy. A plain-vanilla approach is the way to go.

In a blunt statement on its website, the GFOA says it “recommends that state and local governments do not issue POBs.” Nothing indicates it plans to alter that stance anytime soon. That sort of warning could deter fiscally sound governments from even considering them when the going gets tough.

Moody’s takes a somewhat more flexible position. “Our view is the issuance of POBs at the time of the transaction is really credit-neutral,” says Tom Aaron, a public pension specialist at the credit-rating company. “But context matters a heck of a lot in terms of whether these things pan out.”

In particular, “if the government continues making its full contributions, that’s a different story than using the pension bonds as a temporary budget reprieve, because that turns it into an arbitrage play plus deficit financing,” Aaron says. Of course, history has shown that’s a big “if.”

One thing that’s different today is the stark drop in nominal bond yields vs. the end of the last recession. In June 2009, benchmark 30-year tax-free munis yielded about 5%. Now they yield a record low 2%. The GFOA calls POBs “very speculative,” but they present a much lower hurdle with interest rates so suppressed.

One need only look at Illinois, which has the worst-funded state pension in the U.S. after years of skipped payments, to see how important it is to funnel money into retirement systems at the right time. Earlier this year, the state resorted to issuing POBs with a top yield of more than 6%. The S&P 500 would hit a new record high a month later. With $134 billion of unfunded pension liabilities, it’s anyone’s guess whether the state can find a path to solvency. Meanwhile, New Jersey’s Senate president in August claimed his state was “in worse shape than Illinois” because of its massive pension shortfall.

Fortunately, most other states and cities start from a stronger position. And though there's no magic number that defines a well-funded pension plan, clearly any sustained decline in stocks and other risky assets would leave many of them in an uncomfortable hole.

Lower-for-longer interest rates present a unique opportunity for government officials to dig out faster than before. Make no mistake—POBs are not a cure-all. But layered on top of required payments, they just might help defuse the ticking pension time bomb that seems destined to explode.

Bloomberg

By Brian Chappatta

October 10, 2019, 2:00 AM PDT

Warning Signs Flash For Muni Bondbuyers Chasing Riskiest Debt.

- Firm says key measure of distress rises 30% to most since 2015
- Figures reflect results of 'incredible appetite for risk'

There's an alarm bell sounding for investors who've been plowing into the riskiest state and local government bonds.

So far this year, 108 borrowers who raised cash in the $3.8 trillion municipal market have run into troubles grave enough that they skipped debt payments or violated other financial terms of their bond contracts, like drawing down their cash reserves, according to data compiled by Municipal Market Analytics. That's a 30% jump from the same period in 2018 and the most since 2015.

The figures underscore concern in pockets of Wall Street that the influx of cash from yield-chasing investors is increasing the risk in the municipal market, where real estate developers, nursing home operators and even factory owners can raise money by issuing debt through local government agencies. The demand has pushed junk-bond yields to about 2.4 percentage points more than what top-rated borrowers pay, the smallest penalty since before the financial crisis more than a decade ago.

MMA analyst Matt Fabian said about 41% of the borrowers that ran into distress sold the debt within the last three years. That marks an increase from the historical average of about 20% to 25% encountering strain so soon.

The number of payment defaults rose at a slower pace than so-called impairments — such as drawing on credit lines to cover interest bills — with 37 this year, an increase of 19%, Fabian and analyst Lisa Washburn said in a report to clients Tuesday. But the jump in impairments may foretell a rise in defaults, since about half of the borrowers that experience impairments eventually wind up reneging on the debt payments, according to Fabian.

"That impairments are rising faster than defaults means that defaults will continue to rise into next year as troubled credit begins to transition to defaults," Fabian said in a telephone interview.

One contributing factor is the "incredible appetite for risk," he said, adding that it is more about that than any shifts in the economy.

"Investors are permitting riskier bonds to come to market," Fabian said. "That's what driving the

trend of recent issues getting into trouble faster than normal."

Bloomberg Markets

By Shruti Singh

October 8, 2019, 10:52 AM PDT

Why Democrats Should Be Cautious About Public Banking.

Earlier this month, California passed a bill allowing 10 city governments in the state to establish a public bank. It's only the second state in the U.S. to take the leap — North Dakota has had a public bank for a century — but other states are dabbling in the idea.

In the aftermath of the 2008 financial collapse, when the privately-owned banks of Wall Street are as bloated and vulnerable to crisis as ever, public banking seems like an idea whose time has come: It's being proposed for everything from ending the financial exploitation of low-income Americans to providing the financial engine of a Green New Deal.

But what do public banks get us that private banks don't? If public banking is a tool, what problems is it best at solving? And is it a solution for tackling some of our biggest challenges?

Continue reading.

theweek.com

by Jeff Spross

October 16, 2019

Fitch Ratings: U.S. Toll Roads Still Largely in Cruise Control.

Link to Fitch Ratings' Report(s): Peer Review of U.S. Toll Roads (Attribute Assessments, Metrics and Ratings)

Fitch Ratings-New York-15 October 2019: Roadblocks will remain minimal for U.S. toll road performance in the coming months amid ongoing issues that continue to hamper performance for two rated toll roads, according to Fitch Ratings in its latest U.S. Toll Roads Peer Review.

Fitch has taken four positive rating actions, two negative rating actions, and revised three Outlooks to Positive since its last Peer Review. For the second time in the las two years, Fitch upgraded bonds tied to Texas' Grand Parkway System with performance far exceeding original expectations. 'The addition of new debt for new segments was expected, though Grand Parkway System's revenue is more than sufficient to cover all of its debt obligations through the term,' said Director Scott Monroe. Another bright spot was Colorado's E-470 project bonds, which Fitch also upgraded. 'In addition to its continued strong traffic and revenue growth, E-470 can service its escalating debt service profile with nearly no revenue growth and no need to issue new debt for capital requirements,' said Monroe.

Two toll roads that continue to struggle are Miami's MDX and Dulles Greenway connecting Washington DC and Virginia. House Bill 385 effectively dissolving MDX led to Fitch downgrading the rating on the project bonds. 'The bill is the culmination of an unprecedented degree of state political interference into the affairs of a local tolling authority,' said Monroe. 'MDX's financial profile could deteriorate sharply and be susceptible to further downgrades if House Bill 385 is upheld.' Traffic and revenue are both trending below expectations for Dulles Greenway, prompting Fitch to downgrade the project bonds. 'Limited visibility into future rate-setting and the prospect of future toll increases not yet authorized by regulators will continue to weigh on Dulles Greenway,' said Monroe.

Fitch has also launched its 2019 update to the interactive peer study for U.S. toll roads, the Fitch Analytical Comparative Tool, or FACT, concurrently with the release of today's peer review.

Fitch's 2018 U.S. Toll Road FACT, contains comparative financial data for a portfolio of 41 publicly rated operating U.S. toll road issuers and enables graphical plotting of key metrics by region, facility type, asset type and rating. The database includes six years of data, providing a comprehensive base for historical trend analysis specific to individual issuers or within the peer group at large.

Fitch's latest 'Peer Review of U.S. Toll Roads' and the '2019 Fitch Analytical Comparative Tool – U.S. Toll Roads' are available at 'www.fitchratings.com' or by clicking on the above links.

Contact:

Anne Tricerri
Associate Director
+1-646-582-4676
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Scott Monroe
Director
+1-415-732-5618

William Schmid
Associate Director
+1-512-813-5704

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

Additional information is available on www.fitchratings.com

EY Launches Blockchain Tool to Help Bring Accountability to Public Finances.

Professional services giant EY (Ernst & Young) is using blockchain tech to assist governments in improving transparency and accountability in the management of public funds.

The firm, one of the Big Four accounting firms, announced the news Wednesday, saying its new

“blockchain-enabled” EY OpsChain Public Finance Manager will compare government spending programs with the results of the expenditure, even when the money has passed through different layers of government and public service agencies.

It’s claimed to track finances in real time and “create a single source of integrated financial and nonfinancial performance information to support decision-making.”

Mark MacDonald, EY’s lead of Global Public Finance Management, said in the announcement that transparency, accountability and sound evidence for decision-making are vital in managing public funds. The firm’s new tool is aimed to help those in charge of public finances to “assess and improve” their systems, he added.

The product has already been trialed around the world, the firm said, citing one pilot in Toronto where the city used the finance manager solution to track how reconciliations and fund transfers between departments are managed.

The system is built on EY OpsChain, a blockchain platform launched in its second iteration in April with claimed support for up to 20 million transactions per day over private networks. The firm is eyeing a range of use cases for the blockchain platform generally, including in healthcare, the food industry, supply chain and financial management.

coindesk.com

by Daniel Palmer

Oct 16, 2019

EY Launches Public Finance Management Blockchain Solution to Improve Efficiency and Transparency in Governments.

- **– Solution helps to optimize capacity in core financial management processes**
- **– Offering provides clarity into how public monies are spent and results delivered**
- **– EY professionals working with early adopters and piloting with governments worldwide**

LONDON, Oct. 16, 2019 /PRNewswire/ — EY announced the launch of EY OpsChain Public Finance Manager (PFM), a blockchain-enabled solution designed to help governments improve their processes for financial management of public funds.

EY OpsChain PFM helps governments drive transparency, provide accountable outcomes for citizens and track budgets, expenditures and results. It uses blockchain technology to match government spending programs with tangible outcomes, even as funding may pass through multiple layers of government and public service agencies.

EY OpsChain PFM blockchain provides clear, accurate and timely information for financial reporting and accountability. The system increases administrative efficiency with the capacity to track funds in real time and create a single source of integrated financial and nonfinancial performance information to support decision-making. The system is built on the EY OpsChain platform.

EY OpsChain PFM has been piloted worldwide, including for the city of Toronto. The city has tested application to the way reconciliations and interdivisional fund transfers are managed, as part of its

ongoing financial management transformation efforts. The EY blockchain proof-of-concept for the city of Toronto could transform the way reconciliations and interdivisional fund transfers are managed, increasing transparency between divisions, and facilitating more efficient and effective financial and asset performance reporting.

Mark MacDonald, EY Global Public Finance Management Leader, says:

“Modern public financial management requires focusing on the things that matter most – transparency, accountability and robust evidence for decision-making – all factors that can be enhanced by blockchain technology. EY OpsChain PFM is an exciting new tool that helps public finance leaders to assess and improve their finance management systems. It has been very exciting to work with city leaders who continue to push boundaries and embrace new technologies.”

Heather Taylor, City of Toronto Chief Financial Officer, says:

“With a commitment to championing the economic, social and environmental vitality of the city of Toronto, our officials strive to implement technologies that best help us meet our residents’ evolving needs. Testing new technologies is part of our ongoing approach to financial management transformation taking place at the city.”

As governments around the world are modernizing their cities and digitally transforming their processes, blockchain technology can positively impact processes from tax collection to open data to public spending. For example, as part of the city of Vienna’s Open Government Data initiative – which includes data such as public transport routes, train schedules and surrounding communities’ voting results – EY Austria professionals previously assisted the city to use blockchain to help facilitate transparency, efficiency and security of the data.

The EY OpChain PFM release builds upon work in the public sector by EY member firms around blockchain technology.

For more information on EY and blockchain, visit ey.com/en_gl/blockchain.

Money Managers Gain Sway Over Muni Market.

More than half of the amount held by households sits in separately managed accounts or mutual funds

A larger-than-ever share of municipal bonds is being managed by professionals, shaking up a market that has traditionally been the domain of mom- and-pop investors.

The rapid expansion of muni money managers, under way for more than a decade, reached a milestone in the past year: More than half of the total amount of muni bonds held by households—a third of the $4 trillion market—now sits in separately managed accounts or mutual funds.

