Preston Hollow Capital Brings Private Debt to Municipal Market.

- **Dallas firm has raised more than $1 billion from investors**
- **New Orleans convention center hotel would be biggest deal yet**

The agency that runs New Orleans' convention center may build a 1,200-room Omni Hotel attached to the exhibition hall, a project that local tourism officials say is needed to boost business in the Big Easy.

If the project is given the go ahead, the $516.5 million needed to finance it won't come from selling tax-exempt bonds to mutual-fund managers and individual investors in a public offering, as is typically done. It will come from a loan from Preston Hollow Capital, a little known company that's looking to shake up the $3.8 trillion state and local government bond market with a direct-lending model that's ballooned in corporate America.

Since its founding four years ago, Preston Hollow has extended $2 billion of loans. It has financed a hotel in a Dallas suburb, hospitals in California and New York, student housing in Pennsylvania, and roads, sewers and other infrastructure for economic redevelopment projects in the suburbs of New York City, Cleveland and Atlanta.

In New Orleans, it's pitching its biggest deal yet, a little more than month after closing an equity commitment of more than $225 million from investors, including funds managed by HarbourVest Partners, Stone Point Capital LLC and Pathway Capital Management, bringing its permanent equity capital to more than $1.3 billion.

Preston Hollow occupies a niche between banks that lend to municipalities with strong credit ratings — a market that exploded after the financial crisis — and individuals and mutual funds that buy traditional bonds. Preston Hollow lends over the long-term, as much as 40 years, to projects that banks won't finance because they're too risky, require more time to repay — or both. It stands to get an 8.2 percent interest rate on the New Orleans loan if it goes through, more than twice the yield on benchmark 30-year municipal bonds.

"There was this wide gap between the bank market and the capital markets marketplace for a committed buyer," said Ramiro Albarran, managing director at Preston Hollow.

Banks Retreat

Outside of the municipal market, lending by private equity funds and asset management firms to companies has ballooned to more than $600 billion as stiffer regulations led banks to pull back, according to researcher Preqin Ltd. The corporate-tax cut law has also made state and local government debt less lucrative to banks, leading them to cut their holdings during the first three months of the year for the first time since 2009, according to the Federal Reserve.

Loans are attractive to investors because they're immune from the price swings of publicly traded assets, said Albarran, while borrowers can cut out the fees for lawyers and credit rating companies associated with bond offerings.

"Often there's a lack of risk appetite from the borrower's standpoint to go through all the steps necessary for doing a capital markets transaction and hoping the buyer will be there at the end of the day," said Albarran.

Preston Hollow Capital was founded by Jim Thompson, who worked at Orix USA, a subsidiary of Japan's Orix Corp., for 22 years, including 10 years as chief executive officer. He invested $100 million of his own money in Preston Hollow Capital, named after the wealthy Dallas neighborhood where he lives.

Thompson, an avid pilot who owned a Czech-made military training jet and flew his Cessna Citation CJ3 to Europe, built Orix USA from a company that securitized mortgage-backed securities into a 1,400-employee firm with $5 billion in assets.

'Wasn't Ready'

Orix invested in energy, real estate, and municipal projects and acquired Mariner Investment Management and mergers adviser Houlihan Lokey.

"I wasn't ready to stop working," Thompson said in an email.

Thompson's departure from Orix wasn't amicable. Orix sued Thompson, accusing him of planning the new firm while still at there and poaching its employees. Thompson, who said his compensation included a five percent share of Orix's value, sued after the company denied the options existed and didn't pay him, according to the lawsuits. The cases were settled and terms are confidential.

Thompson brought along 10 of his Orix colleagues to his new firm. Now, Preston Hollow and its 32 employees focus on sourcing deals — "where public policy and private capital intersect — rather than purchasing companies," Thompson said in an email.

And while Preston Hollow started with a focus on financing infrastructure for economic development projects, it's diversified into higher education and healthcare investments.

In April, Preston Hollow closed a $125 million loan with El Centro Regional Medical Center in California's Imperial Valley near the Mexican border to bring the city-owned hospital into compliance with seismic safety standards and refinance existing debt. About a quarter of El Centro's residents live in poverty and suffer from high rates of diabetes and cancer.

Preston Hollow bought the hospital's tax-exempt bonds yielding 5 percent to 6.38 percent. "They gave us terms better than what we would have had seeking the markets," said hospital Chief Executive Officer Dr. Adolphe Edward.

The New Orleans hotel deal has attracted scrutiny from a non-partisan research group, which estimates the development team is seeking cash and subsidies with a present value of $330 million. These include tax rebates of 10 percent of room revenue, 4 percent of food and beverage revenue, and a property tax exemption until the debt is repaid in 40 years.

On August 9, New Orleans Mayor LaToya Cantrell, wrote a letter to the chair of the the Ernest N. Morial New Orleans Exhibition Hall Authority opposing the proposed deal and saying she had "grave concerns" about the size of the public subsidy, future implications of the project on tax revenue and the plan's scant details.

The mayor also said she was concerned about the interest rate on the tax-exempt bonds Preston Hollow would purchase. Thompson declined to comment.

Bloomberg Markets

By Martin Z Braun

August 17, 2018, 7:50 AM PDT

— With assistance by Alan Levin

Louisiana Bans Bank of America, Citi from Bond Sale Over Gun Policies.

- **Commission votes to exclude top U.S. underwriters from deal**
- **Bank policies seen 'infringement on the rights' of residents**

Louisiana is using the bond market to stick up for the Second Amendment.

The state's bond commission voted 7 to 6 Thursday to ban Bank of America Corp. and Citigroup Inc. from working on its upcoming debt sale because of the banks' "restrictive gun policies," the state treasury said in a statement. Bank of America and Citigroup are the two top-ranked underwriters of long-term municipal debt, according to data compiled by Bloomberg.

"I personally believe the policies of these banks are an infringement on the rights of Louisiana citizens," Treasurer John Schroder said in a statement. "As a veteran and former member of law enforcement, I take the Second Amendment very seriously."

The ban is the latest example of how corporate America has been drawn into the nation's polarizing debate over gun control. Earlier this year, Chicago Mayor Rahm Emanuel proposed using the city's business to push for stricter gun controls by limiting work with Wall Street firms that didn't cut ties with companies that sold firearms to people under the age of 21 or dealt in high-capacity magazines.

The decision by Louisiana comes after Bank of America in April said it would stop making new loans to companies that make military-style rifles for civilian use. At the time, the bank said at least 150 of its employees had been affected by gun violence over the years. Bill Halldin, a spokesman for Bank of America, declined to comment.

Citigroup was the first major banking institution to set restrictions on the firearm industry in March, when it announced plans to prohibit retailers that are customers of the bank from offering bump stocks or selling guns to people who haven't passed a background check or are younger than 21. The restrictions applied to companies that rely on the bank for store credit cards, lending and other services.

"Citi adopted this policy because we believe it is a positive and balanced step to promote gun safety without undermining free markets or Second Amendment rights," spokesman Scott Helfman said in an emailed statement. "It is disappointing that the taxpayers of Louisiana will be deprived from competitive bidding for necessary public works because the process has been politicized."

Second Amendment

During 90 minutes of deliberations during a state bond commission meeting on Thursday, Louisiana legislators discussed the merits of the ban. The state said it received solicitations from 19 banks interested in underwriting the $600 million sale of so-called Garvee bonds, which would finance interstate improvements and tunnel replacements.

The exclusion won't be a major hit to Bank of America or Citigroup, which together underwrote about $110 billion of municipal bonds last year, about 27 percent of those that were issued, according to data compiled by Bloomberg.

Louisiana state senator Jay Luneau voiced concern that the state would no longer get the best rate on the bond sale if it were to exclude the biggest underwriters. Luneau also asked the commission whether the state would also prohibit the bank awarded the bond deal from re-selling some of the debt to Bank of America and Citigroup on the secondary market.

"What I'm trying to point out is they could still be involved — even if we did this — in the secondary market," said Luneau, a Democrat. "Some of our intent is to do business with who is best for the state of Louisiana from a financial perspective with these bonds because we're talking about a lot of money here."

Other state officials took Bank of America and Citigroup to task on Thursday over the gun policies, delivering a simple message: Stick to banking.

"Do you realize how important the second amendment is to the people of Louisiana?" Blake Miguez, a Republican member of Louisiana's House of Representatives, asked Citigroup's Brandee McHale, the company's head of corporate citizenship.

Bloomberg Markets

By Amanda Albright and Jennifer Surane

August 17, 2018

[S&P Extra Credit: U.S. Not-For-Profit Health Care, Medians And Trends And Disruption. Oh My!]

In this Extra Credit Lisa Schroeer talks with S&P Global Ratings' not-for-profit health care industry experts Martin Arrick and Cynthia Keller about the sector's median performance, overall trends, and potential disruptors.

[Listen to Audio]

Aug. 13, 2018

[Muni Market Recap: Slow & Steady Wins the Race.]

Municipal bond markets have been slowly and steadily grinding to lower yields and lower ratios over the summer. As a reminder, when yields are lower prices are higher due to the inverse relationship between yields and prices. Ratios represent the yield of the U.S. Government bond divided by the yield of the Municipal bond. Municipal front end yields, observed by bonds maturing in 2020, have declined from 1.65% to 1.62%, and 10 year yields have declined from 2.50% to 2.43% (based on MSRB trade data). Ratios in the front end of the yield curve (2 year) declined, 65% to 63%, and 10 year ratios have been steady at 85% (based on MSRB trade data). The long end of the muni curve has remained around 3.00% at 99% ratio to US Government 30 year debt (based on MSRB trade data).

The steady market has benefited large issuers trying to bring bonds to market. The demand has been relatively steady and has, at times, allowed large issuers to price deals in excess of $1 billion with no new issue discount. New issue discount is usually a function of a sudden increase in supply for a given issuer results in a widening of spreads or higher yields to compensate for the increased supply. The most recent example is the Denver Airport transaction that was brought to market this week: Denver Airport planned to raise $2.3bn and the deal had enough demand to issue $5 billion in bonds. The airport has a $3.5 billion capital program to expand the capacity of travellers coming into Denver. Miami Dade Aviation also sold $790 million of bonds this week to refund a past deal.

In a year with lower overall municipal bond issuance, down 11% relative to 2017, airports issuance is up 49 percent (source: Bloomberg) so far in 2018 with over $11 billion of bonds coming to market.

Posted 08/17/2018 by Homero Radway

Neighborly Insights

The Fast Lane – Demography, Regional Competitiveness, City Finances.

Demography is destiny, goes the old saying. In the United States, a changing and growing population may help spare our society from the workforce shortfalls afflicting many other industrialized countries. Yet the transition to a more diverse America, including the first recorded decline in the country’s white population, is causing palpable anxiety in our politics and reigniting core tensions around race. In the San Francisco Chronicle, Bill Frey explains why America’s growing minority youth population is good news for the nation’s future, building on the second edition of his book, Diversity Explosion.

At the same time, it’s clear that demographic margins alone won’t automatically translate into broadly shared opportunity. Writing in The New York Times from his fast-changing majority-black hometown near Pittsburgh, Andre Perry urges investors and technology companies to bridge the gaps that too often separate diverse communities from the urban tech boom.

Continue reading.

The Brookings Institute

by David Lanham and Rachel Barker

August 14, 2018

The Dos and Don’ts of Leasing Property Owned by a Municipality.

Most municipalities own at least some real property and often such property is underutilized. An effective way for a municipality to monetize that asset, and raise extra revenue, is to lease the property to a tenant. However, the successful completion of a municipal lease—like any commercial lease—requires that municipalities think carefully, and negotiate thoroughly, regarding a number of legal issues.

1. Written Lease Agreement

“Get it in writing.” You’ve undoubtedly heard this advice countless times, and for good reason—it is critical to spell out with specificity the rights and obligations of each party in a written lease agreement. While a lease agreement does not necessarily need to be in writing to be enforceable by a court, having a well-defined lease in place with your tenant is a good way to avoid having to go to court in the first place. As with any business relationship, things will go wrong, mistakes will be made, and misunderstandings will happen in the course of a landlord/tenant relationship. Having a comprehensive lease in place, which covers issues such as how much rent is due and when, who is responsible for damages and repairs, and how long a lease term lasts, along with a host of other issues, can help municipalities ensure beneficial and amicable relationships with tenants.

2. Term

Every lease agreement should clearly define the length of the lease, as well as specific start and end dates. Depending on the terms of a lease deal struck by a municipality and tenant, a lease agreement may have several start dates, including when a tenant can enter the premises to set up, when rent is due, when the tenant must secure insurance, and when business may commence. In addition, the lease agreement should identify under what conditions the parties may terminate the lease, and the parties’ respective rights and obligations upon lease termination. Events of default, triggering the rights of a party to terminate the lease, as well as any opportunities to cure defaults, should also be spelled out in the lease.

3. Insurance

To the extent a municipality becomes a landlord, it should ensure, and require documentation in the lease agreement, that its tenant has sufficient insurance for its business. Once a municipality allows another party to operate on its property, it must concern itself with the types of activities that the tenant is engaging in, and whether such activities put the property or people at risk. As discussed below, in a typical lease scenario, risks are divided between landlord and tenant for repairs, maintenance, and damages to the property. If a municipal landlord doesn’t require coverage, it may have to bear the full cost of repairs. Further, requiring insurance is simply good business. If a tenant doesn’t have sufficient insurance for its business, it may choose to use its next rent payment for an expense, such as damage or an accident that would otherwise have been covered by insurance.

4. Use Clause

To the extent that a municipality is concerned about how a tenant may use its leased property, it should include a “use clause” that limits and defines permitted activities in the space. The limitations can be broad or narrow, and should be tailored based on concerns related to risks of liability related to certain kinds of businesses, and/or if the municipality has an aversion to certain kinds of business activities.

5. Taxes

While property owned by a municipality for a “public purpose” may be exempt from taxes, if such property is leased to a for-profit business for a non-public purpose, such exemption does not apply.

Specifically, MCL 211.181(1) provides:

Except as provided in this section, if real property exempt for any reason from ad valorem property taxation is leased, loaned, or otherwise made available to and used by a private individual, association, or corporation in connection with a business conducted for profit, the lessee or user of the real property is subject to taxation in the same amount and to the same extent as though the lessee or user owned the real property.

Accordingly, a lease agreement should make clear that a tenant is responsible for all taxes and should be listed on the tax rolls as the taxpayer.

6. Repairs, Maintenance, and Improvements

A lease agreement should identify whether the municipal landlord or tenant is responsible for major and minor repairs and maintenance for the leased building or space within a building. Typically, tenants are also responsible for paying a proportionate share of common area maintenance within a building. In addition, a lease should address the parties' agreement about any improvements that the tenant intends to make to the space, including who is responsible for the work, when it must get done, and who must pay for it.

7. Miscellaneous Expenses and Obligations

Many other issues can and should be addressed in a lease agreement between a municipality and a tenant. For example, the agreement should document who is responsible for procuring and paying for janitorial services, how utilities should be apportioned in a multi-tenant building, who is responsible for exterior maintenance such as landscaping and snow plowing, and what dedicated parking, if any, is available to the tenant.