Investors in these separate accounts typically pay an annual percentage to a portfolio manager tasked with buying and selling bonds, rather than purchasing bonds from a brokerage account for a one-time fee and holding them.

Separate accounts held about $600 billion in municipal debt at the end of the first quarter, triple the amount in 2010, according to Vikram Rai, head of municipal strategy at Citigroup Inc. In addition,

muni mutual funds, which are also overseen by a manager but are pooled funds rather than individual accounts, held $739 billion, a 52% increase, during the same period, according to the Federal Reserve.

Continue reading.

The Wall Street Journal

By Heather Gillers and Gunjan Banerji

Updated Oct. 9, 2019 9:57 am ET

Fitch Rtgs: Investment Portfolios Key for Not-for-Profit Hospital Credit

Fitch Ratings-New York-16 October 2019: A hospital's cash and investment portfolio and investment policy can have a significant bearing on creditworthiness given the importance of financial reserves to the ongoing operations of the hospital, says Fitch Ratings. Higher-rated not-fo--profit (NFP) hospitals' large investment portfolios and cash help mitigate the volatility of certain alternative investments. Lower-rated hospitals typically have weaker balance sheets and therefore are less able to weather the volatility of more risky investments, potentially compromising their ability to fund operations through the cycle.

The not-for-profit sector's strong liquidity, relative to debt repayment obligations and business risk, is a key element distinguishing it from for-profit acute healthcare entities. The accumulation of retained earnings including earnings on cash and investment holdings allows many NFP hospitals and health systems to build up substantial unrestricted liquidity. This provides a financial cushion to absorb unforeseen operating challenges that may lead to potential compression in operating margins. In Fitch's view ratings should not change due to normal cyclical variations. Therefore, Fitch reviews the size and allocation of a NFP hospital's combined cash and investment portfolio to provide broad order of magnitude guidance of how public hospitals' liquidity positions might be affected in relation to normal economic expansions and contractions.

Larger systems often have a larger financial cushion and may have qualitative advantages, such as better operating efficiencies and economies of scale, or enhanced competitive positioning, that temper balance sheet compression if, for example, investment holding performance weakens or is volatile. While not as common, smaller organizations may have a large financial cushion in line with metrics indicative of high-investment-grade ratings that may give them more flexibility to hold more volatile assets in their investment portfolio.

Continue reading.

High-Yield Munis Outperform as Credit Spreads Narrow.

Christopher Brigati, managing director and head of municipals at Advisors Asset Management, discusses the impact of tightening credit spreads on municipal bond investing. He speaks with Bloomberg's Taylor Riggs in this week's "Muni Moment" on "Bloomberg Markets."

Watch video.

Bloomberg Markets | Muni MomentTV Shows

October 16th, 2019, 9:57 AM PDT

Muni Market Moves to Join the 21st Century, But It's in No Rush.

- **Bond-trading platforms starting to accept technology advances**
- **Similar changes transformed dealing in corporate-bond market**

The $3.8 trillion municipal-bond market moves with all the speed of a tortoise.

It's a champion at resisting change. Price quotes weren't easily available until the shockingly recent January 2005, and it wasn't until three years ago that investors were afforded best-execution standards that ensured they weren't getting ripped off — guardrails that U.S. equity markets have had in place for decades.

Now, however, it appears muni world is finally stepping out of the wayback machine and into the 21st century, even if it's in no evident rush to do so. Technological advances, such as electronic trading and analytics, are beginning to transform the relatively Luddite market in much the same way they've altered the $6.8 trillion corporate-bond market.

Continue reading.

Bloomberg Markets

By Matthew Leising

October 14, 2019, 4:00 AM PDT

Muni Sales Set to Surge Most Since 2017, Extending Supply Boom.

U.S. state and local governments are poised to sell bonds at the fastest pace in almost two years as they take advantage of lower interest rates and strong investor demand.

Municipal bond issuers are expected to sell $21.4 billion in debt over the next month. This is the highest visible supply since December 2017, when governments rushed deals to market to get ahead of federal tax law changes effective at the start of 2018.

Typically, the 30-day supply metric represents about half of what actually is issued, as deals can be priced with less than a month's notice. Visible supply has averaged about $10.6 billion in 2019, according to data compiled by Bloomberg.

The upcoming supply will add to the $289 billion in long-term bonds state and local governments have already sold this year, an 11% increase over the same period in 2018. This week is slated to be the busiest since December 2017, driven by refinancings.

Bloomberg Markets

By Danielle Moran

October 16, 2019, 6:25 AM PDT

USDA Invests in Water and Wastewater Infrastructure Improvements in 31 States.

Investments will Benefit Nearly 300,000 Rural Residents

WASHINGTON, Oct. 16, 2019 – U.S. Department of Agriculture (USDA) Deputy Under Secretary for Rural Development Donald "DJ" LaVoy today announced that USDA is investing $201 million to improve rural water infrastructure in 31 states (PDF, 250 KB).

"Modern, reliable and accessible infrastructure is critical to economic development and quality of life," LaVoy said. "Under the leadership of President Trump and Agriculture Secretary Perdue, USDA is committed to partnering with rural communities to help them improve their infrastructure, because when rural America thrives, all of America thrives."

USDA is providing the funding through the Water and Waste Disposal Loan and Grant program. Eligible applicants include rural cities, towns and water districts. The funds can be used for drinking water, stormwater drainage and waste disposal systems in rural communities with 10,000 or fewer residents.

USDA is announcing investments today in Alabama, Arkansas, Arizona, California, Colorado, Florida, Iowa, Illinois, Indiana, Kentucky, Maine, Michigan, Missouri, Mississippi, Montana, North Carolina, North Dakota, Nebraska, New Jersey, New Mexico, New York, Oklahoma, Rhode Island, South Carolina, Texas, Utah, Virginia, Vermont, Washington, Wisconsin and Wyoming.

Below are examples of projects announced today.

Bessemer City, N.C., is receiving a $4.9 million loan and a $3.2 million grant to improve its water treatment plant and related facilities. The city will add 1,290 linear feet of water line and 2,375 linear feet of gravity sewer line. It also will install 12 manholes along an unstable stream bed to replace the deteriorated sewer line. The improvements will increase the reliability of the water treatment process and improve water quality.
The Village of Maine, Wis., is receiving a $515,000 loan and a $965,000 grant to upgrade the wastewater collection system. Deteriorating manholes will be repaired or replaced, and the Everest Avenue lift station will be relocated. Sewers on the east side of the village will be replaced with new PVC piping, and the manholes will be replaced with ones made out of precast concrete. These improvements will significantly decrease infiltration and inflow into the collection system.
The town of Barre in Orleans County, N.Y., has been approved for a $500,000 loan and a $601,000 grant to extend public water service to 31 residential customers who have wells that lack safe, potable water. Installing water mains will provide reliable water service to the residents as well as adequate fire protection.

USDA awarded nearly $1.8 billion for Water and Environmental Program loans and grants during fiscal year 2019. View the interactive RD Apply tool or contact one of USDA Rural Development's state or field offices for application or eligibility information.

In April 2017, President Donald J. Trump established the Interagency Task Force on Agriculture and Rural Prosperity to identify legislative, regulatory and policy changes that could promote agriculture and prosperity in rural communities. In January 2018, Secretary Perdue presented the Task Force's findings to President Trump. These findings included 31 recommendations to align the federal government with state, local and tribal governments to take advantage of opportunities that exist in rural America. Increasing investments in rural infrastructure is a key recommendation of the task force.

To view the report in its entirety, please view the Report to the President of the United States from the Task Force on Agriculture and Rural Prosperity (PDF, 5.4 MB). In addition, to view the categories of the recommendations, please view the Rural Prosperity infographic (PDF, 190 KB).

USDA Rural Development provides loans and grants to help expand economic opportunities and create jobs in rural areas. This assistance supports infrastructure improvements; business development; housing; community facilities such as schools, public safety and health care; and high-speed internet access in rural areas. For more information, visit www.rd.usda.gov.

Release & Contact Info
Press Release
Release No. 0155.19
Jay Fletcher (202) 690-0498
Weldon Freeman (202) 690-1384

Full Spectrum Fund Investing: A Case Study With Municipal Bonds.

Summary

- Fund and income investors have ready access to a number of different fund structures for their sector allocation such as mutual funds, ETFs, and CEFs.
- We review the key issues surrounding these three fund types using municipal bonds as a case study.
- We find that, historically, municipal CEFs have benefited from a number of tailwinds which have now mostly dissipated. This suggests that investors should have a closer look at open-end funds.
- Within high-yield municipal mutual funds, we like NHMAX and ORNAX which have a good combination of high yield, strong total returns, and attractive risk profile.

Fund investors have a number of investment vehicles at their disposal: mutual funds, ETFs, CEFs, ETNs, interval funds and others with each fund structure providing a different risk/reward trade-off. With market conditions ever-changing, it makes sense for investors to keep an eye on the entire investable fund universe in case one area of the market offers a better deal than another.

In this article, we review the municipal bond sector across the landscape of three fund structures that we actively follow at Systematic Income: mutual funds, closed-end funds and ETFs. Our main takeway is that the tailwinds supporting CEF outperformance after the end of the last recession have mostly dissipated, and investors should take a harder look at mutual funds and ETFs which can deliver similar performance with much better risk control.

Continue reading.

Seeking Alpha

ADS Analytics

Oct. 18, 2019

The Problem With Bringing Muni Bonds to the Masses.

The failure of startup Neighborly underscores the pitfalls of crowdsourcing state and city debt.

The $3.8 trillion municipal-bond market, which traces its roots back more than two centuries, easily swatted away a startup that sought to "disrupt" the way states and cities issue debt.

Bloomberg News's Amanda Albright chronicled the brief rise and fall of Neighborly Corp., highlighting any number of reasons it failed in its pursuit to bring munis to the masses. For the most part, they were common pitfalls of Bay Area upstarts. Profligate spending? Neighborly embarked on a company trip to Hawaii after its first debt sale. Erratic behavior? It frequently shifted focus away from underwriting, annoying employees who were pulled off projects for new ones and sowing doubts among municipal finance officers. It even faced a lawsuit that accused it of a "racially and sexually hostile environment." 1

In other words, it's tricky to tell whether the company simply did itself in or if the business proposition just won't work. Effectively, defenders of the traditional muni market want to know: Should they be on guard for another Neighborly in the future?

My hunch is that it's certainly possible that other upstarts will try to break into munis, but I doubt they would be much more successful than Neighborly, especially if they tried the same approach.

Continue reading.

Bloomberg Opinion

By Brian Chappatta

October 21, 2019, 2:00 AM PDT

Albright on Fall of Muni Startup (Radio)

Amanda Albright, Bloomberg Municipal Bond Reporter, will discuss her column on the fall of a muni startup that wanted to upend Wall Street. Hosted by Lisa Abramowicz and Paul Sweeney.

Play Episode

Bloomberg

October 17, 2019 — 8:06 AM PDT

The Fall of the Muni Startup That Wanted to Upend Wall Street.

- **Neighborly sought to bring crowdsourcing to bond underwriting**
- **Company told employees this month that it couldn't pay them**

In early 2017, a San Francisco startup backed by billionaire Laurene Powell Jobs and actor Ashton Kutcher scored the first victory in its campaign to shake up a $400 billion-a-year business dominated by Wall Street's biggest banks.

The firm, Neighborly Corp., underwrote a $2 million debt sale for Cambridge, Massachusetts — the home of Harvard University and the Massachusetts Institute of Technology — by selling the securities in $1,000 lots to residents who wanted to invest in their own community. The company didn't earn a penny in fees. But the successful experiment in the prestigious Boston suburb lent valuable publicity to Neighborly's quixotic quest to make a technological end-run around big mutual funds, insurers and banks by peddling municipal bonds directly to the people.

So employees went to Maui to celebrate.

Continue reading.

Bloomberg Technology

By Amanda Albright

October 16, 2019, 6:57 AM PDT

Ken Fisher Client Pulls $30 Million in Backlash.

- **Fisher Investment clients have divested more than $1.3 billion**
- **Boston, Philadelphia and Michigan among pensions to divest**

The Iowa Public Employees' Retirement System is yanking the $386 million it has invested with Ken Fisher after the billionaire made vulgar comments at an industry conference.

The move brings the total amount divested from Fisher Investments to more than $1.3 billion. Air Products & Chemical Inc. said earlier Friday that it was pulling $30 million from Fisher.

"It is our opinion that Mr. Fisher's comments have damaged the credibility of the firm and its leadership," the Iowa pension said in a statement. "As a result, the risk to IPERS is that the firm could lose investment talent, and/or it may be unable to recruit high caliber talent in the future."

Continue reading.

Bloomberg Markets

By Janet Lorin

October 18, 2019, 10:23 AM PDT Updated on October 18, 2019, 2:34 PM PDT

Green Bond Market Just Getting Started.

ESG bond funds provide a new channel of investing for socially conscious clients.

The $50 trillion global bond market might be more than three times the size of the global equity market, but when it comes to adopting environmental, social and governance strategies, the fixed-income market is just getting started.

A lack of uniform definitions and reporting standards makes it difficult to calculate precisely the size of the market, but analysts' estimates peg the green bond market at roughly $136 billion. And it's growing rapidly.

"We were watching the green bond space for many years and the market was just too small to launch a green bond ETF, then three years ago we noticed the issuance of green bonds started doubling every year," said William Sokol, director of ETF product management at VanEck, which launched the VanEck Vectors Green Bond ETF (GRBN) in October 2017.

Continue reading.

Investment News

By Jeff Benjamin

Oct 5, 2019 @ 6:00 am

Climate Change Could Make Borrowing Costlier for States and Cities.

WASHINGTON — Someday soon, analysts will determine that a city or county, or maybe a school district or utility, is so vulnerable to sea level rise, flooding, drought or wildfire that it is an investment risk.

To be sure, no community has yet seen its credit rating downgraded because of climate forecasting. And no one has heard of a government struggling to access capital because of its precarious geographical position.

But as ratings firms begin to focus on climate change, and investors increasingly talk about the issue, those involved in the market say now is the time for communities to make serious investments in climate resilience — or risk being punished by the financial sector in the future.

"We look not just at the vulnerability of state and local governments, but their ability to manage the impact," said Emily Raimes, vice president with Moody's Public Finance Group. "While we'll be looking at the data on rising sea levels and who may be more vulnerable, we'll also be looking at what these governments are doing to mitigate the impact."

Moody's has been especially vocal about its climate change concerns. The firm has issued numerous papers assessing climate risk, and two months ago it purchased a majority stake in Four Twenty Seven, a climate-risk data firm.

Emilie Mazzacurati, Four Twenty Seven's founder and CEO, said that the bond sector's attention to

the issue should prompt local governments to make it a priority. “It creates an incentive for them to be better prepared, because it’s going to cost them money if they don’t.”

But some worry that punishing places for their susceptibility to climate change will just make it more difficult for them to finance the infrastructure improvements that might protect them.

“Nobody has yet been penalized for having a bad environmental policy or practice or system,” said Tim Schaefer, California’s deputy treasurer for public finance. “I don’t know how much longer that’s going to go on. I’m assuming not much longer.”

Governments large and small rely on the $3.8 trillion municipal bond market for much of their infrastructure work. When officials want to build a highway or a school — or a seawall or an emergency operations center — they often issue bonds, bringing in the money needed to complete the project. Investors are repaid with interest over a period that can run for decades or more.

About two-thirds of infrastructure projects in the United States are paid for by municipal bonds, and more than 50,000 states, local governments and other authorities have issued bonds to finance their work.

Governments pay higher interest rates on those bonds when their credit ratings are low. Firms such as Moody’s Investors Service and Standard & Poor’s Financial Services issue the ratings assessments.

“Investors are in a position of demanding a higher return when they see greater risk,” said Kurt Forsgren, managing director of S&P Global Ratings.

Municipal bonds are considered a conservative investment, with a current default rate of around 0.3%, according to Matt Fabian, a partner at Municipal Market Analytics. To date, the bond market has done little to reflect that the risk may be increasing.

“There is almost no impact on muni bond prices with respect to climate change vulnerabilities. Prices do not acknowledge the risk in climate change,” he said. “Most investors believe that (climate change) is going to start affecting the market right after their own bonds mature.”

As more investors and firms study the risks, however, that might change.

“We are about a year away from climate change beginning to affect the muni market — a little,” Fabian said. “Changes on the investor side are going to happen first, (credit) ratings will come second, and issuer behavior will be a distant third.”

Some investors already have begun to factor climate change into their decisions. Eric Glass, a portfolio manager with AllianceBernstein, said his portfolio opted to steer clear of a recent three-decade bond in the Florida Keys, which is facing rising sea levels.

“What does (the Florida Keys) look like in 30 years?” Glass said. “I don’t know. But I know it’s not going to look like what it looks like today. That is a tough calculus to make, and we’ve decided not to take it.”

David Jacobson, vice president of communications for Moody’s Public Finance Group, called a downgrade over climate projections a “what-if type of thing.” Moody’s ratings are based on what its analysts expect a government’s creditworthiness to be in the next 12 to 24 months, he said, even though the bonds they issue can run for decades.

“The things that are happening right now or in the next 24 months weigh a whole lot more than things we think will happen in 15 to 20 years,” said Lenny Jones, a managing director at Moody’s. “We’re not scientists.”

Credit-rating firms have always acted conservatively, said Justin Marlowe, a professor at the University of Washington who studies public finance. To some critics, that reluctance to downgrade pre-emptively is leaving the market unprepared for the onslaught of climate effects that so many local governments will face.

That’s the conundrum facing the municipal bond market right now: If the market fails to be proactive about future risks, it could lead to billions in ill-fated investments in communities at the forefront of climate change. But making it more expensive for governments with environmental liabilities to borrow money could prevent them from making the improvements needed to strengthen their infrastructure.

And just because a city is likely to be struck by sea level rise or wildfire doesn’t necessarily mean it will default on its bonds. Further effects like crop yields and population shifts — and their impact on a tax base — could prove even harder to project.

“It’s a pretty big step from ‘we have economic impacts’ to ‘this is going to affect their long-term ability to repay their bonds.’ There’s a really big difference,” Mazzacurati said. “(Ratings firms’) focus is really about counties who repay their debt. That’s it. There can be really important impacts that are not going to be reflected in the bond rating, and that doesn’t mean the bond rating is off.”

So far, the few climate-related credit downgrades have come after specific disasters. New Orleans and Port Arthur, Texas, experienced credit downgrades after major hurricanes. And after a fire nearly destroyed Paradise, California, last year, the pool of pension obligation bonds it was a member of saw its credit downgraded.

As New Orleans rebounded, its credit improved. The city adopted a resilience strategy, bolstered its levee system and pursued other projects, such as turning green space into water reservoirs during periods of flooding. Today, the city sees its biggest climate threat as extreme rainfall, which has increased in frequency in recent years and flooded parts of the city.

Leaders in New Orleans are asking voters to approve $500 million in new bonds, which would pay for infrastructure improvements such as the replacement of outdated pipes, as well as other goals like affordable housing. City officials say it shows New Orleans is “doubling down” on its infrastructure program.

“The environment is changing. More water’s coming down in a shorter period, and we have to respond to that,” said Norman White, the city’s chief financial officer. “Our first responsibility is to the citizens of New Orleans. Fortunately, that lines up with investors.”

Coastal cities across the country are building seawalls to stave off rising oceans. Others are elevating roadways to prepare for more frequent flooding. Some are requiring sturdier new construction and retrofitting existing buildings to withstand severe weather events. Communities in drought-prone areas may focus on projects such as water storage, while those with flooding concerns must fortify their sewage infrastructure.

Last year, Moody’s surveyed the 50 largest U.S. cities; 28 responded. Among them, they had 240 climate resilience projects, totaling $47 billion. Some 60% of the projects were to combat flooding.

Florida’s Miami-Dade County has been praised by analysts for its infrastructure investments focused

on climate preparedness. Ed Marquez, the county's deputy mayor, said future financing is a "concern," but officials are trying to address that with capital plans focused on dealing with the changing climate.

"This is a many-year process as we fix our infrastructure, as we add new infrastructure, as new science comes on board," he said. "Miami is still growing. People are still coming. Investors are buying our bonds. We're telling them what the odds are, but it's odds that they're willing to play."

Statewide, Florida remains in good shape creditwise, despite the challenges many of its communities are facing. Ben Watkins, the state's director of bond finance, said that's likely to continue, even amid hurricanes and rising sea levels. Even the most devastating hurricane seasons have ended up being a "blip on the radar" in terms of Florida's credit health, he said. But concern remains for smaller governments within the state.

"People are dying to come to Florida and coming to Florida to die," he said. "Until that changes, we'll have the economic engines to be able to access credit."

Cities with climate change risks should follow Florida's lead and borrow now for local projects, said Fabian, the analytics researcher.

"As investors get smarter about climate change risk, it will become more expensive for governments with the largest need to borrow," Fabian said. "Their costs to borrow could certainly be higher. Acting earlier is almost always cheaper."

Stateline.org

By Alex Brown | Oct 1, 2019

Fitch Ratings Launches ESG Heat Map for Public Finance/Infrastructure.

Link to Fitch Ratings' Report(s): Public Finance/Infrastructure ESG Relevance Map

Fitch Ratings-Hong Kong-02 October 2019: Fitch Ratings has launched an ESG 'heat map' for Public Finance/Infrastructure to provide further insight into the relevance of ESG factors to credit ratings. The map is designed to help users understand how relevant individual ESG topics are to credit ratings for different sub-sectors across Global Public Finance, Infrastructure and Project Finance issuers.

The heat map shows that ESG risks generally have a low level of direct impact on public finance and infrastructure credit ratings, as found in Fitch's report Introducing ESG Relevance Scores for Public Finance/Infrastructure. Governance is the most influential ESG risk factor across the overall ratings portfolio, accounting for the majority of scores at a level of '4' or '5'.

Rarely does a particular ESG issue affect more than 10% of issuers in a sub-sector. A notable exception is Group Structure for US Life Plan Communities, where the operations and financial status of non-obligated entities have been relevant to the rating for several issuers, in combination with other factors.

For ease of use, the map comes in two forms, an infographic below and an Excel table downloadable from the link above. The Excel table allows users to toggle between different relevance thresholds,

which can aid understanding of whether an ESG topic is relevant specifically to an individual issuer or if it applies more generally as a trend affecting many issuers in a given sub-sector.

Contacts:

Mervyn Tang
Senior Director, Sustainable Finance
+852 2263 9633
Fitch (Hong Kong) Limited
19/F Man Yee Building
68 Des Voeux Road Central, Hong Kong

Gabriel Rudansky
Associate Analyst, Sustainable Finance
+1 646 582 3464
33 Whitehall Street
New York, NY 10004

Media Relations: Leslie Tan, Singapore, Tel: +65 6796 7234, Email: leslie.tan@thefitchgroup.com

Additional information is available on www.fitchratings.com

Can Standardized Financial Data Help Government Save Money?

A pair of states and the feds are moving to require local governments to submit financial data in a machine-readable format. Here's how it could help cities.

What would happen if the thousands of local governments in the U.S. took their financial information — largely available in PDF format — and put it all in a standardized, machine-readable format?