These issues must also be considered when a municipality leases space from a private landlord or a municipal landlord.

In sum, municipalities that intend to lease space to tenants should not simply rely on a "boilerplate" lease agreement when negotiating and memorializing terms with a tenant. Each term of the lease must be carefully considered and reduced to a written agreement. By working with experienced legal counsel to craft an agreement, municipalities can avoid hidden, onerous traps that can result in expensive and time-consuming litigation.

Foster Swift Collins & Smith PC

by Scott H. Hogan

August 15, 2018

Climate Change AG Investigations and Municipal Litigation.

Increasing Challenges for Energy Producers

Several state attorneys general ("state AGs") recently have undertaken high-profile investigations into energy producers' research and public statements about the potential effects of climate change. Thus far, energy companies like ExxonMobil ("Exxon") have encountered limited success challenging these investigations. In addition, a number of cities and municipalities have filed lawsuits against major energy producers, alleging that these companies knowingly contributed to the harmful effects of climate change.

This article surveys recent developments in these state AG investigations and municipal lawsuits against energy companies. Although these investigative and litigation trends remain in their early stages, it appears that energy producers may continue to face increasing climate-change government investigations and related litigation.

Continue reading.

King & Spalding

by John C. Richter, Brandt Leibe, William S. McClintock

August 15, 2018

The Public Finance Opportunity.

If you're a certain age, it's likely that you've never given a second thought to buying a municipal bond or the process of bond buying, even if you've intuited, rightly, that's it's an intentionally opaque business.

Yet there could be a big opportunity for startups, and for people looking for places to invest, and for cities with crumbling infrastructures, in disrupting the status quo.

First, there's a strong case for buying bonds. Late last year, the Trump administration capped at $10,000 the amount that taxpayers can deduct in property tax and local and state income tax. Most people with hefty tax bills are benefiting in other ways from that same new tax bill, but this aspect of it isn't so great for them, and municipal bonds can help. The reason: interest income paid on muni bonds is exempt from federal tax. (Bonds issued within one's state can also be free of state tax.)

Continue reading.

Tech Crunch

by Connie Loizo

A Huge Win for Keeping Water Systems under Public Control.

Baltimore is poised to become the first major U.S. city to prohibit privatization of its water system and the first to do so by amending its city charter.

"Water privatization is simply unethical, immoral, and dangerous," said Rianna Eckel, Maryland organizer with Food and Water Watch and convener of the Right to Water Coalition Eckel, at a press conference at City Hall on August 6, 2018. Behind her stood Baltimore Mayor Catherine Pugh, City Council President Jack Young, and dozens of members of the Right to Water Coalition.

An hour later, Baltimore City Council overwhelmingly voted to approve the measure. Council President Young, who introduced the amendment, fast-tracked the bill through the legislature. Mayor Catherine Pugh signed it earlier this week. It will now go before voters on the November ballot, where it is expected to pass.

Continue reading.

NEXT CITY

BY DHARNA NOOR | AUGUST 17, 2018

Proposed Infrastructure Plan Would Increase WIFIA Appropriations.

As part of a draft infrastructure bill released last week by House Transportation and Infrastructure Committee Chairman Bill Shuster (R-Pa.), the U.S. Environmental Protection Agency's (EPA) Water Infrastructure Finance and Innovation Act (WIFIA) program would be reauthorized at $250 million over five years.

According to the Association of Metropolitan Water Agencies (AMWA), Shuster's bill is not expected to advance through Congress in its entirety this year. However, the WIFIA component and other water-related provisions could lay a marker ahead of the House's anticipated negotiations with the Senate later this year over another water resources bill that includes a controversial SRF WIN provision that proposes to create a new version of WIFIA exclusively for state infrastructure finance agencies.

According to AMWA, Shuster's draft legislation features a number of water, transportation and infrastructure policies "intended to further the national conversation about the current state of America's infrastructure" and set a course for effective reforms.

In addition to authorizing Congress to appropriate up to $50 million for WIFIA in each of the next five years, the bill would make a number of relatively modest changes to improve operation of the program. These include allowing EPA to aid the U.S. Army Corps of Engineers in standing up its own version of WIFIA (a concept featured in legislation earlier endorsed by AMWA); increasing from 49 percent to 80 percent the maximum amount of a project's cost that may be financed through a WIFIA loan; and requiring applicants to produce a final credit rating opinion letter from only one rating agency, rather than two.

According to AMWA, absent from Shuster's bill are major provisions that resemble components of the controversial SRF WIN Act, legislation incorporated into a Senate water resource bill that would establish a separate version of WIFIA – with preferred loan terms – exclusively for state infrastructure financing authorities.

AMWA has strongly opposed the SRF WIN Act due to its potential to undercut the leveraging ability of the current WIFIA program and its unequal interest rate treatment of different states. The lack of SRF WIN language in Shuster's proposal indicates that House Republican leaders share these concerns. Shuster's draft bill does include some streamlining for WIFIA applications compiled by states – such as helping them avoid duplicative environmental reviews, allowing EPA to offset some processing fees and establishing an expedited application review timeline – but these fall well short of the numerous preferences given to state-compiled projects under the SRF WIN proposal.

RELATED: Senate hearing avoids SRF WIN details, AMWA says

Other parts of Shuster's bill would reauthorize the Clean Water State Revolving Fund (SRF) at $15 billion over five years and create a new EPA technical assistance program for small and rural treatment works. The bill does not contain any policy reforms or reauthorizations related to the Drinking Water SRF, as that program falls outside the authority of Shuster's committee.

Although Shuster's bill is not expected to receive a vote in the House before the end of the year, Congressional staff have indicated that its water infrastructure provisions may serve as the House's starting point when the time comes for the House and Senate to negotiate SRF WIN and a number of other changes to EPA programs proposed by a Water Resources Development Act (WRDA) reauthorization bill pending in the Senate.

Separate WRDA legislation approved by the House in May left EPA programs untouched, so Shuster's draft bill may be viewed as his initial counteroffer to changes proposed in the Senate's WRDA bill.

JULY 30, 2018

BY WFM STAFF

Department of Agriculture Funds Wastewater Infrastructure For Rural Communities.

Federal funding of rural wastewater infrastructure projects is often assumed to predominantly flow through the Environmental Protection Agency (U. S. EPA)'s Clean Water State Revolving Fund created in 1987 under the Clean Water Act. However, in an interesting development, Anne Hazlett, Assistant to the Secretary for Rural Development at the U.S. Department of Agriculture (USDA), recently announced that the USDA would make a historic commitment to upgrade and rebuild rural wastewater infrastructure.

USDA is providing the funding through its Water and Waste Disposal Loan and Grant Program. It can be used to finance drinking water, stormwater, and wastewater systems for rural communities with 10,000 or fewer residents. The commitment follows the findings of President Trump's Interagency Task Force on Agriculture and Rural Prosperity which recommended investing in rural infrastructure as a means to support and sustain rural communities.

"USDA is committed to being a strong partner to rural communities in building their futures," Hazlett said. "All people — regardless of their zip code — need modern, reliable infrastructure to thrive, and we have found that when we address this need, many other challenges in rural places become much more manageable."

According to the Rural Community Assistance Program (RCAP), 51,356 water systems in the U.S. serve less than 3,500 customers (83 percent of all systems) and of that number, 65 percent serve less than 500. In FY 2018, Congress provided a historic level of funding for water and wastewater infrastructure through the USDA with the 2018 Omnibus spending bill including $5.2 billion for USDA loans and grants, up from $1.2 billion in FY 2017. The bill directs Agriculture Secretary Sonny Perdue to make investments in rural communities with the greatest infrastructure needs.

As many of the water and wastewater treatment industry are aware, EPA officials have been working with the States to shed or share responsibilities, under the pressure of proposed cuts to its budget. However, this move suggests that offsetting funding for wastewater infrastructure may flow through the USDA. Ironically, it's the non-point source runoff from agriculture that wastewater industry professionals often point to as the main source of nutrients causing harmful algal blooms (HABs) in the Country's lakes, oceans and gulfs. The investment in wastewater infrastructure for rural communities can only help the agricultural community to focus in on efforts to reduce non-point source nutrient pollution.

wateronline.com

The $1.4 Billion Transit Fund the U.S. Government Won't Release.

From El Paso to Minneapolis, local rail and bus projects are waiting on federal money that should have arrived by now.

Remember the $1 trillion federal infrastructure bill? Heavily touted by President Donald Trump on the campaign trail and in his first year of office as a plan to "build gleaming new roads, bridges, highways, railways, and waterways all across our land," the idea is all but dead in Congress 18 months into his administration.

Like a nasty pothole, Trump's unkept promises on road-and-rail dollars have given transportation fans a mild case of whiplash. But there may be worse harm in another infrastructure lapse on the part of this administration, this one more basic: $1.4 billion promised to transit projects across the U.S., still unallocated by the Federal Transit Administration for no clear reason.

From New York to Los Angeles, El Paso to Minneapolis, 17 rail and rapid bus projects are awaiting grants promised by the federal appropriations bill signed into law by Trump in March 2018. But the funds have still not been delivered nearly five months later. Make that 144 days, 20 hours, and 15 minutes later, as of this writing, according to a splashy countdown clock built by Transportation For America, a progressive transportation policy organization.

Here's the full list of projects counting down the minutes, from TFA:

- Albuquerque, NM Central Avenue BRT
- Dallas, TX DART Red & Blue Line Platform Extensions
- El Paso, TX BRT Extension
- Jacksonville, FL Southwest BRT
- Los Angeles, CA Purple Line Extension (LRT), Section 3
- Minneapolis, MN Blue Line (LRT) Extension
- Minneapolis, MN Green Line (LRT) Extension
- Minneapolis, MN Orange Line BRT
- New York City, NY Canarsie (L) Line Improvements
- Orange County, CA Streetcar
- Reno, NV Virginia Street BRT
- Sacramento, CA Riverfront Streetcar
- Seattle, WA Lynnwood LRT extension
- Seattle, WA Madison Street BRT
- South Shore (IN/IL) Commuter Rail Double Tracking
- St. Petersburg, FL Central Avenue BRT

- Tempe, AZ StreetcarContinue reading.

NEXT CITY

LAURA BLISS AUG 15, 2018

The Rust Belt Needs Capital to Turn Talent and Innovation Into Jobs.

Since Rust Belt voters tipped the results of the 2016 election, interest in effective strategies for supporting new business and job growth in this important region has intensified.

Such interest recognizes that the states of the upper Midwest share more than their swing state status. A unique economic and social development storyline unites the industrial heartland, extending across all or part of 12 states from Minnesota and Missouri in the West, through the Great Lakes and up the Ohio River Valley to Western New York, and to Pennsylvania and West Virginia in the East. The region has many economic challenges, but also boasts important economic strengths, perhaps none as important as the tremendous innovation and talent emerging from its companies and universities.

Yet a lack of risk capital in the Rust Belt has held back the region's capacity to translate its formidable innovation and talent assets into new businesses and jobs. That's beginning to change, but public policies could do much more to accelerate the development of a robust innovation infrastructure equal to the Midwest's potential.

Continue reading.

The Brookings Institute

by John C. Austin

August 14, 2018

Digital Innovation in Public Finance.

By Mark Howard, Global Administration Segment Lead, Public Service, Accenture

If you attended recent NASACT or NASC events, you may have heard my colleague, Bill Kilmartin, or me discussing digital innovation in finance. We highlighted the potential of digital technologies and shared insights gained through Accenture's experience with commercial organizations. I've also written extensively about the opportunity to use digital technologies to transform the government back office into a Center of Innovation. That includes realigning the finance function around its true mission: creating a performance-focused organization that is financially sustainable.

We're eager to continue the conversation at next month's NASACT Annual Conference, where instead of *telling* you about digital innovation—we'll be ***showing*** how it's already underway within state governments. One state is testing a chatbot to guide users through its procurement process. Another is applying automation tools to perform massive reconciliation on 100% of records rather than sampling at a fraction of the time previously required, freeing substantial 'human' time to focus on resolving issues rather than compiling data.

These are no longer futuristic concepts. Today digital innovations are within reach for state agencies—and these examples are only the beginning of what's possible.

How can your agency tap into here-and-now digital innovation? Consider a recent Accenture study of government innovation. Spanning nearly 600 government executives in 10 countries, the survey set out to understand what it takes to be innovative—in other words, what an agency must do culturally and operationally to transform itself into a Center of Innovation.

Using the five pillars of the Accenture Innovation Framework—Strategy, Ideation, Execution, Impact & Benefits, and Absorption—we asked about the "what" and "how" of innovation within respondents' government agencies. While our analysis revealed that just 8 percent of agencies can be considered government innovation leaders, it also pointed to some practices and habits that set these leaders apart from the crowd. That includes insights about execution—the important work of turning creative ideas into real-world results.

At the core, executing government innovation requires a sound process and the right skills for evaluating ideas, using a Proof of Concept (POC) to test the highest-potential ideas, rigorously assessing the results of the POC, and, finally, scaling the innovation and continually evaluating performance.

Our study found that for about three-quarters (77 percent) of agencies, moving from pilot to broad implementation at scale remains a significant challenge. Why? The most-cited barriers were budgetary constraints and lack of technological capabilities (cited by 82 percent and 83 percent, respectively). About three-quarters of respondents also pointed to a risk-averse culture (77 percent) and a lack of support from leadership and key decision-makers (73 percent) as barriers to executing innovation at scale. In addition, respondents identified lack of skills as a key obstacle. Sixty-two percent reported that they need more access to user experience (UX) design skills, design thinking skills and research skills—competencies that have become essential to serving digital citizens.

The good news: These obstacles can be overcome. Based on our findings about government innovation leaders and what we've seen in the real world—including the innovative work we'll be highlighting at the NASACT Annual Conference—Accenture has identified four steps to better execution:

- **Go talk with citizens (your "customers").** Set up a structured mechanism for uncovering customers' needs. Be disciplined and consistent in asking customers what's working—and what's not—with your existing services.
- **Put a process in place.** Be rigorous in managing execution, with a strong tie to the impact and benefits of government innovation. Establish a strong practice for each step of execution—evaluating ideas, executing POCs, assessing POC results, scaling quickly to production and evaluating results once in production.
- **Think like entrepreneurs.** Embrace iterative, agile methods, including willingness to rapidly change course. Build the discipline to end at any point in the cycle based on how well or poorly benefits are realized.
- **Assess skills (technical and "soft").** Perform an objective evaluation of your skills gap. Where gaps exist, determine if you truly need those skills. Where you need skills but have gaps, fill them through partners.

We look forward to expanding on our frontline experience and research findings next month at the NASACT Annual Conference. We hope to inform, inspire and learn from you as we all work to turn digital innovation ideas into actions that make a real impact for agencies and the people they serve.

To learn more about how to bring the back office to the forefront of government innovation visit us here.