It would make it a lot easier for citizens, businesses and governments to look at the spending habits and fiscal health of the public sector, for one. According to one line of thinking, it might even reduce the amount that government pays for big bond-funded projects like park and road construction.

Before long, the state of Florida will find out for sure. And the state of California, as well as the federal government, might follow suit.

Florida's governor signed a bill last year that puts the state on a path to requiring its local governments to submit their financial information to the state in eXtensible Business Reporting Language, or XBRL, by September 2022. A similar bill sits on the desk of California's governor, and U.S. legislators are considering two bills that could push along standardization at the federal level.

"An annual corporate financial statement is a good analogy to a local government financial statement, so it's a technology that has a precedent in U.S. regulation," he said.

As government modernizes its technology and seeks to do more with its data, efforts have emerged in several areas to standardize data. For example, Mobility Data Specification, SharedStreets and General Transit Feed Specification have helped governments better use transportation data.

There are quite a few reasons to standardize.

“It allows you to streamline submission and reporting processes, allow for closer to near-real-time information exchange, which could accelerate traditionally slow processes,” said Jim St. Clair, chief technology officer for Dinocrates, a company that Florida has chosen to help develop the XBRL standards for its new financial reporting system. “It gives not only the government, but businesses and consumers, greater information to support transactions and processes, as well as analytics, on values and efficiencies and current accounts and lay the foundation for perhaps new processes like an electronic tax reporting system that currently doesn’t exist.”

It might also make it easier for states to identify troubled local governments and intervene before their financials spiral out of control.

But when it comes to government financial data, there’s another very specific reason Joffe wants to see everybody agree on one machine-readable standard: municipal bonds.

Those bonds, which act as a major funding source for the building of parks, roads, schools, water infrastructure and many other things across the country, are a huge investment market: Governments in the U.S. issued about $3.8 trillion in bonds in 2018. When considering buying a bond, investors will turn — as they would with any other kind of bond — to the credit rating of the government issuing it.

But there’s a problem with that. According to Joffe, who has conducted research on the matter, government bonds are often a safer investment than their credit ratings suggest.

“If you have a municipal bond and it’s rated AAA, it’s actually much safer than a corporate bond … with the same rating,” he said.

In investing, reward reflects risk. So the riskier a bond is, the more money the bond issuer pays for the capital they’re receiving.

So in effect, Joffe is saying that government pays more than it should for bond-funded projects. That being the case, making the financial information of governments available for investors — rather than just the credit rating — might just help the public sector lower the cost of serving citizens.

“If that theory is correct, that means that [with better data], more people would be more comfortable with lower-rated bonds,” Joffe said.

GOVERNING.COM

BY BEN MILLER, GOVERNMENT TECHNOLOGY | OCTOBER 5, 2019 AT 3:01 AM

S&P Guidance | Criteria | Governments | U.S. Public Finance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings.

This document provides additional information and guidance related to our criteria, “GO Debt,” published Oct. 12, 2006; “Local Government GO Ratings Methodology And Assumptions,” published Sept. 12, 2013; and “U.S. State Ratings Methodology,” published Oct. 17, 2016. It is intended to be read in conjunction with those criteria. For a further explanation of guidance documents, please see the description at the end of this article.

Guidance documents provide guidance on various matters, including articulating how we may apply specific aspects of criteria; describing variables or considerations related to criteria that may change over time. This guidance focuses how S&P Global Ratings assesses pension and other postemployment benefit (OPEB) funding assumptions and methods, and their impact on U.S. governments' projected costs and liabilities. Provided are example guidelines that we commonly consider when analyzing the potential for cost acceleration and budget stress. We may adjust guideline numbers as we consider appropriate, such as if market conditions change.

When we refer to "guidelines", we mean that we will consider the degree to which an obligor's assumptions or methods vary in relation to the guidelines. Given no two pension plans are exactly alike, there is no single answer for what "good" assumptions look like. Therefore, we use the figures in the table to analyze these assumptions and methods within the context of an obligor's overall credit profile, including its ability to afford rising costs and proactive management measures to address them.

Specifically, we use these pension and OPEB guidelines when applying the following criteria sections:

- "GO Debt," Financial Indicators, paragraphs 14 and 16; and Debt Factors And Long-Term Liabilities, paragraphs 36-38;
- "U.S. Local Governments General Obligation Ratings: Methodology and Assumptions," Framework for Determining A U.S. Local Government Rating, paragraph 35; Institutional Framework Score, paragraph 37; Management Score, paragraph 50; Budgetary Performance Score, paragraph 68; Debt and Contingent Liabilities Score, paragraph 82; and
- "U.S. State Ratings Methodology," Financial Management, paragraphs 34, 57, 59; Debt and Liability Profile, paragraphs 69-71 and 73.

Continue reading.

S&P Credit FAQ: How S&P Global Ratings Will Implement Pension And OPEB Guidance In U.S. Public Finance State And Local Government Credit Analysis

Elsewhere, we have also provided an overview on our approach to U.S. state and local government pensions within the context of our three government criteria: See "Credit FAQ: Quick Start Guide To S&P Global Ratings' Approach To U.S. State And Local Government Pensions," published May 13, 2019.

Frequently Asked Questions

What is criteria guidance?

Guidance documents are not criteria, as they do not establish a methodological framework for determining credit ratings. Guidance documents provide guidance on various matters, including articulating how we may apply specific aspects of criteria, describing variables or considerations related to criteria that may change over time, providing additional information on nonfundamental factors that our analysts may consider in the application of criteria, and/or providing additional guidance on the exercise of analytical judgment under our criteria.

When will the guidance become effective?

The guidance is immediately effective upon publication. We will apply the guidance to all new issues and surveillance reviews.

What is covered by the guidance?

This document provides additional information and guidance related to our analysis of pensions and other postemployment benefit (OPEB) liabilities in our criteria, "GO Debt," published Oct. 12, 2006; "Local Government GO Ratings Methodology And Assumptions," published Sept. 12, 2013; and "U.S. State Ratings Methodology," published Oct. 17, 2016. It is intended to be read in conjunction with those criteria.

Will ratings change as a result of the published guidance?

We expect no rating changes due to the publication of guidance, as the purpose of this guidance is to provide clarity on important pension and OPEB factors, including actuarial inputs, which we consider in applying our existing criteria. Our analysts consider the guidelines for assumptions and methods within the context of an obligor's overall credit profile, including its ability to afford rising costs and proactive management measures to address them. Our pension and OPEB analysis includes how these risks factor into an obligor's unique overall credit profile and what strengths or weaknesses arise as a result. Because guidance articulates and provides transparency about application of existing criteria, it does not necessitate a review of existing ratings covered by these criteria.

How will the guidance affect enterprises that participate in government-sponsored plans?

The guidance applies only to entities within the scope of cited government criteria. However, the guidelines on pension and OPEB funding assumptions and methods, and their impact on governments' projected costs and liabilities, may inform our analysis of enterprises participating in government-sponsored plans. For example, the guidelines may inform our expectations about projected funded ratios over time.

Will the guidance change over time?

Yes, it might. Specifically, the market periodically changes, and the discount rate and long-term medical trend guidelines may be adjusted to align with updated capital market assumptions and medical trend models.

Will the rating reports change?

Rating rationales will continue to provide S&P Global Ratings' opinion on key credit factors identified in the three government criteria associated with this guidance. To the extent that a particular actuarial assumption or method rises to the level of a driving factor of our forward-looking view of the entity, we will highlight it in our rating analysis.

Are there certain guidelines that are most important to credit analysis?

Pension and OPEB analytics are one factor of our credit score, and within that context, the discount rate and overall funding discipline are important considerations.

The discount rate is important because it is used in the measurement of the reported funding level. It also correlates with the assumed rate of return, which drives calculations for actuarially determined contributions (ADCs). We also view the government's progress toward paying down its liabilities as an equally important, if not more important, driver for a given entity. Our evaluation of

funding discipline and progress includes whether or not a government fully funds its ADC and minimum funding progress (MFP) metric, which assesses progress in paying down liabilities in a given year.

Is S&P Global Ratings adjusting reported pension/OPEB liabilities or ratios based on the discount rate guideline described in the guidance?

No. We incorporate liabilities for ratings as reported under Governmental Accounting Standards Board standards. The discount rate guideline serves to inform our view of potential for escalating contributions and susceptibility to market volatility. In addition, there are many instances where the guideline may not be appropriate for a given plan because of atypical plan characteristics.

The guidelines refer to a "typical plan"; what is an atypical plan?

Examples of atypical plans may include:

- Plans that have automatically adjusting cost of living adjustments or other risk-sharing controls in place to limit contribution escalation,
- Plans with demographics that do not align with the national average,
- Plans that are closed to new entrants, or
- Other factors that lead to different contribution volatility tolerances.

How does S&P Global Ratings evaluate governments that participate in a statewide plan and do not directly govern plan actuarial methods or assumptions?

Our pension assessment incorporates our view of the risk that contributions will escalate, regardless of whether a particular issuer has direct management over actuarial methods or assumptions. If the cost-sharing plan is measuring liabilities using aggressive assumptions or paying unfunded liabilities using aggressive amortization methodologies, then there may be escalating risk that participating employers will be required to increase contributions in the future. We will incorporate our view of each individual entity's ability to plan and manage for potentially rising costs, as well as the pension environment in the state where the entity is located.

Does the guidance address the possibility of a market shock?

Yes. Our discount rate guideline incorporates a reasonable expected limit to contribution volatility when factoring in liquidity and market risks.

Why does S&P Global Ratings use 30 as a factor in the MFP calculation?

The 30 is a factor that leads to a reasonable amount of principal unfunded liability to be paid down in a given year; it does not equate to amortization years. If a plan is meeting the MFP metric, we would expect that the contribution is equivalent to one with an amortization of less than 20 years.

How did S&P Global Ratings arrive at 20 years for the amortization period guideline?

The risk of negative amortization is mitigated when the length of amortization is 20 years or less. Furthermore, a typical U.S. pension plan is likely to have a working population that is expected to average nearly 20 years of employment before retirement, so an amortization of less than 20 years reduces the likelihood of intergenerational inequity, meaning that the funding of an employee's benefits would occur during that employee's tenure.

Related Criteria

- U.S. State Ratings Methodology, Oct. 17, 2016
- Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- GO Debt, Oct. 12, 2006

Related Research

- Credit FAQ: Quick Start Guide To S&P Global Ratings' Approach To U.S. State And Local Government Pensions, May 13, 2019
- The Increasing Cost Of Governmental Pensions: Discount Rate And Contribution Practices, Sept. 27, 2018
- Looking Forward: The Application Of The Discount Rate In Funding U.S. Government Pensions, Sept. 13, 2018
- Report Explains The Difference Between Criteria And Guidance, Dec. 15, 2017
- Local Government Pension and Other Postemployment Benefits Analysis: A Closer Look, Nov. 8, 2017

This report does not constitute a rating action.

Primary Credit Analysts: Carol H Spain, Todd D Kanaster
Secondary Contacts: Jane H Ridley, Geoffrey E Buswick, Robert D Dobbins
Sector U.S. Public Finance – U.S. Local Governments – U.S. States

---

100-Year Muni Bonds Might Just Be the Safest Yield Play.

Income-oriented investors already know that municipal bonds are pricey right now. But taking a longer view—say, a century—could bring benefits.

Municipal bonds are expensive compared to historical averages, and have been all year. The problem is that most other income-generating markets are expensive, too. More than $14 trillion of global debt currently has negative yield, according to Bloomberg Barclays Indices, and investors' remaining options to earn income bring their own problems.

When global interest rates are this low, investors usually need to take on more risk to earn a steady income on their cash, whether that risk is of corporate default or interest-rate-driven price swings.