MARK HOWARD is the global lead for Accenture's public administration/regulatory industry group. His team focuses on helping clients implement leading practices, systems and organizational designs in government administrative and regulatory agencies. He spent four years as Accenture's global program director for government finance and performance management. His clients in the U.S. include cities, counties, states, special districts, universities and federal agencies. Overseas, he has worked with the French Ministry of Finance and several United Nations agencies. He helped develop and lead with Bill Kilmartin Accenture's participation in the performance benchmarking program of NASACT. Prior to joining Accenture, Mark spent 10 years in city management in various roles with cities in Texas, Colorado and Wisconsin. He has a master's in public affairs from the LBJ School of Public Affairs at the University of Texas-Austin and a bachelor of arts in history from Northwestern University.

Airports Find a New Source of Revenue: Attaching Hotels to Terminals.

- Recently, Twin Cities officially cut the ribbon on a new four-star hotel at the Minneapolis-St. Paul International Airport (MSP).
- A growing number of travel hubs gives flyers new accommodations that let them skip a hectic commute to a hotel, and go straight to a comfortable room with all the perks.

Recently, Twin Cities officially cut the ribbon on a new four-star hotel at the Minneapolis-St. Paul International Airport (MSP). It gives travelers new accommodations that let them skip a hectic commute to a hotel, and go straight to a comfortable bed with all the perks.

Designed with the corporate traveler in mind, the 12-story, 300 room InterContinental Minneapolis-St. Paul Airport Hotel is connected to Terminal 1 via a sky bridge and has a spa, conference center and its own security checkpoint, offering quick access to the gates for those flying with just hand baggage.

"At-the-airport hotels are particularly convenient to the business traveler who stays only a few days – a demographic in abundance at MSP," said airport spokeswoman Melissa Scovronski.

Continue reading.

CNBC

Harriet Baskas | @hbaskas

Published 9:01 AM ET Sun, 5 Aug 2018

Evaluating Municipal Debt Instruments Using Muni Bond Indices.

Like other capital markets, municipal debt markets are made up of a wide array of debt instruments and serve investors from all walks of life. Whether you are a conservative investor looking for principal protection while earning enough to keep up with inflation or a moderate risk taker who might be looking for high returns on your municipal debt portfolio, you'll find many debt instruments to fit your profile.

Similarly, these various debt issues are unique in their own way with differing characteristics like the risk profiles associated with their credit quality and the duration of their potential returns. To help investors compare and evaluate their potential investments, these characteristics are summed up into benchmarks and market indices.

These benchmarks are quite helpful for issuers and investors in evaluating a debt instrument's yield and comparing that to a particular sector or the municipal debt markets as a whole.

In this article, we will take a closer look at a bond index, its composition, its uses and how it can provide a competitive edge to an informed investor.

Continue reading.

municipalbonds.com

by Jayden Sangha

Aug 08, 2018

Fitch: Rating Normalcy Awaits U.S. NFP Hospitals After Rating Criteria Rollout.

Link to Fitch Ratings' Report(s): U.S. Not-for-Profit Hospitals and Health Systems Rating Criteria Update: Implementation Complete

Fitch Ratings-Austin-07 August 2018: The 'Rating Watch' is officially over for Fitch-rated U.S. not-for-hospitals and health systems with most systems performing as expected and upgrades outpacing downgrades, as detailed by Fitch Ratings in a new report.

Fitch completed its hospitals and health systems criteria rollout mid-July. Of the 16 issuers placed on Rating Watch Negative at the start of its rating review, Fitch affirmed six and downgraded 10. Conversely, Fitch affirmed five and upgraded nine issuers of the 14 it placed on Rating Watch Positive. That said, the overarching theme of the rating review is the majority of hospitals are performing up to par as Fitch had initially projected (52% ratings affirmed, another 28% upgraded). Still, that upgrades occurred more frequently than downgrades was somewhat of a surprise according to Senior Director Kevin Holloran.

"Upgrades generally came from long-time consistent performers that benefited from a 'new look' through the lens of our updated criteria,' said Holloran. 'Conversely, downgrades were more varied with balance sheet strength an overarching need over size or market share, asserting our view that balance sheet strength translates into more predictable credit stability."

While more than 93% of Fitch's rating changes were subtle in scope (one to two notches), there were two extreme outliers. The first was a provider, Lexington Medical Center, which Fitch downgraded six notches due to a GASB 68 pension liability factored into its analysis. On the opposite end of the rating spectrum was a seven-notch upgrade Fitch took on Presence Health Network, due to an MTI substitution.

So the logical question now is 'What does the future rating trajectory look like for NFP hospitals going forward?' With Fitch's criteria implementation resulting in what it called a 'normalized distribution curve', the short answer appears to be 'normalcy'. 'The short term volatility that criteria change often brings, will result in longer term rating stability,' said Holloran. The sector, however, is dealing with various operational challenges so far this year, some of which could persist into 2019. As a result, Holloran concluded that 'numerous external factors could dictate how frequently Fitch takes future rating actions on select hospitals and health systems.'

Fitch's 'U.S. Not-for-Profit Hospitals and Health Systems Rating Criteria Update' is available at 'www.fitchratings.com' or by clicking on the above link.

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Fitch Ratings: Demographic Volatility A Risk for Some States in Downturn

Fitch Ratings-New York-06 August 2018: US states with the strongest and most stable demographic and economic factors are generally expected to be less impacted by a cyclical downturn than those with strong but more volatile underlying trends, Fitch Ratings says.

We recently reviewed eight factors to assess demographic and economic trends at the US state level. The trends and absolute levels for these factors, and others, can provide insight into states' resilience against cyclical stresses to general economic forces, or more narrow secular trends in some cases. Demographic growth has been strong for many states in the West Coast, Plains and Rocky Mountain regions whereas weakness has been evident in the Great Lakes, New England and Middle-Atlantic regions. Some states that have exhibited relative strength over the intermediate to longer-term, with regard to population trends and various economic and wealth measurements, include Texas, the State of Washington, North Dakota and Wyoming.

Continue reading.

Muni-Bond Manager Buys Treasuries as Rally Erodes the Tax Breaks.

- **AllianceBernstein sees value in Treasuries in lieu of munis**
- **“Very happy” their strategies allow this type of flexibility**

Terrance Hults, a portfolio manager at AllianceBernstein Holding LP, is paid to invest money in state and local government bonds. But lately, he’s been moving into Treasuries instead.

That’s because the clamor for munis that mature in two years or less — driven by rising interest rates — has pushed the securities to their most expensive level relative to Treasuries in nearly four years. The dwindling yield has wiped away much of the tax benefit that investors get by buying state and local debt instead of other securities.

As a result, AllianceBernstein., with $40 billion in municipal bonds under management, has shifted some of cash in mutual funds and privately run accounts into short-dated Treasuries instead of municipals.

“We’re very happy that most of our strategies tend to have flexibility to not only invest across different areas of the muni market but also, when it makes sense on an after-tax basis, to own a modest amount of taxable securities,” Hults said. “In certain short maturities, municipals in general are expensive, so we think it makes sense to take advantage of that flexibility to have a small position in Treasures in the very short end.”

Yields on two-year tax-exempt bonds have declined to about 1.6 percent, some 62 percent of what investors receive on similarly dated Treasuries. That ratio, a key measure of relative value, has dropped 15 percent since May 31 and is only up slightly from the 60 percent hit late last month — the lowest since Sept. 2014.

The difference between after-tax yields on short-term Treasuries and tax-exempt municipals is “only a couple of basis points,” Hults said. Historically, that figure has been about 30-40 basis points, he said.

“You pick up liquidity to go into a small weight — for context, about a 5% weight in a top tax-bracket account — to go into Treasuries.”

Bloomberg Business

By Danielle Moran and Amanda Albright

August 7, 2018, 10:30 AM PDT

The Week in Public Finance: Is Your City Positioned to Weather the Next Recession?

A new report identifies the different factors affecting a city’s ability to respond to a fiscal crisis — and what policymakers can do about it.

What’s true for one city isn’t always true for another. Demographics and state policies say a lot about a city’s ability to respond to a fiscal crisis.

A new report, published by the Brookings Institution's Metropolitan Policy Program, looks at these factors, as well as how state and federal policies may influence how a city weathers a recession or other major disruption in revenue. "Part of what we're trying to understand here," says Michael Pagano, dean of the College of Urban Planning and Public Affairs at the University of Illinois at Chicago and a coauthor of the report, "is if there's a shock to the system, [how will] cities respond to those changes."

The report focuses specifically on the different limits cities have on their taxing power, such as the kinds of taxes a city is authorized by the state to levy, limits on raising the rates of those taxes and how a city's taxing structure aligns with its overall economy.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | AUGUST 10, 2018

World Bank Taps Australia's CBA for Blockchain Bond.

MELBOURNE (Reuters) – Commonwealth Bank of Australia (CBA.AX) has won a mandate from the World Bank to arrange a pioneering bond issue to be created and run using only blockchain, aiming to simplify capital raising and trading.

The World Bank and CBA said on Friday indicative interest in the blockchain operated new debt instrument, nicknamed "bond-i" after Australia's iconic beach, had been strong.

No size or date was given for the issue, a first for the World Bank using blockchain technology, but the two said it would be launched after a period of consultation with more investors.

Using distributed ledger technology, best known as the technology underpinning the bitcoin crypto-currency, would help simplify capital raising and trading and improve regulatory oversight, the World Bank and CBA, Australia's biggest bank, said.

The World Bank issues between $50 billion and $60 billion a year in bonds to back development in emerging economies.

"This pioneering bond is a milestone in our efforts to learn how we can advise our client countries on the opportunities and risk that disruptive technologies offer," World Bank chief information officer Denis Robitaille said in a statement.

CBA said it had found solutions to technical and legal issues to make the transaction work.

CBA's blockchain push come as the Australian Securities Exchange plans to switch to using the distributed ledger technology to clear and settle equities trades from 2020 to help cut costs.

Reporting by Sonali Paul; Editing by Shri Navaratnam

AUGUST 9, 2018

The World Bank is Betting Big on Blockchain-Based Bonds.

The World Bank has announced that it has hired one of Australia's biggest banks to manage what it calls the "first bond globally to be created, allocated, transferred and managed" using a blockchain—one of the clearest signs yet that the technology is going mainstream.

The "bond-i": The World Bank, which issues between $50 billion and $60 billion annually in bonds to fund sustainable development in emerging economies, believes that blockchain technology can make the process more efficient by reducing the number of necessary intermediaries. The bank did not say when the new "blockchain operated new debt instrument" (apparently named after a famous Australian beach) will launch, but investor interest "has been strong," according to a press release.

Not like Bitcoin: There aren't many details available yet on how this will actually work from a technical or logistical standpoint. But unlike Bitcoin, where anyone can engage in mining, the process of verifying new transactions, the World Bank will use a private version of Ethereum in which validators must have permission. The computing infrastructure will run on Microsoft's Azure cloud platform.

An emerging trend: The idea of using blockchains to manage bonds is gaining traction. Last year, a company in the UK issued a bond using Ethereum's public blockchain. The city government of Berkeley, California, is exploring the use of blockchain technology to issue municipal bonds. The World Bank's endorsement of the idea is the highest-profile one to date.

MIT Technology Review

August 10, 2018

World Bank Mandates Commonwealth Bank of Australia for World's First Blockchain Bond.

WASHINGTON/SYDNEY, August 9/10, 2018—The World Bank (International Bank for Reconstruction and Development, IBRD rated Aaa/AAA) has mandated the Commonwealth Bank of Australia (CBA) as the sole arranger of the first bond globally to be created, allocated, transferred and managed through its life cycle using distributed ledger technology.

Indicative investor interest in bond-i (blockchain operated new debt instrument) has been strong. The World Bank and CBA expect to launch the transaction following a period of consultation with a broader set of investors.

Blockchain has the potential to streamline processes among numerous debt capital market intermediaries and agents. This can help simplify raising capital and trading securities; improve operational efficiencies; and enhance regulatory oversight.

The World Bank issues between US$50-US$60 billion annually in bonds for sustainable development. It has a 70-year track record of innovation in the capital markets. Among its pioneering issuances are the first bond in global format—a globally traded and settled bond issued in September 1989; and the first e-bond, a fully integrated electronic bond issued in January 2000. As a frequent issuer in the Australian dollar market, it has since 1986 raised nearly A$60 billion from investors globally.

Arunma Oteh, World Bank Treasurer, said: "Since our first bond transaction in 1947, innovation and investor satisfaction have been important hallmarks of our success with leveraging capital markets for development. Today, we believe that emerging technologies, equally offer transformative, yet prudent possibilities for us to continue to innovate, respond to investor needs and strengthen markets. We are therefore delighted that after working with our information technology colleagues and the Commonwealth Bank of Australia over several months, that we are now in a position to launch our first blockchain bond transaction. CBA's commitment and Microsoft's wealth of experience have been instrumental to achieving this historic milestone.

Our sincere appreciation to our pioneer blockchain bond investors, who are partnering with us on this transaction because of our common desire to champion greater efficiency, and transparency as well as more robust issuance processes.

Our goal is to continue to harness innovation for the benefit of markets and our mission of ending poverty and boosting shared prosperity."

Denis Robitaille, World Bank Group Chief Information Officer, said: "Helping countries transition to technology-led development is key to our goals of reducing poverty and promoting lasting development. This is at the heart of the World Bank's Innovation Lab—and this pioneering bond is a milestone in our efforts to learn how we can advise our client countries on the opportunities and risk that disruptive technologies offer as we strive to achieve the Sustainable Development Goals."

James Wall, Executive General Manager of International, CBA said: "We take a collaborative approach to innovating and have a track record of partnering with other leading financial institutions, government bodies and corporates to innovate through blockchain. We believe that this transaction will be ground breaking as a demonstration of how blockchain technology can act as a facilitating platform for different participants. We are delighted to have partnered with the World Bank and fully support its vision of making innovative use of technology such as blockchain to increase the efficiency of financing solutions to better achieve their goal to end extreme poverty."

The bond-i blockchain platform was built and developed by the CBA Blockchain Centre of Excellence. Since 2009, CBA has acted as lead manager for a number of IBRD bond issuances in the Australian and New Zealand capital markets. CBA's dedicated blockchain team has taken a lead role in applying blockchain technology to capital markets.

Sophie Gilder, Head of Blockchain, Innovation Labs, CBA said: "We know blockchain has the potential to revolutionize financial services and markets, and this transaction is a significant step towards that future state. By working collaboratively with the World Bank, we were able to find solutions to technical and legal considerations to make this ground-breaking transaction a reality. This project further solidifies CBA's position at the forefront of blockchain technology and we are excited to build on this, in partnership with our clients."

The development of this offering has been conducted with the support and input of the investor community including Northern Trust, QBE and Treasury Corporation of Victoria.

World Bank infrastructure for the bond will run in Washington, D.C. on the Microsoft Azure cloud computing platform. Microsoft validated the system's operational capabilities, security and scale.

Matt Kerner, general manager, Azure Blockchain Engineering at Microsoft, said:

"Microsoft's mission to empower every person and organization on the planet aligns well with the noble work of World Bank."

The law firm of King & Wood Mallesons acted as deal counsel on the bond issue and advised on the legal architecture for its implementation.

Reactivating Abandoned Buildings through Local Ownership in Smaller Cities.

The funeral home at 13-15 Chambers Street in Newburgh, N.Y., had already died by the time the Newburgh Community Land Bank formed in 2012.