Investing in stocks or high-yield debt markets requires a high tolerance for default risk, especially with a global manufacturing slowdown and bond-market recession warnings. Investors worried about recession tend to stick with higher-quality bonds, sacrificing some of the junk-bond market's 6% payout to get more protection against a downturn.

Continue reading.

Barron's

By Alexandra Scaggs

Oct. 4, 2019 3:44 pm ET

Protection from Ransomware Attacks Isn't as Simple as Insurance.

In the wake of high-profile ransomware attacks, local governments are looking to cyberinsurance to mitigate risk. But not all policies are equal and merit close scrutiny, experts say.

Local governments facing an onslaught of ransomware attacks are increasingly turning to insurance to protect them if hackers successfully take control of a city's computer system.

But experts warn that local governments may not be getting the level of protection they need through basic policies. And when insurance companies opt to pay ransoms, rather than cover the (sometimes exorbitant) cost to recover data, they make local governments a bigger target for hackers.

Larger cities may purchase their own individual plans, like Houston did in 2018 when it paid close to $500,000 for a $30 million plan that would cover emergency response to cyber security breaches and losses associated with a cyberattack. In contrast, many smaller municipalities receive coverage through pooled plans, such as those offered by associations..

Continue reading.

Route Fifty

By Andrea Noble,

Oct 4, 2019

PROTECT Act Seeks to Bolster Domestic Electric Grid Cybersecurity: McGuireWoods

On Sept. 26, 2019, the Protecting Resources on the Electric Grid with Cybersecurity Technology (PROTECT) Act was introduced in the Senate. An amendment to the Federal Power Act, the PROTECT Act aims to more effectively safeguard and defend the U.S. electric grid from global cyber intruders.

Sponsored by Sen. Lisa Murkowski (R-Alaska), chair of the Committee on Energy and Natural Resources, and introduced by Sens. Joe Manchin (D-W.V.), James Risch (R-Idaho), Maria Cantwell (D-Wash.) and Angus King (I-Maine), the bill is a response to increasing cyberattacks by foreign adversaries and entities on the U.S. electric grid. Some Washington observers believe that, with such bipartisan support, the PROTECT Act is one of the few legislative initiatives that could pass Congress. It may therefore result in a number of important benefits to the U.S. electricity industry.

Key provisions of the PROTECT Act involve tangible, actionable steps to expand the national grid cybersecurity effort. Of particular importance, the PROTECT Act directs the Federal Energy Regulatory Commission (FERC) to conduct a study, followed by rulemaking to provide rate incentives for advanced cybersecurity technology that will enable and incentivize utilities to invest in new technologies to improve cybersecurity defense. Also, the new rule must allow utilities to make "single issue rate filings," which should enable them to obtain the incentives without risk of opening

up litigation on all other aspects of their FERC-approved rates. In addition, the PROTECT Act sets forth a Department of Energy grant program for utilities not regulated by FERC, such as electric cooperatives and municipal utilities, to incentivize in those sectors advanced tactics in cybersecurity technology.

The bill is a common-sense measure. It helps further safeguard utilities across the country by supporting the industry in continuously investing in cutting-edge cybersecurity technologies. In addition, it likely would further cultivate the expanding partnership between private industry and the federal government. Although many of the investment expenses and economic incentives likely will be passed on to end users, the bill preserves the protections of the Federal Power Act's requirement that such rates be "just and reasonable." So, it is a win-win opportunity for both utilities and the customers they serve, who ultimately benefit from the enhanced security the bill might produce.

McGuireWoods LLP

by Todd Mullins

October 4, 2019

New Report: U.S. Metro Areas Continue to Drive Nation's Economic Growth, Post Fifth Consecutive Year of Increase

For 18th year, U.S. Conference of Mayors releases annual report, forecasts growth of cities and metro regions

Washington, D.C. – Today, the U.S. Conference of Mayors (USCM) released its 18th annual report and forecast on U.S. Metro Economies, showing that cities and metro regions continue to be the engines of U.S. economic growth. In 2018, these areas were home to 85.9% of the nation's population and 91.1% of real gross domestic product (GDP). The influence and contribution of metro economies to U.S. economic growth increased for the fifth consecutive year.

Compared to 2017, metro regions' share of total employment increased to 88.1%, adding 2.1 million jobs or 94% of all U.S. job gains. The U.S. Metro/City share of U.S. total personal income, 89.3%, and wage income, 91.8%, also continued to increase. The full report, conducted by IHS Markit, can be found here, along with its key findings here.

"This report paints the picture that our cities and metro regions are the clear drivers of the U.S. economy, personal income, and wage growth. Our metro economies enable America to lead the global economy, and we must continue to empower them with policies that foster innovation and inclusivity. Together, we can make smart investments in job training and housing that will keep firing the engines of our cities' growth," said USCM President Bryan K. Barnett, Mayor of Rochester Hills (MI).

"Our cities need to continuously innovate in order to thrive. In Columbus, we have implemented policies to drive sustainable economic development," said Andrew J. Ginther, Mayor of Columbus (OH) and Chair of the Council on Metro Economies and the New American City. "Since 2010, we have led Ohio in job gains, seeing 16% growth. This shows that Washington could stand to learn a thing or two from America's cities."

“For 18 years we have continued to show that it is the cities and the metro economic engines of the United States that are driving the national economy,” said Tom Cochran, USCM CEO and Executive Director. “With all due respect to the states, the financial strength of our cities and metro economies will continue to outpace states and many nations. While Washington is divided, stalemated on providing many economic tools and policies needed, mayors today are joined at the hip with the business community, all working together. Wherever America’s economy is going, and wherever it is today, it is because of the bipartisan, robust financial energy of mayors and metro city leadership across our nation.”

Key findings of the report include:

U.S. Metro Performance in 2018

- Metropolitan areas dominated US economic growth in 2018 and continue to drive the US economy. They were home to 85.9% of the nation’s population, 91.1% of real gross domestic product (GDP).
- US Metro share of total employment increased to 88.1% as metros added 2.1 million jobs, accounting for 94% of all US job gains.
- The metro shares of US total personal income, 89.3%, and wage income, 91.8%, also increased again in 2018.
- Many US metros have larger economies than states. New York’s gross metropolitan product (GMP), the largest among metros at $1.85 trillion, exceeds the Gross State Product (GSP) of Texas, and Los Angeles’s exceeds that of Florida, the fourth-ranked state in GSP.
- The GMP of 38 US metros each surpassed $100 billion in 2018, and we project that Virginia Beach-Norfolk-Newport News will as well in 2019.
- Comparing metro economies to the nations of the world provides further evidence of the importance of US metros as drivers of the global economy. New York’s GMP would rank 10th among the nations of the world, ahead of Canada and Russia. Twelve of the world’s 50 highest-producing economies are US metropolitan areas.

Employment and GDP Forecast

- As US unemployment falls to 3.5% in 2019, 75 metros (19.7%) will have rates less than 3%, and 252 (66.1%) will have unemployment rates under 4%. Real GMP growth will exceed 3% in 112 metros (29.4%) in 2019, but in only 18 metros in 2020 (4.7%).
- Real GDP growth is projected to slow from 2.9% in 2018 to 2.3% in 2019, 2.1% in 2020, and 1.9% in 2021.
- The downshift in GDP growth is expected to contribute to a continued slowing trend in employment gains.
- We forecast total US employment growth of 1.5% in 2019, down from 1.7% in 2018. In 2020, job gains will slow further, to 1.2%.

The United States Conference of Mayors

Now Is a Really Good Time to Get Into Munis, Neuberger's Iselin Says.

James Iselin, Neuberger Berman Group managing director, discusses the outlook for the municipal bond market with Bloomberg’s Taylor Riggs on “Bloomberg Markets.”

Watch video.

Bloomberg MarketsTV Shows

October 2nd, 2019, 8:05 AM PDT

Even Cash Flooding Muni Market Can't Stop Worst Loss Since 2018.

- **September was worst month for returns in almost two years**
- **Marks a stepback from rally that roared this year as rates cut**

Not even a continuously flowing spigot of investor cash was strong enough to prevent the $3.8 trillion municipal-bond market from snapping this year's rally.

State and local government debt is headed toward a 0.82% loss in September, the first down month of the year and the biggest decline since January 2018, according to Bloomberg Barclays indexes. The drop came as Treasuries sold off and as new debt sales weighed on performance, with supply of bonds 46% higher than it was the same month a year earlier as governments raced to capture lower interest rates, according to data compiled by Bloomberg.

Barclays Plc strategists led by Mikhail Foux said they're "cautious near-term," given that expectations for a rate cut in October may be too optimistic and the market could stay volatile.

The tax-free securities are still headed for a 6.7% return this year, the best year for the asset class since 2014. Investors have plowed billions into municipal-bond mutual funds as investors seek to reduce their tax burden.

The pullback has left state and local government debt cheaper, relative to Treasuries, than it was earlier this year. Ten-year tax-exempt debt is yielding about 88% of Treasuries, up from as little as 71% in May. That was the lowest that gauge of relative value had hit since at least 2001, indicating that valuations were historically high.

Typically, municipal bonds cheapen compared with Treasuries in September and October before getting a boost from investors positioning themselves for the next year, they said in a Sept. 27 note.

"The story will likely repeat itself in 2019," the strategists said.

Bloomberg Markets

By Amanda Albright

September 30, 2019, 10:30 AM PDT

— With assistance by Maria Elena Vizcaino

Understanding Private Activity Bonds.

In the fixed-income world, a private activity bond (PAB) is tax-exempt security issued by or on behalf of a local or state government. For bond investors, PABs can provide higher yields than other bonds due to their unique tax treatment.

A PAB is issued by local governments for the purpose of extending special financing benefits for qualified projects. In general, PABs finance projects for a private user, which means the local government doesn't usually pledge its credit. In this way, they are used to attracting private investments for projects that have public or common utility.

For municipal security to be considered a PAB, it must meet two conditions set out in Section 141 of the Internal Revenue Code.

The first condition is that more than 10% of the proceeds must be used for a private business project and that at least 10% of the payments of the principal or interest comes from property used for private business use.
Secondly, a PAB requires "the amount of proceeds of the issue used to make loans to non-governmental borrowers exceeds the lesser of 5 percent of the proceeds or $5 million, which is the "private loan financing test," according to MSRB.

Continue reading.

municipalbonds.com

Sam Bourgi

Oct 02, 2019

Statement from EPA Administrator Andrew Wheeler on the Water Infrastructure Funding Transfer Act.

WASHINGTON (Oct. 7, 2019) — Today, as we continue to celebrate Children's Health Month, U.S. Environmental Protection Agency (EPA) Administrator Andrew Wheeler released the following statement on the Water Infrastructure Funding Transfer Act, which was signed into law by President Trump on Friday, adding flexibility to the State Revolving Funds (SRF) program to help finance projects that reduce lead in drinking water.

"President Trump has made reducing lead exposure a top priority across his administration, and his signature of this new law is yet another example of the ways we are providing communities with additional tools to protect their drinking water," said EPA Administrator Andrew Wheeler. "This new law gives our state and local partners an important flexible financing option to fund projects that will reduce lead in drinking water and protect public health, especially the health of our nation's children."

Background

The Water Infrastructure Funding Transfer Act allows transfers from the Clean Water State Revolving Fund (CWSRF) to the Drinking Water State Revolving Fund (DWSRF) during a one-year period ending on October 4, 2020, in an amount up to 5% of the state's cumulative CWSRF federal grant dollars. The transferred funds may be used to provide financial support in the form of forgiveness of principal, negative interest loans or grants (or any combination). This authority is in addition to the existing transfer authority under the Safe Drinking Water Act.