Two commercial spaces on the ground floor and three apartments on the upper levels had been abandoned for long enough that the city had managed to acquire the property through tax foreclosure. Newburgh is a small city of 30,000 people, about 60 miles north of New York City on the western bank of the Hudson River. When the land bank formed, it decided to focus its energy on a portion of the downtown area — a historic district close to the hospital and the community college, walkable to transit, and packed with vacant properties that the city already owned.

"There hadn't been much development in the neighborhood we were targeting in many, many years," says Madeline Fletcher, executive director of the Newburgh Community Land Bank. "So we wanted to do a project that showed how these things could really get done."

Continue reading.

NEXT CITY

BY JARED BREY | AUGUST 9, 2018

Principles for Open Access Community Broadband Networks.

Secure, stable access to information via the internet — our global brain — is the fresh water equivalent of our time. A reliable, affordable Internet connection has become an essential public good for communities fighting to keep pace with the ever-changing economic, social and environmental landscape.

Broadband networks are the 21st century bridges between our communities and economic opportunity.

Even with significant federal and state subsidy throughout the decades since the birth of the internet, incumbent Internet Service Providers (ISPs) have failed to provide equitable and affordable broadband access.

We believe communities can and should own their own broadband networks by leveraging the hidden economic engine that for centuries has defined our nation as a rich tapestry of self-reliant places: the humble municipal bond.

Where We're At

We the people financed nearly every road in our nation's vast network of federal, state, municipal and neighborhood roadways. Now imagine if Detroit's automakers were heavily subsidized to build and operate the onramps and driveways, for which they bill on a monthly basis and sometimes maintain. That is of course insane, but that's also more or less how most internet access takes place in the United States today.

A New Way
We believe community-owned networks can help boost economic resilience and quality of life. Despite years of fear, uncertainty and doubt cast by incumbents who seek to control access to the infrastructure the public initially financed, a powerful model for building networks is beginning to take root: the Open Access Network.

An Open Access network follows the principle of common carriage: we all benefit from rules that ensure critical infrastructure is available to everyone on the same terms. In other words, it's an essential check against monopoly power.

In this model, revenue can be generated through user subscriptions to the network and "leasing" fees from ISPs who also pay for the right to use the infrastructure. In comparison to public private partnerships, this model keeps all revenue from those cash flows, and from additional investments in the network, inside the community. In addition, public ownership, and the self-determination that comes with it, ensures the best alignment of incentives between communities building networks, ISPs and investors supplying capital.

To ensure ubiquitous broadband access — the same standards we pioneered worldwide for the delivery of water — communities can turn to the same hidden economic engine that built our our waterworks. Communities can harness the power of public finance to build their own networks from the ground up.

At Neighborly, we work to make it easier and less expensive for communities to secure their own access to information by making public finance work harder for the people who need it. We believe communities can make the most of their investment by adhering to the following principles meant to guide the ownership, construction and operation of open access community broadband networks.

I. We own our network.
II. ISPs compete to serve us.
III. We leave no neighbor in the dark: access is universal and affordable
IV. We don't need to raise taxes to build our network.

I. We own our network.
We don't need complicated private ownership arrangements where interests and incentives may not be aligned with those of our community. We can own our infrastructure from day one. Broadband infrastructure, like water pipes, roads and the electricity grid, leans toward natural monopoly. As a result, broadband networks should be organized to ensure universal access and the best interests of our community — along with fair, full returns to our investors — are the only incentives.

II. ISPs compete to serve us.
Infrastructure should be separate from the provision of service so we are no longer tied to a single Internet Service Provider. ISPs will compete for our business, giving us more choice and better service: the very spirit of American-style free market competition. Increased options and better service lead to more resilient and affordable access. With a separate service layer, there is also tremendous potential for a full competitive marketplace to thrive on top of our community-owned infrastructure, generating more revenue for the community. The private sector can openly and easily

deliver services, from Internet to telehealth, with lower barriers to entry and across geographic boundaries.

III. We leave no neighbor in the dark.
Our network serves all of us, and no community-member is left behind. We don't cherry-pick who has access and who doesn't. The Internet delivers unprecedented opportunities for economic development, education, public health and safety, civic engagement and greater social equality. Access is essential, so a community broadband strategy must be bigger and more ambitious than the mere provision of faster Internet. Access should be ensured in all corners of our community, and the network should not dictate or limit services offered to our users — in this case, the members of our community. In addition, with the best alignment of incentives, and the benefits of an open platform for competition, we can ensure that connectivity is affordable for every member of the community.

IV. We don't need to raise taxes to build our network.
While it's an option, we know the utility-grade revenue stream our network supplies means we have choices when it comes to financing. Revenue bonds, unlike general obligation bonds, pledge network revenues to repay debt without necessarily placing additional burden on taxpayers, or relying on elaborate private partnerships to finance and build our network.

Neighborly Issuer Brief

Posted 08/09/2018 by Jase Wilson

Learn more about building your own broadband network at neighborly.com/broadband

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Let's Restart the Hidden Economic Engine.

Why we must rewire, recast and reclaim the multi-trillion dollar market that funds bold public works.

Public finance was designed to serve community visionaries — the builders who sought better lives for themselves, their communities and future generations. Financing more than two centuries of impactful public projects — schools, parks, libraries and the roads connecting them — the humble municipal bond is the original impact investment, and it helped build our nation.

The multi-trillion dollar market touches our lives in countless ways every day: directly via the roads and bridges we use; the sewers and water pipes upon which we build our cities; the connections within and between our communities and the global economy. And in subtle, though no less direct, ways through the fabric and strength of our public institutions: the quality and quantity of public school education; the ways we generate and consume energy; the ways we create and capture value from the resources of the Commons.

Continue reading.

Neighborly

Posted 08/07/2018 by Jase Wilson

Recognizing Infrastructure’s Role As a Local Economic Anchor.

In the race to grow their economies and create new jobs, localities frequently look far beyond their borders. Too often, they try to lure new firms through costly incentives and subsidies with questionable economic returns, a trend that is only gaining more national spotlight during the search for Amazon’s second headquarters. But looking closer to home in support of their core industries and employment opportunities could more directly build off localities’ existing economic strengths.

Investing in infrastructure is foundational to these efforts. Not only does infrastructure serve as a platform to support industries and broader regional growth, but it can also be a driver of more equitable and enduring growth for individuals.

After all, constructing and maintaining reliable roads, ports, pipes, and other systems is essential to all types of businesses and households. Whether moving passengers and goods or ensuring that water, electricity, and broadband is available to everyone, both the public and private sector have a shared responsibility to oversee these various systems. Yet even beyond this supportive role, many local leaders overlook another significant opportunity: Infrastructure can also represent a key economic anchor.

The Brookings Institute

by Joseph Kane

Friday, August 10, 2018

What Can the Local Government Do About This Land Use Ordinance Violation?

We spend a lot of time in this space talking about land use ordinances. But what about the tools deployed in the event of a violation of those ordinances? State law provides that municipal and county governments may avail of different remedies in the enforcement of local ordinances, including (and our focus) land use ordinances. NCGS 160A-365, 160A-175 (as to municipalities), NCGS 153A-123, 153A-324 (as to counties). The three main remedies we often see employed, sometimes in conjunction with each other, are injunctive relief, civil fines, and criminal proceedings. In this post, we’ll discuss each in turn.

First, injunctive relief is always available to the local government for a violation of a land use ordinance, even if not expressly provided for in the local ordinance. See New Hanover County v. Pleasant, 59 N.C. App. 644 (1982). Most commonly, injunctive relief is used to prohibit the completion of work that violates an ordinance or to cease a use that violates an ordinance. It is also possible for a court order to compel an act in order to comply with a land use ordinance, the so-called affirmative injunction. Violation of an injunctive order carries contempt possibilities, whether civil or criminal. Unlike civil fines and criminal proceedings, the very nature of injunctive relief limits the local appeal remedies available to the alleged violator; accordingly, ordinance interpretation and enforcement issues are almost certain to be fought in State court.

Second, civil fines are available where the local ordinance enables the fine or penalty and only in the amounts specified within the local ordinance; there is not a State-wide standard. The fine amount cannot exceed an amount reasonably related to the amount of harm caused by the violation and the local government's cost of remediation. Moreover, if the ordinance provides for a process before the assessment of civil fines and penalties can be assessed, then that process must be followed; an evidentiary hearing is not required unless provided for in the local ordinances. However, a civil penalty is appealable to the local board of adjustment, just as any adverse land use ordinance interpretation, which is an evidentiary proceeding. Also, an appeal will automatically stay the ordinance enforcement as a matter of State law. In the event a fine is assessed but not paid – and an appeal is not timely made or is otherwise lost – the local government may pursue civil action to collect the debt; in such a lawsuit because the board of adjustment appeal avenue has closed, there are no defenses to the fine.

Third, any "violation of a city [or county] ordinance is a misdemeanor or infraction as provided by G.S. 14-4", unless the board of county commissioners or municipal council shall otherwise provide. NCGS 153A-123 (as to counties), 160A-175 (as to municipalities). NCGS 14-4 sets the penalty for violation of a local ordinance as a Class 3 misdemeanor. Practically, local prosecutors are oftentimes too (and understandably) busy with violent offenses to press the pursuit of land use violations; this gives the alleged violator the opportunity to pursue appeals or favorable ordinance interpretations as defenses, if available.

Finally, attorney fees are generally not recoverable by a municipality or county in the enforcement of a land use ordinance. However, that is not a two-way street. If a local government is determined to have exceeded its powers or abused its discretion, in enforcing the ordinance, attorney fees may be awarded against the local government.

Funny Aside

As noted, by State law, any "violation of a city [or county] ordinance is a misdemeanor or infraction as provided by G.S. 14-4", unless the board of county commissioners or municipal council shall otherwise provide. NCGS 153A-123 (as to counties), 160A-175 (as to municipalities). Well, in June 2018, the North Carolina General Assembly adopted Session Law 2018-69, which is entitled, "An Act to Assist the Criminal Law Recodification Working Group". That law provides, in pertinent part, "Every county, city, town, or metropolitan sewerage district that has enacted an ordinance punishable pursuant to G.S. 14-4(a) shall create a list of applicable ordinances with a description of the conduct subject to criminal punishment in each ordinance … [and submit] no later than December 1, 2018." Of course, as noted in NCGS 160A-175 and NCGS 153A-123, any ordinance violation "is a misdemeanor or infraction as provided by G.S. 14-4" unless the local governing board so provides. So, basically, compliance with Session Law 2018-69 requires local government submission of "a list of" all ordinances, because all local ordinances are punishable "as provided by G.S. 14-4". That's a big paper dump for the State government, I'd think.

Womble Bond Dickinson (US) LLP

by John C. Cooke and Michael C. Thelen

August 3 2018

For Muni Bond Sales, Brand Matters

Marketing is especially important for smaller local governments, and states have a role to

play.

Earlier this year, Georgia sold $1.2 billion in new bonds. No news there. Like most big states, Georgia goes to the bond market at least once a year with a large new offering. And as in most big states, especially those with strong financial and economic fundamentals, investors snapped up those bonds at competitive prices.

But this time, Georgia's debt managers tried something different. Before they went to market, they put on a series of presentations and conference calls designed to convince investors that Georgia bonds are a great deal. In other words, they ran an investor road show. Such events are common in the corporate world, but are mostly new to states and localities.

Georgia has a strong credit rating and a stellar fiscal reputation. So why did it take the extra time and resources to burnish that reputation? There are three main reasons, and they collectively remind us of the policy challenges that surround brand recognition in the municipal bond market.

One big reason is December's federal tax overhaul, which lowered tax rates for corporations and individuals, meaning investors have less to gain from tax-exempt investments such as munis. A strong investor relations program can help governments attract new investors and encourage longtime investors to stay in the game.

Meanwhile, interest rates are normalizing. They've sat at record low levels for almost a decade, and during that run, municipal bonds offered a bit more yield than U.S. treasuries with effectively no additional risk. That stoked record investor demand for munis and gave governments easy access to cheap money. Now with rates back on the rise, muni borrowers need to offer up more yield to draw the same investor interest. Again, strong investor relations can help highlight the bargain that munis offer.

Finally, there is the lingering threat of severe fiscal stress. Detroit, Stockton, Calif., and other fiscally strapped cities have worked out their most pressing issues, but investors remain understandably weary of fiscal problems just beneath the surface. Better investor outreach can help investors draw their own conclusions about an issuer's actual strengths and weaknesses.

For these and other reasons, investor relations programs are becoming part of the government chief financial officer's toolkit. If you have a great brand to sell, and the resources to sell it, then why not sell it?

But what about the tens of thousands of smaller issuers who don't have that same brand recognition? Tax reform, normalizing interest rates and fiscal stress also present them with some unique challenges.

For instance, a recent paper from Kate Yang at George Washington University shows that in Alabama, in the aftermath of the Jefferson County bankruptcy, interest rates on bonds from smaller, lesser-known cities in the state increased. That's consistent with the "contagion" effect we'd expect after a major financial catastrophe. Investors unsure about Alabama governments saw them as a bit riskier. But at the same time, larger Alabama borrowers with better credit ratings actually experienced a "reverse contagion" effect. They saw their interest rates decline.

How could one of the biggest local fiscal catastrophes in history actually benefit nearby governments? To repurpose the old Tip O'Neill saying, "All muni markets are local." Alabama investors enjoy unique tax benefits from investing in Alabama governments. That pool of investor money is more or less locked into the state. So as money flowed away from Jefferson County, the other Alabama bonds it flowed to saw higher prices and lower yields. Tax policy changes and normalizing interest rates can also animate this intrastate zero sum game.

All this suggests that states ought to consider how they can facilitate better muni investor relations for all the governments within their borders. Without strong state policy frameworks, and robust private-sector investor relations solutions, many small governments could be left behind in the rapidly changing municipal bond market.

governing.com

By Justin Marlowe | Columnist
Endowed Professor of Public Finance and Civic Engagement at the Daniel J. Evans School of Public Policy & Governance at the University of Washington

August 2018

S&P: Blockchain is Coming to Muniland, and the Changes Could Be Significant.

Blockchain has become a recurring theme in today's headlines. It could be easy to dismiss it as a passing, overhyped fad. However, upon closer consideration, S&P Global Ratings believes this technology could be a meaningful part of solutions to credit risks…

Continue Reading

Jul. 30, 2018

The Week in Public Finance: Affordable Housing Shortage? Massachusetts Might Tax Airbnb to Pay for It.

The state is considering a policy that goes further than most places that tax short-term rental companies.

As Airbnb and other short-term rental companies have increased their presence in cities, so too has the struggle to provide affordable rental housing.

Massachusetts, however, is on the verge of becoming the first state to dedicate revenue generated from Airbnb and other short-term rental taxes toward affordable housing. The Bay State is considering legislation that would apply its state hotel tax to short-term rentals and require at least 35 percent of separate, local hospitality taxes on those rentals to fund investments in affordable housing or infrastructure.

The new tax was passed by the House and Senate this week. But Republican Gov. Charlie Baker has added amendments that would exclude property owners who casually rent their houses or apartments (for two weeks or less per year) from the law. The bill was sent back to the legislature and a spokeswoman for Baker said he hopes to work with lawmakers to reach an accord soon.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | AUGUST 3, 2018

PG&E Bonds Belie Fear of Imminent Bankruptcy Over Wildfires.

- **Utility could face $17.3 billion in liabilities from fires**
- **State lawmakers considering whether to modify liability rules**

Fears that the company — which provides gas and power to 16 million people — could take that step have reached the highest level of California government, with Governor Jerry Brown saying “there is concern that we could lose our utilities.”

But the bond market shows the talk may be premature.

Even after a report this week that PG&E hired a debt restructuring firm, prices on some of its $17.8 billion of long-term securities don’t reflect a fire sale. In fact, the company sold more corporate securities Thursday. And in the credit default swaps market, where investors bet on the survival of companies, PG&E’s risk has risen, but not to levels seen for those on the brink.

“They’re not priced as though the world is ending,” said Nicholos Venditti, who oversees about $11 billion of local government debt at Thornburg Investment Management in Santa Fe, New Mexico, of the utility’s municipal bonds. “They’re priced as though this thing has some hair on it. Not Cousin Itt levels of hair — but a fair amount.”

PG&E may face as much as $17.3 billion in liabilities from wildfires that swept northern California wine country last fall, JPMorgan Chase & Co. estimated. California investigators have already named PG&E equipment as the ignition source of 16 of the blazes that destroyed thousands of homes and killed 44 people. The uncertainty from the ongoing probes has wiped out more than $13 billion of the company’s market value.

Law Change

Under California law, utilities can be held liable for costs if their equipment is found to have caused a fire — regardless of whether they followed safety rules — based on a legal principle known as “inverse condemnation.” PG&E is pushing for relief under these rules, saying that climate change is among the factors sparking blazes. It has spent $1.7 million in lobbying over just three months ending in June, three times the amount it expended the same period last year, state filings show.

With lawmakers set to adjourn Aug. 31, PG&E may be bluffing to spur action that would saddle customers and taxpayers with higher costs, said state Senator Jerry Hill, a Democrat. “PG&E will use the threat of bankruptcy to extract the best deal they can.”

Rising Risk

Wall Street is closely following the company, which besides its prodigious stock capitalization has borrowed money in the corporate bond market as well as through a state agency in the municipal bond market, typically the avenue for local governments. Fitch Ratings on Thursday said it could cut the debt ratings into junk status if it has to absorb wildfire costs quickly. In a statement, PG&E said “due to uncertainties around policy solutions, we are experiencing higher costs of financing.”

That meant opportunity for fixed-income investors seeking higher yields. Their demand led PG&E to increase its corporate debt offering Thursday to $800 million from $600 million, as 10-year bonds yielded 1.7 percentage points more than Treasuries. That’s still cheaper than the average spread that high-yield issuers pay over Treasuries at 3.33 percentage points, according to data compiled by Bloomberg.

The company said the higher financing costs come at a “critical” time to modernize systems and meet clean energy priorities.

“To be clear, without reform, the current situation is not financially sustainable over the long term and our focus continues to be on communicating the urgent need to find policy solutions that protect victims, protect customers and protect the state’s climate and clean energy goals by keeping the state’s utilities financially viable,” it said.

Governor Brown last week proposed legislation that would require a court to consider whether a utility acted “reasonably” when deciding whether it should end up on the hook for fire damages. Chief Executive Officer Geisha Williams told investors on July 26 that Brown’s proposal was “insufficient” and is “one of many things that need to be considered in a more comprehensive set of reforms.”

Enough Cash

Reuters reported this week that the company hired Weil Gotshal & Manges LLP to explore debt restructuring options, including putting a unit into bankruptcy. The story was met with skepticism by debt research firm CreditSights Inc., which said that even if PG&E had to pay $10 billion in claims immediately, it has enough cash to absorb it. PG&E had suspended its dividend in December to preserve cash.

PG&E has warned lawmakers that a bankruptcy like the one its electric unit filed amid the energy crisis in 2001 is possible without relief from the liability laws, Bloomberg Intelligence said Wednesday.

At the time of that bankruptcy, Moody’s Investors Service ranked the company Caa2, the fourth-lowest rung in junk. That’s much lower than its current A3 investment-grade rating, which reflects that a resolution is probable, said Moody’s analyst Jeffrey Cassella. “We’re expecting some kind of constructive outcome.”

Bloomberg Business

By Romy Varghese, Mark Chediak, and Molly Smith

August 3, 2018

U.S. Bond Funds Attract 23rd Straight Week of Inflows.

NEW YORK, Aug 1 (Reuters) – U.S. fund investors showed continued demand for bond funds in the latest week, extending a streak of inflows that dates back to mid-February, Investment Company Institute data showed on Wednesday.

Investors also increased deposits in domestic equity and commodity funds, but fixed income continued to dominate in an environment of uncertainty over tensions between the U.S. and its trading partners, according to ICI data collected over the seven-day period that ended July 25.

Bond funds attracted $4.4 billion, of which $613 million went to tax-free municipal bonds.

Domestic equity exchange-traded funds attracted $3.5 billion, the third straight week of inflows, during an earnings season in which the majority of U.S. companies have beat expectations. ETF investors deposited $1.3 billion in global equity funds.

Within long-term equity mutual funds, which have seen net withdrawals since early April, investors added $681 million to domestic small-cap equities. The category, which has benefited from tax cuts and is seen as less vulnerable to tariffs, has taken in cash for nine of the past 10 weeks.

(Reporting by James Thorne; Editing by Bernadette Baum)

Leveraging Public Funding for Mass Transit With P3s.

We have previously written about Miami-Dade County's proposed SMART plan, a massive, six-corridor expansion of the existing heavy rail system, and the benefits of delivering all or portions of the project as a public-private partnership (P3). This month, the County Mayor released an updated multiyear transportation pro forma that identifies $8.457 billion in available funding to implement the SMART Plan over the next 40 years. The County has estimated that this income stream could be used to borrow $2.6 billion today, or enough to construct two of the six corridors. Although the County does not have the funding to construct the entire SMART plan using a traditional, publicly financed and operated delivery, the County can utilize a P3 to stretch its financial resources as far as possible.

A key consideration in the funding of mass transit is the cost of ongoing operations and maintenance, which generally exceeds the construction cost. Notably, fares typically do not come close to covering operations and maintenance (O&M) expenses for mass transit. The percentage of O&M expenses covered by fares (what is called the "farebox recovery ratio") is usually between 25 and 50% for U.S. mass transit systems, with Miami typically falling at the lower end of the spectrum.

Because O&M accounts for such a significant portion of the cost of a new transit corridor, total costs can be reduced by keeping O&M costs under control. A P3 utilizing the DBFOM (design-buil--finance-operate-maintain) model requires that the private partner bear the risk of any future increases in O&M costs, and because those costs are included in the bid price, the County can save total costs by selecting the private partner that can construct and operate the system at the lowest total cost to the County. P3s can also be used to encourage private innovation that increases ridership and revenues, as can be most clearly observed in Hong Kong's mass transit system, which utilizes innovations such as first-class cars with higher fares and has a farebox recovery ratio of well over 100%.

A P3 approach cannot alone bridge the gap between two new corridors and six new corridors. The County will also need to find ways to lower costs, including using different, lower-cost technologies such as bus rapid transit (Bogota, Colombia, being the best-known BRT example), and increasing revenues (such as procuring more revenue-generating private developments on County property around transit stations). The right P3 delivery approach, however, can certainly go a long way toward bridging the funding gap and developing a world-class transit system.

By Albert E. Dotson, Jr. & Eric Singer

New Miami Blog

Monday, July 30, 2018

Bilzin Sumberg

LA County Uses P3 Lease Revenue Bonds for 21-Story, $295 million Office Tower.

Los Angeles County is using lease-revenue bonds sold through a public-private partnership to finance a 21-story office building, the first phase of a drive to bring jobs, housing, and public space to a blighted area of the second largest U.S. city.

The $295 million project will begin construction in Los Angeles' Koreatown area later this month as part of a larger development that will create new office space for county workers, additional housing and a community center that area residents say is long needed.

Los Angeles County Facilities, Inc., a private nonprofit created by the county to build the projects, is issuing $297.3 million in Series A tax-exempt lease revenue bonds and $5.1 million in Series B taxable lease revenue bonds.

The bonds priced July 26 with Barclays Capital Inc. selected as the underwriter. Orrick, Herrington and Sutcliffe is the bond counsel and Montague DeRose and Associates is the municipal advisor.

The Public Facilities Group, a Seattle-based nonprofit, is overseeing the county project and will run its facilities agency. The group previously worked with Los Angeles County to build a three-story office building for the county Community Development Commission in the nearby city of Alhambra and has worked on several public-private partnerships in Washington state and in Salinas, California and Riverside, California.

John Finke, president of the Public Facilities Group, said he's seeing more interest in California in the P3 financing model which he refers to as American Approach P3.

"This is one of the bigger ones," he said of Los Angeles County. "It's a fairly significant project."

The financing approach allows the project to be built more efficiently and at a lower cost, he said.

The county's analysis showed that the P3 financing model would save $30 million in project costs, reduce debt service payments by $66.4 million and shave 11 months off of the construction time, Finke said. "The structure is one where the development team provides a guaranteed maximum price insulating the county from cost overruns."

The agreement includes a guaranteed delivery date of October 2021 with the development team sharing in a percentage of the savings if the project comes in under-budget. And if the developers miss the deadline, they earn less in fees.

"It brings a powerful incentive to line everybody up working in the same direction," Finke said.

The bonds were rated AA by S&P Global Ratings and AA-minus by Fitch Ratings – the same rating given to the county for its own lease revenue bonds.

S&P also revised the county's outlook to positive from stable.

"The outlook revision reflects our view of the county's long-term trend of robust local economic performance from an already strong and very diverse base and an associated strengthening in revenue and tax base that have improved its capacity to meet capital and service priorities," the agency's analysts said in a July report.

The county will make lease payments to the nonprofit to pay off the bonds over a 33-year period. Once it is paid off, the county — which already owns the property — will take ownership of the building.

The rent — about $18 million a year — will cover debt service, operations and maintenance costs including taxes, utilities and capital expenditures.

County officials say the Vermont Corridor Administrative Offices Building — named for its S. Vermont Avenue location — has been long needed to reduce blight and consolidate county department employees at one location.

The building will feature an 8-story parking structure with 13 floors of office on top, providing a total of 468,000-square-feet of office space. It will also include a separate adjacent 10-story parking structure with a 9th floor sky bridge link.

The ground floor will include some retail space and a 3,597-square-foot mental health clinic.

The building, designed to house 2,167 employees, will serve as the new home for the county's mental health, workforce development, and aging and community services departments.

"This is a symbol of cutting edge and inclusive ways of delivering services in the County," said Supervisor Mark Ridley-Thomas, who represents the area and championed the project, in a statement after the project approval in May.

Ridley-Thomas said the new quarters will help in improving the delivery of mental health services. The department, which will make up the bulk of the employees at the building, has been working in dilapidated quarters for the last two decades, he said.

"We are creating jobs while positively transforming once-neglected blight into modern and robust assets," he said.

The office tower is the first of a three-phase transformation of the Vermont Corridor on three county-owned parcels.

On the second site, the existing 12-story mental health department building will be converted into market- rate housing with 172 units and a five-story parking structure. The project will be financed through private capital.

On the third site, a six-story, 72-unit senior affordable housing project with three stories of underground parking is planned. Tax credits and other financing will be used to build it.

The affordable housing site will also feature a 13,200-square-foot community center that Koreatown residents say is sorely needed. At a public hearing two years ago, many came out in support of that element of the project, saying the area is one of the most densely-populated in the city but lacks recreational opportunities.

“The lack of public space in Koreatown has profound impacts on the health of our community as residents and especially children have nowhere to recreate, exercise or interact with their neighbors,” said Brady Collins, a policy analyst with the Koreatown Immigrant Workers Alliance at the meeting. “The county’s redevelopment of a stretch of Vermont Avenue is the opportunity that we have been waiting for.”

By Imran Ghori

BY SOURCEMEDIA | MUNICIPAL | 08/02/18 07:13 PM EDT

S&P Extra Credit: Quarterly Credit Conditions for U.S. States and Locals.

In this week’s Extra Credit hear Lisa Schroeer discuss Credit Conditions with Managing Director Gabe Petek and Senior Director Jane Ridley. Hear about the economic forecast for the U.S. and how that translates to the State and Local credit environment.

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Jul. 30, 2018

S&P U.S. State Ratings And Outlooks: Current List

View our current ratings and outlooks on U.S. States.

Jul. 25, 2018

The Pension Hole for U.S. Cities and States Is the Size of Germany’s Economy.

Many retirement funds could face insolvency unless governments increase taxes, divert funds or persuade workers to relinquish money they are owed

For the past century, a public pension was an ironclad promise. Whatever else happened, retired policemen and firefighters and teachers would be paid.

That is no longer the case.

Many cities and states can no longer afford the unsustainable retirement promises made to millions of public workers over many years. By one estimate they are short $4 trillion, an amount that is roughly equal to the output of the world’s fourth-largest economy.

Continue reading.

The Wall Street Journal

By Sarah Krouse

July 30, 2018

[Statement by U.S. Conference of Mayors CEO & Executive Director Tom Cochran on FCC's Actions Against Local Governments and Their Property Rights.]

Washington, DC — Below is a statement by U.S. Conference of Mayors CEO and Executive Director Tom Cochran on the FCC's actions yesterday against local governments and their property rights:

"The U.S. Conference of Mayors strongly opposes actions by the Federal Communications Commission that will subordinate local governments and their property rights to the benefit of the nation's communications providers.

With little advance notice or engagement with local and state governments, the FCC action — which effectively prohibits local and state actions or policies having the effect of barring for some duration a private telecommunications company for accessing the public's rights-of-way — immediately disrupts local management regimes for the sole purpose of granting one group special federal protections and rights.

It also upends a key provision of federal law that was enacted overwhelmingly by Congress in 1996 to protect and respect local and state government property rights and their authority to manage these public assets.

For more than a century and at great cost, local governments with states have had the day-to-day responsibility for managing all aspects of this local public property, and are charged to do so in ways that benefit all citizens and businesses, not just one class of users. The FCC lacks the technical experts to facilitate broadband deployments. It also lacks the local knowledge needed to manage city streets, sidewalks and other public property. As such, the Conference respectfully calls on the Commission to reconsider this Order and urges the agency to develop a process to fairly and fully review the enormity and complexity of these issues."

[States Target Surpluses to Rainy Day Funds, Other Priorities after Fiscal 2018 Revenues Exceed Estimates.]