In December of 2018, the Administration unveiled its Federal Action Plan to Reduce Childhood Lead Exposures and Associated Health Impacts. This plan includes robust actions across the federal

government, including EPA's development of innovative approaches to help finance projects that reduce exposure to lead or other contaminants in drinking water. For example, in 2018 and 2019, EPA's Water Infrastructure Finance and Innovation Act (WIFIA) program prioritized projects that address lead and other contaminants in drinking water systems. In 2018, the program invited 12 projects that will reduce exposure to lead and other contaminants to apply for WIFIA financing. Additionally, EPA is issuing grants under the Water Infrastructure Improvements for the Nation Act to fund lead reduction projects and to support the voluntary testing of drinking water in schools and childcare centers. EPA has also supported the use of the DWSRF to help finance lead mitigation projects.

Contact Information:
EPA Press Office (press@epa.gov)

Will the Supreme Court Strike Down Inclusionary Zoning?

A Marin County lawsuit has conservatives and housing advocates preparing to face off over the constitutionality of a powerful affordable housing tool.

Marin County is committed to building affordable housing. Indeed, the most exclusive county in California doesn't have much choice.

Back in May, authorities in Marin entered into a new voluntary compliance agreement with the U.S. Department of Housing and Urban Development to build new low-income housing outside areas where black or brown residents make up the majority. This is now the county's second big push since 2010 to satisfy the government's demand that it work on desegregating its affordable housing.

Fair housing is a challenge for Marin, an enclave of million-dollar bungalows across the Golden Gate Bridge from San Francisco. According to a nonprofit project called Race Counts, it has the highest racial disparities of any county in California. That's in part because Marin County doesn't want to build any housing. Homeowners here are at the forefront of NIMBY efforts to stop plans for new construction, whether they're local, regional, or statewide.

Continue reading.

CITY LAB

by KRISTON CAPPS

OCT 3, 2019

A New Framework for Infrastructure Reform.

If the nation were to start from scratch on our infrastructure priorities, what would that look like?

That was the question Brookings Metro fellow Adie Tomer posed to the House Committee on the Budget on Wednesday, September 25 during a hearing on the country's infrastructure needs and opportunities.

Tomer's testimony examined the gulf between the issues that U.S. infrastructure has historically focused on and the modern-day objectives that should now be the priority.

"Consider what motivated the federal policy frameworks we follow today," said Tomer. "Their authors crafted policies that responded to the challenges of their time—issues like connecting cities across state lines, delivering telephone and cable service, and stopping sewage dumping." The nation's continued focus on these "legacy frameworks" prevents us from tackling the challenges of today and inviting a much-needed re-evaluation of our infrastructure objectives.

Tomer cites four big national issues that a newfound infrastructure policy could help correct—climate change, wealth inequality, industrial competitiveness, and regional economic divergence. And that correction, Tomer notes, will not be accomplished through the default and oversimplified method of our infrastructure policy to date—spending more. Instead, it will come from smart policy and a critical re-examination of the role infrastructure reform can play in wider national issues.

Take climate change, for instance: in his written testimony, Tomer writes that prioritizing density in our land use will mitigate the impacts of development and transportation emissions on our environment. He proposes, among other policies, a National Land Value Tax and Impact Fee to incentivize resilient growth and affordable, environmentally sound housing and transportation options.

Even seemingly unrelated economic issues can be addressed through a more holistic approach to infrastructure policy. Many U.S. households spend huge portions of their income on housing, transportation, and other infrastructure-adjacent expenses such as broadband access. We could confront the nation's precarious income and wealth inequality by way of decreasing these expenses, through programs Tomer proposes such as a new benefits system for infrastructure needs and dynamic transportation pricing. The widening economic divergence between different regions of the country, recently examined in a blog post by Brookings's Mark Muro and Jacob Whiton, could also be treated via a re-evaluation of our infrastructure priorities.

"Congress and your partners in the general public have a truly special opportunity," Tomer told the committee. But the apparent political consensus on accomplishing big infrastructure reform shouldn't be squandered on the same obsolete objectives, he concluded: "This all starts with a fresh perspective."

To read his full testimony, click here.

The Brookings Institute

by Adie Tomer

September 30, 2019

Pipeline Developers Beware: Third Circuit Disallows Eminent Domain Over State Lands Under Natural Gas Act - Duane Morris

In a unanimous, precedential opinion issued on September 10, 2019, the United States Court of Appeals for the Third Circuit held that the Natural Gas Act (NGA), 15 U.S.C. § 717, *et seq.*, does not abrogate state sovereign immunity and does not give private pipeline companies the power in

federal court proceedings to condemn property owned by states. *See* In re PennEast Pipeline Co., *F.3d , Nos. 19-1191 through 19-1232, 2019 WL 4265190 (3d Cir. Sept. 10, 2019)*. This decision—the first on this topic by any federal appellate court—may have far-reaching implications for pipeline development and other infrastructure projects in Pennsylvania, New Jersey, Delaware and beyond.

The Third Circuit's decision redefines the relationships among private parties, states and the federal government in this region with respect to pipeline development. The opinion also gives states, and potentially private parties, a new tool with which to obstruct future pipeline projects. Although the precedential value of the decision could be short-lived if, for example, the Third Circuit agrees to rehear the case en banc or the Supreme Court of the United States grants a petition for certiorari and reverses, the opinion will likely have an immediate impact on parties' strategies in developing and opposing energy infrastructure development in the Northeast. Pipeline companies should therefore consider the potential ramifications of the Third Circuit's decision for ongoing and future pipeline projects in this area.

Background

The case arose after PennEast Pipeline Company, LLC obtained Certificates of Public Convenience and Necessity from the Federal Energy Regulatory Commission (FERC) to build a natural gas pipeline from Luzerne County, Pennsylvania, to Mercer County, New Jersey. Under the NGA, once a private pipeline company obtains such certificates and meets other requirements, the company can acquire "necessary right[s]-of-way" for such pipelines through "the exercise of the right of eminent domain." 15 U.S.C. § 717f(h). PennEast sought to use this provision to condemn 131 properties along the proposed pipeline route. Although most of the properties through which PennEast planned to build were owned by private or other nonstate parties, the state of New Jersey claimed an interest in 42 of the properties. Specifically, New Jersey asserted possessory interests in two of those properties and nonpossessory interests, in the nature of conservation and farmland preservation easements, in another 40 properties.

PennEast filed complaints in the U.S. District Court for the District of New Jersey seeking orders of condemnation and other relief. The state objected to PennEast's actions with respect to the 42 properties in which the state claimed an interest, arguing that the state's sovereign immunity barred such suits from proceeding in federal court. The district court disagreed, holding that the NGA vested power in private pipeline companies like PennEast to use the federal government's power of eminent domain to condemn state lands.

The Court Distinguishes Between the Power of Eminent Domain and the Power to Obviate State Immunity

On appeal, the Third Circuit reversed the district court in a forceful opinion. The court first explained that the district court and PennEast failed to differentiate between the powers at issue in the case: "the federal government's eminent domain power and its exemption from Eleventh Amendment immunity." Opinion at 15. The issue presented by New Jersey's objection to federal jurisdiction was, the court explained, whether there was any authority allowing a private company to hale a state into federal court. This issue was wholly separate, in the court's view, from whether the NGA delegated eminent domain power to PennEast.

Once focused on the question of a state's sovereign immunity, the court explained that it is unlikely that the federal government can delegate its power to abrogate a state's sovereign immunity. Nevertheless, relying on the canon of constitutional avoidance, the court determined it did not need to decide that issue. The court instead held that, even assuming such power could be delegated, the NGA lacked unequivocal language demonstrating that such delegation was intended by Congress.

Accordingly, the court held, private parties cannot condemn land in which the state has an interest—whether that interest is possessory or nonpossessory—through proceedings initiated in federal court.

Notably, the court failed to address why a state's nonpossessory interests in land, including the conservation and farmland preservation easements here, implicate sovereign immunity to the same extent as land held by a state in fee simple. Instead, the court treated all of the state's interests equally, without explanation or analysis, and directed the district court to dismiss all 42 condemnation complaints challenged on appeal.

The Third Circuit's Decision Leaves Unresolved Whether Pipeline Siting Must Avoid State Lands Altogether

Although the court claimed that it was "not insensitive" to the concern that states now have "unconstrained veto power over interstate pipelines," and to the disruption to the natural gas industry that the court's decision may cause, see Opinion at 33, the court did little to guide pipeline companies in the future. For example, the court noted that the federal government may be able to bring condemnation claims on behalf of pipeline companies in federal court against states, as such actions would not run afoul of the Eleventh Amendment. The court, however, did not grapple with the language in the NGA giving eminent domain power to holders of certificates of public convenience, not to FERC. The court instead offhandedly noted that the federal government may need to employ some other procedural mechanism separate from the NGA to condemn state lands for pipeline development. The court, however, did not provide any guidance as to what that procedural mechanism might be.

The court also did not address whether pipeline companies can condemn state lands in state court. The NGA provides for this possibility, under 15 U.S.C. § 717f(h) (holders of Certificates of Public Convenience and Necessity may acquire needed properties by eminent domain in federal district court "or in the State courts"); however, states generally cannot be sued in their own courts without waiving sovereign immunity. Thus, pipeline companies may run into similar obstacles in state courts as this decision creates in federal courts. If courts consider the state government to be immune from condemnation suits in state court, the result may be that pipelines can never be constructed under state lands without the state's consent.

Although the court held that private companies can no longer condemn land in which a state has an interest in federal court proceedings, such companies may still retain the ability to initiate federal court proceedings to condemn land controlled by political subdivisions of a state, such as counties or municipalities. Political subdivisions do not enjoy Eleventh Amendment immunity, and courts have generally been reluctant to extend state immunities to political subdivisions. Nevertheless, political subdivisions may attempt to use the court's analysis in this case in future challenges to the condemnation power of private pipeline companies.

Considerations for the Future

Going forward, pipeline companies may want to consider avoiding the use of eminent domain to acquire state-owned lands when siting pipelines, thereby circumventing the question of state sovereign immunity altogether. In many cases, this would result in more condemnations of private and municipal property, which may have negative political ramifications for states that refuse to consent to pipeline development on state lands. Pipeline companies may similarly face political repercussions from increased use of eminent domain on privately and municipally owned properties.

Pipeline companies should also be cautious when siting in states where there is substantial public or

political sentiment against pipeline development. Private citizens and environmental groups may respond to this opinion by offering conservation easements to states, on favorable terms, for the sole purpose of thwarting pipelines. Although New Jersey, in the In re PennEast case, asserted that it had spent more than $1 billion obtaining conservation and preservation easements such as those implicated by the PennEast project, property owners may be much more willing to convey such interests in the future as a result of the Third Circuit's decision if they believe that such an action could hinder pipeline development. Pipeline companies would be advised to consult legal counsel and to formulate arguments to combat such attempts in order to prevent the Third Circuit's interpretation of the NGA from nullifying the otherwise broad eminent domain power granted to pipeline companies by Congress.

The Third Circuit is the first federal appellate court to consider whether private parties can sue a state in federal court as part of a condemnation proceeding. However, other circuits will likely face similar issues soon. In fact, another pipeline company, Columbia Gas Transmission, LLC, has just appealed a Maryland district court order holding that Eleventh Amendment immunity prevents federal court jurisdiction over condemnation proceedings against state property. This appeal will be heard by the Fourth Circuit, which may choose to follow the Third Circuit's lead or may reverse the district court, resulting in a split among the circuits. The Supreme Court may wait to grant a petition for certiorari on this question until such a split occurs (by the Fourth Circuit or any other circuit court), or may accept review of the Third Circuit's decision in the near future. Pipeline companies therefore should carefully monitor developments in the Third and Fourth Circuit cases, as well as future litigation addressing the many questions the Third Circuit's decision left open.

by Robert L. Byer, George J. Kroculick, David Amerikaner and Leah Mintz

September 25, 2019

Duane Morris LLP

Building Demand in US Water Quality Trading Markets.