Most states saw stronger revenue growth in fiscal 2018 led by unusually high income tax payments from non-withholding income sources along with continued growth in the national economy. Specifically, states saw a significant uptick in their personal income tax collections in the last eight months. Information from NASBO's Spring Fiscal Survey of States shows that 39 states were seeing fiscal 2018 revenues above projections at the time of data collection, with that figure expected to rise when updated data is collected in the fall. As a result of revenues coming in above forecast, many states ended fiscal 2018 with a budget surplus. NASBO's 2015 Budget Processes in the States report details states' use of general fund budget surpluses in Table 16. Common uses of general fund budget surpluses include: transfers to budget stabilization or rainy day fund (32 states), remaining in general fund (39 states), refunded to taxpayers (7 states), earmarked (6 states), paying down outstanding debt (10 states), and one-time expenditures (14 states).

Below is a listing of state revenue totals and examples of how some states are using fiscal 2018 budget surpluses, after 46 states ended the fiscal year on June 30th:

Continue reading.

NASBO

By Brian Sigritz

Municipal Bonds Weekly Market Report: GDP Hits Four-Year High

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

- Treasury and municipal yields were all up big this week.
- Muni bond funds saw inflows for the third week in a row.
- Be sure to review our previous week's report to track the changing market conditions.

Continue reading.

municipalbonds.com

Brian Mathews

Jul 31, 2018

Where Bond Insurance Fits in the Push for Infrastructure.

The United States has a tremendous need for infrastructure investment, but it remains slow in adopting public-private partnerships – or P3s – compared to other countries.

President Trump's infrastructure policy plans to address these shortcomings by limiting government spending to $200 billion over the next decade, while removing red tape and making it easier for municipalities to complete P3 deals to address infrastructure underinvestment. However, there's a lot of uncertainty about Trump's ability to execute on these plans given the lack of progress in healthcare and tax reforms.

In this article, we will look at the need for infrastructure investment in the United States, as well as the role that bond insurance plays in P3 deals from the standpoint of both issuers and investors.

Continue reading.

municipalbonds.com

Justin Kuepper

Aug 02, 2018

Chapter 11 or Chapter 9: Investors Beware.

Municipalities often drive economic development through subsidiaries and affiliated entities. When these "quasi-municipalities" become distressed, however, questions arise as to whether the potential debtor qualifies as a debtor under Chapter 11 or Chapter 9. This uncertainty can lead to litigation over whether the entity may proceed as a Chapter 11 debtor or is a governmental unit that must proceed through a Chapter 9 bankruptcy filing. In states where Chapter 9 is not authorized, Chapter 11 may be the only available option for a supervised restructuring. Answering the question of "what kind of debtor" is the issuer is an important part of the due diligence process because the answer impacts whether the entity can file at all if it is a governmental entity or whether the entity can proceed in Chapter 11.

In this blog we look at two cases, one in Illinois and one in Nevada, where the primary issue was whether the debtor could proceed as a Chapter 11 debtor or was precluded from a Chapter 11 proceeding because it was a governmental unit ineligible for Chapter 11. Chapter 9 was not an option in either case because Nevada and Illinois do not authorize governmental units to seek relief under Chapter 9.

Lombard Public Facilities Corporation

The most recent case is from the United States Bankruptcy Court for the Northern District of Illinois. In *In re Lombard Public Facilities Corporation*, Lord Abbett Municipal Income Fund, Inc. – Lord Abbett High Yield Municipal Bond Fund ("Lord Abbett") and the United States Trustee (the "U.S. Trustee") separately sought to dismiss the Chapter 11 case of the Lombard Public Facilities Corporation (the "LPFC"). In support of their motions, Lord Abbett and the U.S. Trustee contended that the LPFC was not an eligible debtor under Chapter 11 of the Bankruptcy Code because it was a governmental unit.

The arguments of Lord Abbett and the U.S. Trustee centered on Bankruptcy Code section 109(d) and whether the LPFC was a "person" eligible for Chapter 11. Pursuant to Bankruptcy Code section 101(41), "[t]he term 'person' includes individual, partnership, and corporation, but does not include governmental unit." The term governmental unit includes, among other things, municipalities and the instrumentalities of municipalities. Thus, the ultimate question considered by the court was if the LPFC was an instrumentality of the municipality that incorporated it.

The LPFC was formed by the Village of Lombard, Illinois (the "Village"), for the sole purpose of acting on behalf of the Village to finance, secure a location, and construct a convention hall and hotel facility. The LPFC was incorporated by the Village as a separate public facilities corporation because it was not otherwise authorized to borrow the funds needed for the project. Under Illinois law, public facilities corporations are the business agent of the municipality, and are controlled through the municipality's ability to appoint and remove directors and by having title to the project transferred to it upon the retirement of any bonds or other debt issued in connection with the development. The ordinance authorizing the creation of the LPFC provided for each of these activities.

The hotel and convention facility project was financed with a series of tax-exempt bond issuances.

The LPFC was able to issue the bonds as tax-exempt because, as stated in the offering documents, it "constitutes an instrumentality of the Village for federal tax purposes." The LPFC took the same position in a 2003 application for exemption from the Illinois Retailers Occupation Tax Act. After the Illinois Department of Revenue denied the application, it stated in a complaint seeking to overturn the decision that (i) it was incorporated for the sole purpose of constructing the project, (ii) net income from the project would go to the Village, (iii) title to the property would vest in the Village for no consideration upon redemption or retirement of the bonds, (iv) it was the Village's alter ego, (v) it was formed to perform essential government functions, and (vi) everything it did was in furtherance of the Village's benefit.

Despite the structure of the LPFC and its statements in the earlier tax litigation, the court ultimately held that the LPFC was not a governmental unit as that term is defined in the Bankruptcy Code and, therefore, that it was eligible to be a debtor in Chapter 11. In reaching this conclusion, the court reviewed a number of precedents cited by the parties but paid special attention the analytical framework used to confront a similar question in the Las Vegas Monorail case.

Las Vegas Monorail

In *In re Las Vegas Monorail*, the Las Vegas Monorail Company (the "Monorail Company") was a nonprofit corporation formed to operate a monorail that connected certain hotels and a convention center in Las Vegas. As part of a planned expansion and the financing necessary to fund it, the Director (the "Director") of the Nevada Department of Business and Industry (the "Department") sponsored the issuance of approximately $650 million in municipal bonds. In connection with obtaining tax free status for the bonds, the Monorail Company signed a document that expressly stated it was an "instrumentality of the State of Nevada and controlled by the Governor of the State of Nevada." The Governor also exercised some level of control over the management and budgeting of the Monorail Company.

The proceeds of the bonds were lent to the Monorail Company pursuant to a financing agreement with the financing agreement as the only source of repayment (other than insurance) on the bonds. After the Monorail Company failed to make the required payments and sought protection under Chapter 11, Ambac Assurance Corp., which had insured the payment of principal and interest on the bonds, moved to dismiss the bankruptcy case asserting the Monorail Company was a governmental unit and ineligible for Chapter 11.

The *Las Vegas Monorail* court surveyed applicable case law and carefully considered whether the function performed by the Monorail Company was a core governmental function, whether the entity is sufficiently controlled by the government, and how the government classifies the entity. The court concluded that the Monorail Company was not a municipality or governmental instrumentality, and therefore eligible for Chapter 11, because (i) its monorail transportation goals did not constitute traditional government functions (i.e., it had no power to tax, exercise eminent domain, or claim sovereign immunity); (ii) the control available to the state governor over budgeting and, to some extent, its management, did not rise to the level of control necessary to be a municipality because the state bore no risk of loss; and (iii) Nevada state law did not treat the debtor as a municipality or instrumentality.

LFPC Found Not to be a Governmental Unit

As set forth above, the *Las Vegas Monorail* test suggests that a court consider (i) whether the entity in question has any traditional governmental attributes or engages in traditional government functions; (ii) the extent to which the entity in question is controlled by the government; and (iii) the government's categorization of the entity. Applying that test to the LPFC, the court in Lombard found that the LPFC did not carry out a governmental function of the Village and noted that the LPFC was a commercial operation that competed with other hotel and convention centers. In other words, the court found that operating a hotel and convention center was not a core government function.

The court also found that, while the Village appointed the LPFC's directors and certain of its representatives engaged with the LPFC on minor matters, those actions alone did not rise to the level of control necessary to deem the LPFC a governmental unit. The LPFC was found to be responsible for its day to day management and operations and had an asset manager as well as separate hotel and restaurant managers that reported to the asset manager, not the Village. Finally, the court noted that the Illinois Department of Revenue previously concluded that the LPFC was not a tax-exempt instrumentality of the Village and agreed with that conclusion.

Importance of Investor Due Diligence

While the *Lombard* holding itself is not particularly earth shattering or surprising given the nature of the LPFC's business and the lack of a Chapter 9 option in Illinois, it does raise a number of important points for investors to consider when reviewing potential investments in quasi-municipal debt. Important takeaways include the following:

- The outcome of the investor's assessment of the issuing entity's status is critically important because it determines if the debt issuing entity is eligible for Chapter 11 or required to proceed in Chapter 9 (if available). In those states where the state has not authorized Chapter 9 bankruptcy filings, there is an increased likelihood that a bankruptcy court will work hard to find a way to allow a debtor to proceed in Chapter 11 given that there is no other bankruptcy option.
- Chapter 11 is often viewed as more desirable than a Chapter 9 proceeding because Chapter 11 proceedings are somewhat more predictable due to wide ranging precedent, greater certainty and greater creditor control. Chapter 9 has stringent eligibility requirements and leaves most, if not all, of the decision making power in the hands of the debtor. It also prevents the court from taking certain actions that are available to it in Chapter 11 (See 11 U.S.C. §904).
- Chapter 9 precedent is still in its infancy. Recent decisions out of Puerto Rico interpreting certain provisions of Chapter 9 that were long thought to compel post-petition payment of special revenue secured bonds, as well as rulings on the limits of the court's powers, exacerbate this concern.
- Statements in the offering documents that an entity is a governmental unit or instrumentality are not necessarily controlling and need to be reviewed carefully by both issuers and investors. If there is uncertainty as whether the issuer is a governmental unit or not, that uncertainty should be disclosed. There is a significant difference between operating as a Chapter 11 debtor and operating as a Chapter 9 debtor. Recent cases suggest that bondholders should not expect to recover as much in a Chapter 9 proceeding as they would expect to recover in a Chapter 11 proceeding given a municipality's obligation to provide a certain level of service and the challenges regarding restructuring of pension obligations.
- Making an independent assessment of an entity's legal status should be a priority item on all pre-investment diligence lists and for issuers in terms of making disclosures in the offering documents. This is not always an easy determination as many municipalities have subdivisions that issue debt and operate as independent subdivisions of a governmental unit in terms of governance and financing.

Litigation of the issues surrounding whether the issuer is a governmental unit or not can add uncertainty, delay and additional cost to the restructuring process. Both issuers and investors need to consider whether and what kind of bankruptcy process may be implemented in the event a restructuring is required.

by Travis A. McRoberts and Karol K. Denniston

July 31, 2018

Squire Patton Boggs

MetLife Gets More Cautious About High-Yield Credit, Muni Markets.

- **CEO Kandarian points to surge in BBB-rated corporate debt**
- **Insurer still not sounding alarm bells, investment chief says**

MetLife Inc. is becoming wary of high-yield credit and debt sold by cities and states with pension shortfalls.

"While we do not believe a downturn is imminent, we are keeping a close eye on the evolving credit market," Chief Executive Officer Steven Kandarian said Thursday on a conference call discussing second-quarter results. "We are more cautious on general obligation bonds of states and municipalities with large unfunded pension obligations as well as certain parts of the high-yield market."

MetLife, which oversees more than $430 billion in investments, is "neutral" on U.S. investment-grade bonds and municipal bonds with dedicated revenue streams, Kandarian said.

Investment managers have been trying to gauge where the U.S. stands in the credit cycle and some, including Guggenheim Partners' Scott Minerd, have said the country could be heading toward a recession because of brewing trade tensions. Kandarian said that while economic growth is still "strong," he pointed to the surge in BBB rated corporate debt and "aggressive" issuance in the syndicated-loan market. About $2.6 trillion of BBB debt is outstanding, more than triple what it was a decade ago, according to Bloomberg Barclays index data.

Kandarian, who was the insurer's investment chief before being named CEO in 2011, also said MetLife is scrutinizing the credit cycle even more carefully as dwindling liquidity makes it tougher to find a quick exit. Investment managers have been lamenting the lack of liquidity, which can make it harder to find a buyer or seller of certain securities without drastically moving the price.

Kandarian said asset classes including private-placement credits and agricultural loans still offer opportunity, and Chief Investment Officer Steven Goulart stressed that the life insurer wasn't "sounding any alarm bells."

"We're investing billions of dollars a quarter and we're still finding sound, attractive investment alternatives," Goulart said. "It's just that market conditions remain tight, market structure is different than it was years ago, so we're spending more time just thinking about what happens in the next downturn and how do we position ourselves when we think it's coming."

Bloomberg Markets

By Katherine Chiglinsky

August 2, 2018, 8:25 AM PDT

— With assistance by Molly Smith

Largest Muni ETF Absorbs Massive Trading Amid a Drought in New-Issuance.

- **One investor traded $135 million worth of iShares MUB fund**
- **August seen as biggest month of 2018 for muni bond investors**

The summer months are heating up trading for the largest exchange-traded fund tracking municipal bonds.

Trading volume has been soaring for the almost $10 billion iShares National Muni Bond ETF, or MUB, on Monday, with 2.7 million shares changing hands as of 3:40 p.m. That's almost 10 times its 20-day average volume for this time of day and the most since June 13. The surge seems to be fueled by one massive trade shortly before noon, when an investor moved about 1.2 million shares worth $135 million.

Investors tend to clamor for municipal bonds in the summer months, when there is a high amount of redemption activity. There have been "huge" redemptions lately, according to Patrick Luby, municipal strategist at CreditSights, and August will be the biggest month of the year. About $31 billion in bonds will mature or be called in the next 30 days, roughly $22.6 billion less than the amount of bonds scheduled to sell.

ETF trading activity also may be picking up as investors seek exposure to the $3.8 trillion muni market amid a drought in new-issuance. Sales are down about 14 percent this year, making the bonds difficult to source individually. Funds offer a convenient solution.

"Supply is down and investors who want to maintain their allocations may have a hard time finding well-structured bonds in the muni market," Luby said. "So using the most liquid muni ETFs can be a good placeholder to maintain exposure."

Bloomberg Markets

By Carolina Wilson and Amanda Albright

July 30, 2018, 12:55 PM PDT

— With assistance by Kenneth Sexton, Kent Odina, and Tom Lagerman

Public Pensions Are a Disaster. Here's a Fair Solution.

Employees and governments need to share risks.

Connecticut is at the cutting edge of a crisis unfolding across the U.S.: States and municipalities have promised their employees some $4 trillion in pension benefits that they can't afford to pay. Now the state needs to help lead the way out, by setting aside partisan politics and moving to a better system.

Thanks to decades of mismanagement by politicians from both parties, Connecticut has one of the largest pension funding deficits in the country, amounting to one fifth of its annual economic output. The burden crowds out investments in infrastructure and education, eroding the foundation for future growth.

So far, no one has offered a viable solution. Ripping up contracts would risk costly litigation. Requiring employees to make their own contributions, as in a 401(k) plan, won't work: It could apply only to new workers, and — even if it could get existing workers to change their contracts — the state would have to borrow the money to cover what it owes them (at least $34 billion). Given that Connecticut already has the largest debt-service burden of any state, this is an irresponsible way forward.

Policy makers need to focus on reality. Legislatures made promises that they had no ability or intention to keep. Taxpayers are starting to vote with their feet, further undermining the state's capacity to pay. The system needs a complete overhaul.

Fortunately, models exist. Consider New Brunswick, Canada, which moved to a shared-risk system in 2012. Instead of promising full, generous pensions, the government guarantees only a "base" level of benefits and pays added "ancillary" benefits if circumstances allow. Regular stress tests determine what the government can afford: If it falls short, it can increase required contributions or reduce benefits — within a narrow, agreed-upon band. If performance improves, the changes are reversed in an agreed-upon order.

To be sure, concessions must be made. Workers must agree to terms that are more in line with programs such as Social Security. This can entail, for example, calculating benefits using average career earnings (excluding overtime) rather than the last several years, capping payments at a reasonable amount and, in some cases, extending the retirement age. Politicians, for their part, must relinquish the power to make generous promises that require funding only after they've left office. Once the terms are set, professionals do the managing.

Such a system leaves everyone better off. Workers get a fair pension system with payments they can count on, rather than unrealistic promises. Government finances improve immediately: New Brunswick reduced its liabilities by 30 percent, allowing it to set a more realistic target for the return on its pension investments. Residents and businesses benefit from greater budgetary certainty.

Many ask: Why would unions agree to this? The answer is that they don't have a choice. Recent trends — such as the growing number of states with "right to work" laws and the recent Supreme Court decision outlawing mandatory fees — are highly unfavorable to them, so they would be wise to reach a deal before they are further disempowered. Connecticut's unions would do well to heed the example of Wisconsin, where risk-sharing has allowed the pension plan to remain 100 percent funded, with relatively low contribution rates and market-driven cost of living adjustments. No other major public pension plan in America can make those claims.

Connecticut can't put the issue off until 2027, when its current collective bargaining agreement expires. At this fall's election, voters must recognize the difference between realistic solutions and campaign slogans like "Tear up the contracts!" or "Convert everyone to a 401(k)!" The risk-sharing model works elsewhere and would be a game-changer for the state, improving its credit rating, delivering the budget certainty needed for economic recovery, and setting an example for the rest of the country.

Bloomberg Opinion

By Alex Bergstein and W. Gordon Hamlin Jr.

August 2, 2018, 5:00 AM PDT

Alex Bergstein is a Ph.D. candidate at Yale University and a candidate for state Senate in Connecticut's 36th District.

W. Gordon Hamlin Jr. is the founder and president of Pro Bono Public Pensions and a member of the Harvard Advanced Leadership Coalition.

Municipal Junk Soars as Economy Roars.

Distressed state and local debt is the strongest part of a weak bond market. If growth cools, watch out!

A funny thing happens when the economy booms: Investors crawl out on thinner and thinner limbs. It's happening right now in the bond markets, where the only part that is lucrative is usually the least appealing to all but the nerviest players: distressed state and local governments with the lowest credit ratings (or none at all). Think of bankrupt Puerto Rico, tobacco settlements with diminishing revenues, and the not-yet-finished New Jersey Mega Mall.

Investors can't get enough of this junk while shunning Treasuries and similar investment-grade securities. For them, the risk remains tolerable as long as times remain good. So they watch with the most interest for hidden signs of economic weakness even when the economy expands.

That's another way of saying that times must be good if demand exceeds supply for the highest-yielding, riskiest government debt. Excluding municipal junk, the year so far is the worst two quarters in the bond market since 2013, which happened to be the turning point in the recovery from the meanest recession since the Great Depression. The Commerce Department said last month that second-quarter gross domestic product increased 4.1 percent, the most since 2014. The chairman of the White House Council of Economic Advisers, Kevin A. Hassett, predicts a four-quarter growth rate of more than 3 percent, which would be the highest in 13 years.

Such robust data helps explain why junk munis outperformed the rest of the U.S. bond market over five years, three years and during the past 12 months, according to data compiled by Bloomberg. Bondholders lost money in 2018 owning investment-grade U.S. government, corporate and municipal debt. In contrast, they have a total return (income plus appreciation) of 4 percent with junk munis. The appeal is reinforced by the record investment in the VanEck Vectors High-Yield Municipal Index ETF, the largest exchange-traded fund tracking junk munis.

Among the 62 U.S.-based high-yield mutual funds with assets greater than $1 billion and at least three years of history, eight of the top 10 performing funds this year are focusing on municipal debt. The No. 1 Oppenheimer Rochester High Yield Fund, which outperformed its peers over five and three years, is beating the market for state and local government debt by 8 percentage points with especially large holdings of Puerto Rico, Ohio, Alabama, Wisconsin and District of Columbia securities, according to data compiled by Bloomberg.

The favorite for many of the top funds are Sales Tax bonds sold by the Puerto Rico Sales Tax Financing Corp. The securities, which are in default, are rated "highly speculative" by Moody's and have no rating from Standard & Poor's. They've almost doubled in price, from 43 cents on the dollar in January to 82 cents. Tobacco debt, such as California's non-rated $1.7 billion June sale due in 2047 and backed by its share from the state's 1998 legal settlement with cigarette makers, similarly rallied to more than 102 cents on the dollar as soon as they traded, according to data compiled by Bloomberg.

To be sure, any evidence that the expansion is on its last legs could make high-yield municipal bonds the first casualty of the downturn. For now, the bond market isn't forecasting that scenario.

In the meantime, the largest offering of unrated municipal bonds last year — the $1.1 billion raised to finish the American Dream complex in New Jersey's Meadowlands (a bet against the demise of shopping malls) is among the more profitable investments in the market, trading at 115.8 cents on the dollar — better than anything rated investment-grade.

Bloomberg Opinion

By Matthew A. Winkler

August 1, 2018

(With assistance from Shin Pei)

What 4.1% U.S. Economic Growth Means to Muni Bonds: Muni Moment

Jeffrey Lipton, head of muni research and strategy at Oppenheimer, discusses the impact of 4.1 percent U.S. economic growth on state credit and municipal bonds. He speaks with Bloomberg's Taylor Riggs in this week's "Muni Moment" on "Bloomberg Markets."

Watch video.

Bloomberg Markets

August 1st, 2018, 9:23 AM PDT

Muni Investor Redeems Bond ETF Amid Summer Supply Drought.

- **Trader moves about 1.2 million shares worth $135 million**
- **Muni ETFs can serve as convenient 'new-school' bond dealers**

You might think the first outflow in months for an exchange-traded fund meant investors were calling it quits. You might be wrong.

In the case of the $9.9 billion iShares National Muni Bond ETF, or MUB, one trader's move may simply signal how desperate for municipal bonds some people are these days.

In the summer months, the muni bonds maturing or being "called away" — redeemed early — often outweigh supply, making it harder for investors looking to put cash to work. But some MUB holders can redeem their shares and receive the underlying bonds themselves, rather than cash.

Trading volume in MUB soared to a record on Monday, fueled by one massive trade shortly before noon, when an investor sold about 1.2 million shares worth $135 million. The fund then saw an outflow of over $65 million, the first since May, as the investor likely redeemed shares of the ETF to directly hold the underlying bonds, according to Patrick Luby, municipal strategist at CreditSights.

"In the currently constrained market for blocks of well-structured bonds, redeeming ETF shares can be an efficient and quick means of establishing a large and well diversified position," Luby said in a note Tuesday.

Bondholders are set to receive about $36.8 billion from muni debt that will be paid off over the next month, about $27.8 billion more than governments and other issuers are planning to sell, according to data compiled by Bloomberg as of July 30. This "has put investors in competition for the limited supply of well-structured bonds to replace the ones that have been redeemed," according to Luby.

"In many ways, bond ETFs are new-school bond dealers and these trades are very popular because they can be cheaper and more convenient than doing it in the open market," said Bloomberg Intelligence analyst Eric Balchunas.

Bloomberg Markets

By Amanda Albright and Carolina Wilson

July 31, 2018, 8:14 AM PDT

— With assistance by Tom Lagerman

[Bond Sales by Cities Borrowing to Pay for Lost Court Fights Jump.]

- **Municipal debt issues for settlements hit $1.6 billion in 2018**
- **'It's sort of like putting your mortgage on your credit card'**

After serving 13 years in prison for a murder he didn't commit, Chaunte Ott won a $6.5 million settlement from Milwaukee, Wisconsin, in 2015. To pay him, the city didn't draw from its tax revenue. It sold bonds to investors.

The 595,000-resident city has issued about $28 million of debt to cover the cost of legal settlements over the past decade, adding to a wave of borrowing by governments to pay for police misconduct, contract disputes and other adverse judgments.

This year, states and municipalities have already raised $1.6 billion in the municipal-bond market for such settlements, up from $826 million in 2017 and $281 million the year before, according to data compiled by Bloomberg. Last month, Michigan State University approved a $500 million debt sale to pay more than 330 women and girls who were sexually abused by doctor Larry Nassar.

The growing use of debt to cover legal bills promises to increase the cost to taxpayers by extending the payments for years, leaving governments with interest bills that will linger long after many current leaders have left office.

"What you're doing is you're putting on the backs of future taxpayers the cost of an event that occurred in the past," said Michael Belsky, executive director of the Center for Municipal Finance at the University of Chicago's Harris School of Public Policy. Debt "is supposed to fund hard capital that's going to serve the public over the years."

It's not clear whether the rise in bond sales reflects an increase in legal settlements or just a greater reliance on debt to cover them, and the data doesn't indicate what types of cases are behind the borrowing because securities documents vary in the degree of detail they disclose.

But the practice has drawn scrutiny in the wake of the the nationwide Black Lives Matter movement, which has focused attention on police brutality and unjustified shootings. The Action Center on Race and the Economy, an advocacy group, in June released a report that found that 12 cities and counties have sold $878 million of bonds to pay police-related settlements, with about $709 million from Chicago. It estimated that will roughly double the cost to taxpayers once interest payments are included.

Ruinous Consequences

The borrowing, though, can save some governments from potentially ruinous binds. South Tucson, Arizona, went bankrupt four decades ago after it was ordered to pay $3.6 million to a man who was left paralyzed after being mistakenly shot during a police raid on his home. The resort town of Mammoth Lakes, California, filed for court protection from creditors six years ago after losing a dispute with a developer. In 2015, Hillview, Kentucky, followed suit because of a property dispute with a truck-driving school.

“You should be using financing for capital improvements and necessary items that help develop safety and welfare, but in my mind not going into Chapter 9 and using it to prevent that because you need the liquidity is a social good too,” said Jim Spiotto, managing director of Chapman Strategic Advisors.

This month, Dallas issued $58.7 million of general-obligation bonds to contend with four legal settlements over police and firefighter pay.

California has its own designation for securities sold to cover legal costs: judgement-obligation bonds. Last year, Los Angeles considered issuing up to $90 million of them to cover unanticipated settlements, though it later decided to use surplus revenue instead.

“They have no public benefit whatsoever,” said city council member Mitchell Englander, who objected to the plan. “It’s sort of like putting your mortgage payment on a credit card because you want to keep your money in your savings account — it makes no sense.”

Big City Burden

Despite criticism of the practice from some quarters, municipalities have little trouble selling debt. Richard Li, the public debt specialist for Milwaukee, said he hasn’t seen investors shy from the city’s bonds that paid for legal settlements — which are usually large bond issues that also fund other government expenses. He said the settlements aren’t generally large enough sums to be a concern to bondholders.

“These deals are in the hundreds of millions of dollars, and we line item that five or so million we are going to pay for legal settlements,” he said. “It’s not really material to the investor at that point.”

The year after Ott was exonerated by DNA evidence in 2015, Milwaukee had to pay $5 million to 74 people who were victims of unlawful body cavity and strip searches by police officers. The city issued bonds to pay for that settlement too.

Li said the $28 million that the city has issued to pay off settlements and judgments is a normal — if unpredictable — expense for large cities. “A small city that doesn’t have a very active police force doesn’t usually encounter this issue as often as a larger city like Milwaukee, which has an active police force that is always engaging with the public.”

Bloomberg Markets

By Sophie Alexander

July 30, 2018, 5:53 AM PDT

— With assistance by Danielle Moran

Colleges, Cities and Pension Funds Pressured to Cut ICE Ties.

Public institutions across the country invest in the private prison operators of immigration detention centers and contract directly with the federal immigration enforcement agency.

MacKenzie Murdoch says she was surprised to learn that her state's university system receives money from U.S. Immigration and Customs Enforcement (ICE).

The 18-year-old rising sophomore at Northern Vermont University decided to reach out to school officials to voice her concern. She also started a petition calling for the state's public colleges to end their ties with ICE.

"I didn't understand why we would have any connection to ICE," says Murdoch. "I think that the mission Vermont State Colleges has for its schools doesn't line up with any connection to family separations and the treatment of immigrants being detained."

Murdoch's campaign comes amid a sea of calls from students and immigration activists who want state and local governments, public colleges and politicians to sever their financial ties with companies and agencies involved in detaining immigrants. There is also a movement growing to abolish ICE.

Continue reading.

GOVERNING.COM

BY CANDICE NORWOOD | JULY 30, 2018

What Cities Can Unpack from the House Infrastructure Proposal.

Since the president released his infrastructure proposal this spring, city leaders across America have called on Congress to follow up with a proposal of their own. On July 23, Representative Bill Shuster (R-Pa.), Chairman of the House Committee on Transportation and Infrastructure, released a discussion bill on a transportation and water resources infrastructure investment package.

While even the chairman, who is retiring, has said the bill is unlikely to gain traction before the midterm elections, putting pen to paper on a proposal for his colleagues to react to is a major step.

Now, city leaders will also have the opportunity to respond to the discussion draft and — to make their thoughts and needs known to Congress. Here are some of our key insights as to where the chairman's infrastructure proposal is leaning, and how that may impact cities:

Continue reading.

citiesspeak.org

By Brittney Kohler

July 31, 2018

As Amazon Enters Government Purchasing Market, Signs of a Bad Deal Emerge.

The online retail giant's new relationship with public schools and agencies raises concerns that the company is cornering the marketplace and costing taxpayers more money.

Amazon has already helped reshape the retail landscape for books, clothes and groceries. Now the online retail giant is moving into local government procurement. This new business venture is raising concerns that cities, school districts and counties will end up spending more money than they have to on supplies.

Early last year, Amazon contracted with the Prince William County School District in Virginia and by extension earned a contract with U.S. Communities, a purchasing group with public-sector members in all 50 states. More than 1,500 public agencies have since signed on to buy products through Amazon Business, the B2B counterpart to the company's popular Prime service.

While Amazon and U.S. Communities have touted their partnership as a cost-saver for public agencies and a boon for suppliers, a new report finds that Amazon Business does not always deliver the savings it promises. The report by the Institute for Local Self-Reliance, a frequent critic of Amazon, also argues that Amazon is increasingly cornering the supply market by forcing vendors to sell their products through Amazon.

Critics say the contract between U.S. Communities and Amazon is written in a way to favor the company and makes it next to impossible for vendors not on Amazon to compete for the job.