IN BRIEF

- WATER QUALITY TRADING MARKETS ALLOW THE OPERATORS OF POINT SOURCES OF WATER POLLUTION — such as sewage treatment plants or factories — to offset that pollution by purchasing credits representing reductions elsewhere.
- BUT DESPITE THE PRESENCE OF FUNCTIONING PROGRAMS ACROSS THE COUNTRY, the overall volume of trading remains low.
- TO EXPAND TRADING, STAKEHOLDERS NEED TO ADDRESS THE LACK OF NUMERIC DISCHARGE LIMITS, transaction costs, risk aversion, and the absence of empirical data on programs.

Environmental credit trading programs have gained traction for pollutants like carbon emissions, at least in concept. Is water quality trading the next frontier? The mechanism offers the possibility of more flexible and cost-effective water quality control, but in contrast to some environmental credits, markets have struggled to gain momentum.

Water quality trading markets allow the operators of point sources of water pollution — such as sewage treatment plants or factories — to offset that pollution by purchasing credits representing reductions elsewhere. Just as the purchase of a carbon offset gives its buyer credit for reducing their

carbon footprint, a water quality trading market allows participants to buy and sell the credit for reduction of water pollution into a given water body.

Trading is a tool that may be well-suited to address the evolving nature of water pollution in the United States.

“The Clean Water Act was written at a time when the major pollution in our waterways was coming from pipes,” said Kristiana Teige Witherill, clean water project manager at the Willamette Partnership, a nonprofit focused on market-based conservation in the American West. “Today, depending on what watershed you’re looking at, 80 to 90% of pollution is coming from non-point sources, not coming from the end of a pipe.”

After establishing parameters for water quality trading in 2003, the Environmental Protection Agency (EPA) reiterated its support for the tool in a statement in February. A 2017 Government Accountability Office (GAO) report tallied 19 water quality trading programs operating in 2014 in a diverse set of 11 U.S. states, from California to Idaho to Florida.

But despite the presence of functioning programs across the country, the GAO noted that the overall volume of trading remains low. “According to stakeholders, two key factors have affected participation in nutrient credit trading — the presence of discharge limits for nutrients and the challenges of measuring the results of nonpoint sources’ nutrient reduction activities,” the report stated.

Now, proponents of water quality trading are working to bring more participants into the fold. What can be done to scale up use of trading?

How Water Quality Trading Works

Under the U.S. Clean Water Act, states are responsible for regulating the quality of water discharged into water bodies. Water quality trading markets provide an alternate way for any point source regulated by the National Pollutant Discharge Elimination System to meet requirements set by states through the act.

Water quality trading credits most often deal with nitrogen and phosphorus pollution, but they can be generated for other purposes as well. To protect temperature-sensitive salmon species, for example, Oregon has a functioning trading market for water temperature, according to Witherill. Less commonly, markets can also facilitate trades for credits that represent reduced stormwater quantity.

Credits are frequently generated through reduced pollution from agricultural land, but can also come from point-source sites that have exceeded pollution-reduction requirements. States are responsible for approving and verifying credits.

Water quality trading has the potential to provide massive increases in the cost-effectiveness of pollution reduction. According to the World Resources Institute, reducing nitrogen pollution through water treatment plant upgrades costs an average of about $15 per pound of nitrogen, but under $5 per pound through planting cover crops on farms.

Generating Demand

The GAO’s 2017 report stated that in the year they surveyed, 2014, the majority of trading occurred in Connecticut, Pennsylvania and Virginia. In those states, most point sources didn’t purchase credits, resulting in a substantial share of generated credits going unused. State officials told the

GAO, however, that trading programs still provided other benefits, like flexibility in complying with water quality regulations.

“I would say that there are a number of programs across the country that are working well, like here in Oregon where we have a number of facilities and municipalities that are successfully using water quality trading,” Witherill said. “But I think we haven’t yet reached a tipping point where water trading becomes a mainstream solution for meeting water quality regulations.”

Often, the issue centers around the question of bringing buyers to the table.

In October 2018, the National Network on Water Quality Trading — facilitated by the Willamette Partnership — published its report “Breaking Down Barriers: Priority Actions for Advancing Water Quality Trading.” The group aimed “to diagnose why, in contrast to other environmental markets, interest in water quality trading and demand for water quality credits has been slow.”

Along with discharge limits, the “Breaking Down Barriers” report points to transaction costs, risk aversion, and the absence of empirical data on programs as deterrents to trading. When it comes to discharge limits, the regulatory structure of a given state plays a big role. Under the Clean Water Act some states, but not others, have set specific quantitative limits on pollution.

“In places like Wisconsin that have numeric criteria for nutrients, they have a really strong driver for cities and municipalities to be looking at options like water quality trading,” Witherill said. “It’s kind of a precondition for it to have some kind of regulatory driver.”

Wisconsin has a statewide trading program for the variety of pollutants regulated by the state Department of Natural Resources, but the difficulty of conducting trades has limited its use, according to Wisconsin Public Radio. Critics of the program’s current design have blamed low participation on inflexible rules and trouble connecting buyers and sellers.

In the absence of a “regulatory driver” like quantitative pollution limits, water quality trading programs have limited options for attracting buyers.

The Ohio River Basin Trading Program, run by the Electric Power Research Institute (EPRI), manages a trading market in Ohio, Indiana and Kentucky. The program aims to address nutrient pollution into the Ohio River — and ultimately, the Gulf of Mexico — by generating credits from conservation practices on agricultural land. According to Program Manager Jessica Fox, the Ohio River Basin Trading Project has over 100,000 of the $12 to $14 credits — each representing a pound of verified reduced nitrogen or phosphorus discharge — “on the shelf” waiting to be sold.

EPRI has sold credits to power companies, a university and individuals, Fox said, but not at the volume necessary to make the program self-sustaining. “When every transaction requires me to take a business trip,” she said, “that’s not going to work. It has to be more liquid than that.”

There are other preconditions needed for water quality trading in addition to quantitative criteria, the “Breaking Down Barriers” report argues. First, unless the technology required for polluters to meet limits is expensive or nonexistent, managers of point sources are unlikely to turn to trading. Regulatory agencies must also support purchasers interested in pursuing credits. “We’ve also seen that the utilities who pursue water quality trading often have a champion supporting the program within their own organization,” the report stated.

Building Markets and Confidence

Through stakeholder interviews and other research, the “Breaking Down Barriers” authors identified

seven steps that stand to increase use of trading. They advocate for simplifying trading programs; making sure state regulators have the capacity and resources they need; clarifying the policies of EPA and states; reducing buyer risk, real and perceived; addressing the legal risk that stems from a lack of case law on trading; developing more direction for stormwater trading; and building relationships.

For its part, the Ohio River Basin Trading Program is looking to stimulate more demand of its own accord. In May, EPRI announced a partnership with First Climate, a firm that specializes in selling environmental credits, to sell credits on international markets and make them available to a wider range of domestic buyers. Before, the trading program wasn't able to accommodate transactions of less than $25,000, according to Fox. Through First Climate, however, the program is taking a more retail approach to trading.

"You can go on now, and you can buy one credit with a credit card or Paypal account," Fox said. The program has a calculator online that individuals can use to determine their personal nitrogen footprint, and provides buyers a photo of the farmer who generated their credit. It even sells t-shirts.

"It's kind of like 'adopt a sea lion,'" she said. "It's getting it to be a more publicly accessible thing."

First Climate and EPRI are also pitching large corporate buyers on water quality credits as a way to meet voluntary sustainability commitments.

But as trading programs continue to try to break into the mainstream, Willamette's Witherill cautioned that they are just one tool in the toolbox for "expanding the number of options utilities have to invest in their watersheds," she said. "Maybe that doesn't necessarily look exactly like water quality trading, maybe that looks like a source water protection program or some kind of groundwater irrigation management."

On the policy front, Fox also wonders if EPA could do more to support markets. The agency's February memo was "a huge signal that the administration is strongly behind water quality trading," she said, but it doesn't actually change implementation on the ground.

One possibility worth exploring, Fox said, would be whether EPA could allow states to use their own share of funds from joint federal-state programs — such as Clean Water State Revolving Funds, for example — to buy credits.

"Any way to incent the buyer side is a great solution," she said.

Conservation Finance Network

by Chris Lewis

September 25, 2019

Cities Are Buying Bond Insurance That May Be Giving Them Nothing.

- **Bond insurance didn't result in lower yields, study finds**
- **Companies say study is flawed and failed to capture benefits**

Around noon one Wednesday in July, two school districts from California's Central Valley auctioned off their bonds to Wall Street underwriters.

Both had the same credit rating. The deals were of similar size. They were being issued for the same purpose of refinancing higher-cost debt, and each gave banks the option to include the cost of insuring the bonds against default to help get them the lowest possible interest rates.

There was one key difference, though. The Washington Unified School District's debt was sold without insurance. But the winning bidder for Stanislaus Union School District's bonds included a $17,800 policy from Build America Mutual Assurance Co. to guarantee against the remote risk that the money won't be paid back. That extra layer of security for investors was supposed to save the district money by making buyers willing to accept lower yields.

It didn't.

When the results of the auctions came in, the Stanislaus district wound up with slightly higher rates than Washington on every single bond with the same maturity, suggesting it got little or nothing in return for its money.

The sales underscore doubts about the business model of the bond-insurance industry, which once backed more than half of the nation's municipal debt issues until the biggest companies were roiled by the financial crisis more than a decade ago. A study by researchers from Pennsylvania State University and the University of Georgia found that buying such insurance is a bad deal for the vast majority of governments: Between 2009 and 2016, those that insured their general-obligation bonds paid a total of about $260 million more in borrowing costs than their model suggested they should have, even before the costs of the policies are factored in.

"We tortured the data every which way to Tuesday trying to find some evidence that this insurance wrap was lowering offering yields and we just can't," said Kimberly Cornaggia, an assistant professor of finance at Penn State's Smeal College of Business and one of the study's authors.

Flawed Study

Build America Mutual and Assured Guaranty Ltd. disputed the study's results, saying the analysis was flawed because it failed to account for market movements between bond pricings and included AAA and AA rated governments that rarely buy insurance. Both said the results are in conflict with the savings that lower-rated local governments and their financial advisers see from buying bond insurance.

"BAM members choose insurance because it generates net savings on their transactions, period," said Grant Dewey, the head of Municipal Capital Markets at Build America Mutual. "Their underwriters and municipal advisers calculate and confirm that every day by evaluating spreads on comparable transactions and by comparing investor demand for insured and uninsured bonds."

He said the comparison of the two California districts doesn't adequately capture the savings, since Stanislaus's sale, unlike Washington's, included some longer-maturing securities that typically get the most benefit from insurance. Nathalie Wells, chief business official for the Stanislaus district, didn't respond to requests for comment.

The bond insurance industry has shrunk to a shadow of its former self since the credit crisis, when MBIA Inc., Ambac Financial Group Inc. and Assured Guaranty were stripped of their AAA ratings because of losses tied to toxic mortgage-backed securities. The major credit rating companies also adjusted their methods in response to an outcry from public officials who said they had been consistently rating states and cities too low, leaving them buying guarantees from insurance companies that were at far bigger risk of defaulting.

At its peak in 2005, insurance covered 57% of new municipal bond issues. This year, insurers guaranteed about 6% of the $265 billion of fixed-rate debt issued. Assured Guaranty and Build America Mutual, the industry's two main companies, are rated AA by S&P Global Ratings, the third-highest rank.

No Benefits Seen

The results of the study by Cornaggia, her Penn State colleague Giang Nguyen and the University of Georgia's John Hund suggest the business should be even smaller. About two-thirds of insured general-obligation bonds issued between 2008 and 2016 had A ratings — a level high enough that they didn't reap any savings from buying insurance over that time, according to the authors' calculations. About 8% had even higher grades.

The researchers studied a sample of more than 700,000 general-obligation bonds issued between 1985 and 2016.

Over the 30-year period, municipalities saved $496 million on their interest bills by paying for insurance, since for much of that time they benefited from the high ratings of the insurance companies they paid. Still, that savings was a fraction of the estimated $17 billion in premiums collected from state and local governments by just two big insurers, MBIA and Ambac, from 1995 to 2008, according to the scholars.

Prior to the financial crisis, "if you bought insurance from a triple-A rated insurance company, it got priced like a triple-A bond, but as soon as those insurance companies are single-A or even double-A rated that's not triple-A certification and the investors just aren't as interested," Cornaggia said.

The study's authors determined how much insurance costs or saves a municipality by using a model that factored in characteristics like bond size, issue size, state, credit rating, use of proceeds, maturity, and coupon to predict what the yield on a particular insured bond would be without insurance.

If the yield on the insured bond was higher than the yield on an uninsured bond with the same characteristics predicted by the model, the municipality was considered to have lost money, according to the authors.

Yet some of the findings are puzzling. For example, it shows that insurance, on average, lowered borrowing costs for Aa2 rated bonds over 30 years, but didn't save money for lower-rated Aa3 and A1 bonds. Cornaggia said she couldn't explain why.

"We are agnostic empiricists," she said.

Municipalities aren't the only ones buying overpriced insurance, Cornaggia said, comparing it to fabric stain coverage sold at furniture stores or warranties on televisions. The difference with bond insurance is that the beneficiaries of the policy — investors — aren't paying the premiums.

"The person making the decision about whether to insure the bond isn't actually the taxpayers, it's an agent making a decision on behalf of those principals," she said. "I do think there's a risk aversion on the part of the municipal officer making the decision."

Bloomberg Markets

By Martin Z Braun

September 26, 2019, 6:30 AM PDT

GASB Proposes Guidance On Replacement Of Interbank Offered Rates With New Reference Rates.

Norwalk, CT, September 26, 2019 — The Governmental Accounting Standards Board (GASB) today proposed new accounting and financial reporting guidance to assist state and local governments in the transition away from existing interbank offered rates (IBORs) to other reference rates.

Some governments have entered into agreements in which variable payments made or received depend on an IBOR, most notably the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form in 2021. That is prompting governments to amend or replace financial instruments tied to LIBOR.

The provisions of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, require that governments terminate hedge accounting if they change a critical term of a hedging derivative instrument, such as the reference rate of its variable payment. In addition, replacement of the rate on which variable payments depend in a lease contract would require, under Statement No. 87, Leases, that a government apply the provisions for lease modifications, including remeasurement of the lease liability or lease receivable.

The objective of the Exposure Draft, *Replacement of Interbank Offered Rates*, is to address the accounting and financial reporting implications that result from IBOR replacement. The proposed Statement would:

- Allow governments to continue using hedge accounting for certain hedging derivative instruments that are amended or replaced to change the reference rate from an IBOR
- Clarify the hedge accounting termination provisions when an IBOR is replaced as the reference rate of a hedged item
- Clarify that the uncertainty associated with reference rate reform does not, by itself, affect the probability that an expected transaction will occur
- Remove LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Add the Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates
- Clarify the definition of reference rate, and
- Provide an exception to the lease modifications guidance in Statement 87 for certain IBOR-related lease contract amendments.

Removal of LIBOR as an appropriate benchmark interest rate as proposed would be effective for reporting periods beginning after December 15, 2020. All other requirements of this proposed Statement would be effective for reporting periods beginning after June 15, 2020. Earlier application would be encouraged.

The Exposure Draft is available on the GASB website, www.gasb.org. The GASB invites stakeholders to review the proposal and provide comments by November 27, 2019.

Uniform Commercial Code Financing Statement is Integral in Bond Defaults.

Proper attention to the unsexy “Uniform” Commercial Code financing statement may well be the single most consequential checklist item in a secured bond financing from the perspective of bondholder recovery in a default situation. Bizarrely, no transaction participant takes express responsibility for the initial filing of the UCC financing statement at a bond closing, and frequently no transaction participant other than the issuer or conduit obligor takes responsibility for the filing of required post-closing continuation statements. From a bondholder perspective, it is somewhat akin to expecting the fox to guard the chicken coop.

The result: a non-trivial number of transactions in which the lien promised to bondholders is never perfected, or becomes unperfected after the bonds are issued, in which case the lien is ineffective against other creditors with the consequence that bondholders that purchased bonds on the premise of secured status receive the greatly reduced recovery of unsecured creditors.

There are a few relatively simple — and largely costless —- steps that bondholders with sufficient leverage can insist upon before placing their purchase orders on a secured bond transaction to protect their investment and decrease the possibility that their investment will be unsecured when it matters most.

UCC Perfection Requirements

Each state and/or U.S. territory has its own version of the UCC, and some versions may have atypical provisions. Generally, however, the principles below are applicable in most jurisdictions.

The UCC governs the creation and perfection of security interests in personal property, including accounts and their proceeds and revenues, gross revenues, net revenues and receipts, which are not UCC terms. The UCC generally is inapplicable to a security interest created by a state governmental unit to the extent another state statute expressly governs the creation, perfection, priority, or enforcement of such security interest. Noncompliance with the UCC may not imperil secured creditor status with respect to security provided by a municipal issuer if such issuer’s enabling statute provides for an alternative to the UCC’s requirements as to, for example, creation or perfection of a lien and such alternative requirements have been satisfied. However, on a conduit bond issue, the UCC almost always applies to the security interest provided by the non-governmental conduit borrower, and noncompliance may result in unsecured status of the claim against the only party responsible for repayment of the bonds.

Most UCC noncompliance issues arise from the failure to properly perfect a security interest. A security interest in accounts and their proceeds must be perfected by the filing of a financing statement. A financing statement is sufficient for perfection purposes only if it provides the name of the obligor and the name of the secured party; and describes the collateral covered by the financing statement. A description of collateral is sufficient if it “reasonably identifies” what is described or if it describes the collateral as “all assets” or “all personal property.”

Certain events occurring after the filing of an initial financing statement may result in loss of perfected status.

For example, if the debtor/obligor’s name changes such that a search under the name in the original financing statement would not disclose financing statements filed under the debtor’s new name, the financing statement is ineffective to perfect a security interest in collateral acquired by the debtor more than four months after the name change, unless an amendment to the financing statement

providing the new name is filed within four months after the name change.

In addition, a filed financing statement generally is effective for a period of five years after the date of filing, and lapses (and therefore perfection lapses) if a UCC continuation statement is not filed within the six-month period preceding the end of the five-year period. Timely filing of a continuation statement extends the effectiveness of the financing statement for additional five year periods.

A Short List of Perfection Safeguards

The UCC's requirements are technical and often unforgiving of unintended and arguably small inaccuracies, and the adverse consequences of noncompliance can be financially disastrous for a lender or bondholder. There are various steps bondholders can take that can eliminate or substantially reduce the risk of a UCC mishap.

1. Insist on a Disclosed and Meaningful Perfection Opinion

In most secured bond issues, the underwriters, as a closing condition, require a legal opinion as to the status of the liens securing the bonds. On non-conduit bond issues, the opinion regarding the lien may be included in the bond counsel opinion, and may be published in the official statement for the bonds. In the case of conduit bond issues, the key liens typically are addressed in the opinion of the conduit obligor's counsel, which typically is not published in the official statement. Given the importance of secured status on a secured transaction, bondholders should insist that the offering document include the legal opinions relating to lien perfection to be delivered at closing.

If disclosed, the legal opinions will often reveal common deficiencies that can and should be addressed, if noted by the bondholders, prior to closing. On a non-conduit deal, the opinion will often state that the lien or pledge provided by the issuer is "valid", which does not address perfection. The opinion should state that the lien is valid and perfected.

On conduit deals, the opinion of conduit obligor's counsel often says "upon filing of the UCC financing statement in [applicable UCC registry], the lien in the [revenues/other personal property collateral] will be perfected to the extent that such lien is capable of being perfected under the UCC by the filing of a financing statement." Such an opinion is not a perfection opinion, just an opinion that if the UCC is filed, the lien will be perfected. If the filing does not occur, the bondholders will be unsecured and, if damaged by such status, left with little recourse but to seek recovery from some solvent party to the transaction based on some purported implied duty to file the financing statement and subject to statute of limitations and other defenses. Such a situation is entirely avoidable through insistence that the UCC financing statement be filed prior to closing, which the UCC expressly authorizes.

2. Insist on a "Public Finance Transaction" Financing Statement When Applicable

UCC financing statement mishaps can occur either because of an inadequate or unfiled initial financing statement or because of lapse of a filed financing statement due to failure to file a timely continuation statement. For any bond issue with at least one maturity of at least 20 years secured by a security interest governed by the UCC of a state that provides for public finance transaction financing statements, the statement should state that it is filed in connection with a public finance transaction and, in a conduit transaction, the secured obligation, be it the loan agreement or a master note, should run to the governmental issuer and be assigned to the bond trustee versus running directly to the bond trustee. Neither of these requirements is difficult or costs anything, and it makes continuation a non-issue for 30 years (versus the standard 5 years) — long enough for virtually all bond issues, taking into account likely refinancings.

3. Insist that the Bond Documents Require that the Bond Trustee or Master Trustee File Continuation Statements, and that Name Changes be Addressed

Because bond trustees traditionally have asserted that they are unwilling to take on the potential liability associated with assuming and then failing to fulfill a duty to file continuation statements, many indentures or master indentures place the responsibility for filing continuation statements on the issuer or conduit obligor. But there is no adverse consequence to an issuer or borrower for failing to continue a continuation statement.

There are trustees that will agree to undertake the obligation to timely file such continuation statements, in reliance on internal tickler systems. Insistence by bondholders on the use of such trustees contributes to the creation of a market standard that will encourage more reluctant trustees to join the club. In addition, bondholders should insist that reporting provisions in bond documents require the reporting on EMMA of any name change to the issuer or any obligor, accompanied by an opinion of counsel that UCC financing statements have been amended as required to continue perfection of the applicable liens.

4. In Times of Trouble, Review the UCC Financing Statements

Issuers and conduit obligors rarely file for bankruptcy out of the blue. Once a filing occurs, bondholders can be assured that counsel for the debtor and competing creditors will pore over the UCC financing statement filing status, and the contents of UCC financing statements, seeking to find some omission or flaw that can be argued to void or render ineffective all or a portion of the lien securing the bonds. Most financing statement mishaps can be cured by filing a new, correct financing statement if such cure occurs prior to the commencement of the preference period preceding a bankruptcy filing, typically 90 days. These days, financing statements are readily available online. As red flags arise concerning an issuer's or obligor's financial health, it behooves substantial bondholders to ask internal or external counsel to conduct a UCC financing statement review for the applicable issuer or obligor.

The Bond Buyer

by Len Weiser-Varon

September 23 2019

Len Weiser-Varon a member of Mintz Levin's Public Finance practice with a specialty in workouts and restructurings.

NASACT 2019 Annual Conference Recap.

NASACT President D. Clark Partridge, state comptroller of Arizona, and our Arizona co-hosts, Legislative Auditor Lindsey Perry and State Treasurer Kimberly Yee, welcomed almost 500 to Scottsdale for the association's 104th annual conference.

Read the Recap.

National Association of State Auditors, Comptrollers and Treasurers

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com