On a press call about the report, Mike Mucha of the Government Finance Officers Association explained the contractual problems with an example of a government choosing a new type of software, in which Apple is expected to be one of the proposed vendors.

"You can structure that process so that you can truly evaluate the merits of [different companies] through a fair process. Or you can include a requirement in the RFP [request for proposal] that says, 'The logo must be in the shape of a fruit,'" he says. "It's not a real RFP."

Prince William County Public Schools created a similar bid in 2016 when it required 10 product categories in an RFP for office supplies. Of the 12 firms that submitted bids, only Amazon was able to supply all 10 of the categories requested.

Additionally, the Amazon contract differs dramatically from traditional procurement contracts between governments and businesses. While government purchases are usually based on fixed prices, the Amazon Business prices can vary by the day and even by the hour. The report analyzed purchases made by a California school district and found that buying those supplies from a local vendor as opposed to Amazon would have saved the district between 10 and 12 percent.

Amazon has added a feature that freezes the price for seven days after a product is added to a customer's online cart. But critics contend that still doesn't come with the guarantees made by a contract with fixed prices from the time of signing.

"The pricing terms in the contract are based on the dynamic pricing that is found elsewhere at Amazon and Amazon Business," says Olivia Levecchia, senior researcher at the Institute for Local Self Reliance and the report's author.

If public agencies have long-established relationships with certain vendors, they are now only allowed to continue buying from them if those vendors join Amazon's marketplace.

Adding to the list of concerns about Amazon Business is the profits the online retailer is raking in. According to the report, Amazon's dual role as both seller to government agencies and representative for third-party sellers gives the company a 15 percent cut, via a fee charged by Amazon, of all such sales. The company earned $31.8 billion in fees charged to government vendors in 2017.

In response to the report, Amazon says that its practices insure the best prices and allow public agencies flexibility in purchasing.

"The competitively solicited contract helps education and public-sector organizations purchase directly from the Amazon Business marketplace, which includes small, local and socio-economically diverse businesses," Amazon said in a statement. "More than 90,000 public-sector organizations, from individual schools to school districts to higher education institutions across the nation, can now access multiple purchasing categories in an online marketplace, as well as be confident that they are receiving dynamic and competitive pricing."

U.S. Communities also defends the contract with Amazon, citing the company's track record in delivering "lower total cost of procurement" as well as "improved compliance and reporting." The Amazon marketplace, the group says, "supports supplier diversity."

GOVERNING.COM

BY J. BRIAN CHARLES | AUGUST 2, 2018

S&P: U.S. State And Local Government Credit Conditions Improve As Economic Growth Picks Up.

Midway through 2018, accelerating economic growth is providing a favorable near-term backdrop for credit conditions in the state and local government sectors. According to S&P Global Ratings' updated baseline forecast, U.S. GDP is on a trajectory to expand by 3.0% in real terms in 2018.

Continue Reading

Jul. 26, 2018

Fitch: Trajectory Matters When Assessing Demographics for U.S. States

Fitch Ratings-New York-25 July 2018: While demographics play a pivotal role in the overall health and growth of regions throughout the United States, a new report by Fitch Ratings says that how demographic and economic growth occur is also crucial.

A state's ability to attract and retain residents ultimately can have significant implications for the strength of the region's economy. And trajectory in key indicators matters. "Two state economies may grow at a similar rate over time, but one may have grown more abruptly, possibly with some significant retrenchment in between," said Senior Director James Batterman. "While narrower economies can exhibit solid demographics and growth over extended periods, more diversified economies can sometimes be less volatile over the cycle and more predictable." Consequently, Fitch seeks to measure not just the strength of key demographic indicators but also the stability of these over time.

Continue reading.

If Rich States Need Federal Help, Remember They Paid for It.

It would be a sign that progressive taxation has worked and should continue.

Yes, Connecticut is in trouble. No, it's not going to follow the path of the Greek debt crisis.

My Bloomberg Opinion colleague Brian Chappatta recently wrote about widening credit spreads on its municipal debt, and the prospect that one day the state could default. Other states like New Jersey and Illinois have similar woes.

Mitch Daniels, president of Purdue University and former governor of Indiana, compared the state budget crisis with the European debt crisis, with Connecticut and Illinois playing the role of Greece and Italy. But this analogy gets the relationship backward. Daniels also argued that the structure of the U.S. Senate will prevent "profligate" states like Connecticut from being bailed out by others, but given the structure of U.S. taxation, it's entirely appropriate for some of the overburdened states to get federal help.

Continue reading.

Bloomberg Economics

By Conor Sen

July 27, 2018, 4:00 AM PDT

Fitch: Good 2018 Returns Are Little Help for US Public Pensions.

Fitch Ratings-New York-24 July 2018: Several public pension plans have announced solid investment returns as of fiscal year-end 2018, which for most pensions was on June 30, 2018, says Fitch Ratings. Fiscal 2018 gains for most are likely to be firmly ahead of their investment return targets. However, most public pensions still face an uphill climb to improve funding levels, due to the depth of past losses, a historically slow economic recovery, the continued use of favorable but unrealistic actuarial assumptions, and for many plans, inadequate pension contribution practices.

Indices for corporate stocks, the largest component of most pensions' asset portfolios, rose by double digits, as of fiscal year-end June 30, 2018, with the Russell 3000 rising by almost 13%. The California Public Employees' Retirement System (CalPERS), the nation's largest public defined benefit pension system, reported a fiscal 2018 portfolio gain of 8.6%, propelled by 11.5% growth in holdings of public equities, while the Florida Retirement System estimated a portfolio gain just below 9.0%, according to press reports. Investment gains in this range are modestly higher than pensions' own long-term targets for asset gains, the all-important investment return assumption, which pensions use to measure liabilities. As of fiscal 2017, this target averaged about 7.4% for major defined benefit plans, compared to the 6.0% level Fitch uses to reflect the magnitude of liabilities.

While fiscal 2018 returns will have a modestly positive effect on funding levels, they are unlikely to change broader pension funding challenges. The gap between projected liabilities and the value of asset portfolios remains stubbornly high, pushing the actuarially determined contribution (ADC) paid by participating governments higher. The median ADC for major plans was 74% higher in fiscal 2017 than in fiscal 2010. We expect ADCs to continue growing in the near term, as plans recoup past asset underperformance, shift gradually to less favorable but more realistic actuarial assumptions, and absorb rising retirement outlays.

Looking forward, pension portfolio returns face additional near-term uncertainty. Volatility in financial markets is notable with the Russell 3000 gaining just under 1.5% in the second half of fiscal 2018. The current economic expansion, even with the recent strong investment returns, has been weaker than in past cycles, and likely is closer to its end than its beginning. Market gains that fall short of pension targets, or outright market losses, would erode recent gains and leave participating governments susceptible to further contribution increases.

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Fitch Updates Rating Criteria for Infrastructure and Project Finance.

Link to Fitch Ratings' Report(s): Rating Criteria for Infrastructure and Project Finance

Fitch Ratings-Paris/London-27 July 2018: Fitch Ratings has updated its Rating Criteria for Infrastructure and Project Finance.

The update only includes minor clarifications. No rating changes are expected as a result of the updated criteria.

The report replaces the version dated August 2017. It is available at www.fitchratings.com or by clicking on the link above.

27 JUL 2018 08:54 AM ET

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Wells Fargo Bucks Muni-Market Herd With Push Into Local Bonds.

- **Lyle Fitterer says firm overweight general-obligation bonds**
- **As others avoid them, ‘we’ve found pockets of opportunity’**

Since Detroit collapsed into bankruptcy five years ago, some investors have favored municipal bonds secured by specific taxes and revenue, wagering they’ll fare better than debt backed by only a promise to repay should a local government run into financial distress.

But, lately, Wells Fargo Asset Management’s Lyle Fitterer isn’t among them.

Fitterer, who oversees $39 billion in municipal debt, said his firm has expanded its allocation to general-obligation bonds and bought those issued by localities in Michigan, Illinois, and Pennsylvania — states where some governments have struggled with fiscal strains even amid the second-longest economic expansion on record.

"Because people have been avoiding a lot of local general-obligation bonds, we've found opportunities there," Fitterer said.

Fitterer said doing extensive research on factors like a town's cash reserves, debt levels, taxes and demographic trends can help locate the most resilient bonds. He also considers how much revenue is derived locally, as opposed to from state revenue-sharing.

One bet that has paid off is Southfield, Michigan, a Detroit suburb that Fitterer said has performed well. The city sold 10-year bonds in 2015 at a 2.72 percent yield, or about 73 basis points above the benchmark at the time, according to data compiled by Bloomberg. In June, it sold securities with a similar maturity for a 2.99 percent yield, about 50 basis points more than top-rated debt.

Bloomberg Markets

By Amanda Albright

July 23, 2018, 8:00 AM PDT

Letter To the Editor: Why Muni Debt Managers Reject OAS Methodologies.

Re: "Kalotay cites higher muni costs, need for MA training due to advance refunding halt," The Bond Buyer, July 16:

As a 30-year public finance practitioner who has the privilege of working with some of the largest and most sophisticated issuers in the country, I have an answer for Mr. Kalotay as to why, referring to option-adjusted-spread (OAS) methodologies, "municipal debt managers have largely disregarded it, in favor of questionable seat-of-the-pants methods."

Firstly, finance is not physics. Newton's second law of motion has held up since the late 17th century because it is imposed on us by the realities of nature. Finance, however, is pure convention. It is a science/art that is organic and constantly evolving. It is the responsibility of debt managers to constantly seek superior decision making methodologies, not lock themselves into a generation old methodology that was never designed to address their programmatic realities.

Secondly, it is not correct to say that debt managers have largely disregarded OAS methodologies. Rather than disregarding OAS methodologies, my experience is that a large majority of sophisticated issuers have evaluated and rejected them in favor of more organic and integral methodologies.

The black box gang has always mistaken complexity for sophistication in the realm of financial modeling and it is both denigrating and arrogant to characterize non-OAS methodologies currently utilized by debt managers as "questionable seat-of-the-pants methods."

They are, in fact, methodologies developed by earnest and sophisticated public finance professionals over the course of the generation that has passed since the advent of OAS methodologies who are not willing to cede complex decision making processes to antiquated black box models that do not in any meaningful way capture the broad range of programmatic considerations inhered in modern municipal debt programs. (How could they? They were developed for a completely different purpose.)

As the article states, Mr. Kalotay is a fixed-income expert and of that there is no doubt. I both acknowledge and applaud his significant contributions in this area. But the reality is that the fixed-income analytics he espouses, which are at best of dubious value for their intended security analysis purposes, as proven during the calamitous financial crises, have even less value for public finance debt managers. Rather than weld himself to OAS methodologies, I encourage Mr. Kalotay to channel his unique intellect and insights into the development of new methodologies that are more relevant to the realities faced by modern public finance debt managers.

Frank Lloyd Wright, the great architect, wrote that "five lines where three are enough is always stupidity." That is the lesson I recommend the MSRB impose on municipal advisors as our profession continues its efforts to improve public finance decision making through the development of more organic and integral decision making processes.

Sincerely,

Laurence H. Wadler

The Bond Buyer

By Laurence H. Wadler

Published July 26 2018

Muni Market Recap: Summer Lovin' for Munis.

Municipal bond markets go into summer slumber right around the last day of the school year. This year, the muni slumber has so far lead to an outperformance of municipal bonds relative to US treasuries.

As schools let out, bond traders, bankers and community financial officers stop making excuses for working too hard and everyone goes on vacation. In addition to taking some time for R&R, there's also a greater willingness to take vacation due to the collective liberation that comes from knowing your opponent is likely resting with a pina colada too.

The environment is self-fulfilling because the lack of activity breeds a more relaxed market environment. The most surprising aspect of the absence of market participants and lower trading activity is the trend for municipal bonds to outperform US Treasury bonds during the summer.

The muni/treasury ratio is the best measure of the relationship between Municipal bonds and US Government bonds. The muni/treasury ratio is the yield of Munis divided by the yield of US Government bonds, eg. 1.55%/2.60% (based on market clearing trade data as per MSRB and Bloomberg). This ratio usually reflects the tax benefit for owning a Municipal bond versus US Government bonds.

Munis have had good performance through the quiet of the summer. The 2 year part of the municipal curve has performed the best, with ratios decreasing from 65% to 60% (based on Bloomberg BVAL yields). 10 year ratios have decreased from 85% to 84%. The term used for this experience is outperformance or richening of Munis versus US Treasuries.

So why have munis outperformed? With everyone on vacation, literally and figuratively, everything slows, bankers stop calling communities to fund projects and community leaders make plans to begin the funding of future infrastructure again in September.

Still, while we're all getting some much needed sun, the July 1 coupon payments and principals for past deals are paid into mutual fund accounts and the cash demands to be put to work in the form of new issue municipal bonds. The imbalance between consistent/increasing demand is met with lower new issue supply during the summer and this imbalance leads to municipal bond outperformance.

PS. Don't get any crazy ideas, the market is quiet for a reason: it is a delicate balance and the market participants could not handle heavy supply of municipal deals.

Note: The data are an amalgamation of market clearing yields from MRSB trade data. They are approximate Muni Yields and are not transactable.

Investing in municipal securities contains risks, including loss of principal. Please read the official statement before investing in any municipal security. Securities offered through Neighborly Securities, Member FINRA, SIPC and registered with MSRB.

Posted 07/20/2018 by Homero Radway

Neighborly Insights

States Finalize Fiscal 2019 Budgets - Updated July 26

As of July 26th, all states have enacted a new or revised budget for fiscal 2019. 46 states began fiscal 2019 on July 1 (New York began on April 1, while Texas begins on September 1 and Alabama and Michigan on October 1). Last year, 17 states enacted budgets covering both fiscal 2018 and fiscal 2019.

For the most current information on states' budgets, please visit NASBO's state-by-state listing of proposed and enacted budgets.

Additionally, for summaries of governors' budget proposals for fiscal 2019 please click here.

By Brian Sigritz posted 05-09-2018

NASBO

In Wake of Tax Reform, Muni Bond Market Gains Footing.

As banks sell munis, and the Fed hikes rates, supply and demand take over

Six months after the sweeping tax-reform package that cut corporate and individual rates rattled the $3.7 trillion municipal bond market, financial advisers say the fallout has proven to be a good thing for investors.

With deductions for state and local taxes now capped at $10,000, in many high-tax states muni bonds are "the only game in town," said Timothy Heaney, a muni bond portfolio manager at

Newfleet Asset Management.

"Our clients are as interested in muni bonds as ever," said Theodore Haley, president of Advanced Wealth Management in Portland, Ore. "Many people lost deductions due to the new tax law, and especially here in Oregon, the limit on deductions for state and local taxes is a big hit for some," he said.

Continue reading.

Investment News

Jul 23, 2018

By Jeff Benjamin

Four Ways to Make Wiser Infrastructure Investments.

America's public infrastructure, particularly its transportation [1]and water systems[2], is decaying, underperforming our nation's needs and goals. But the solution to our infrastructure problem is relatively straightforward. America, at all levels of government and in conjunction with the private sector, needs to: **Invest. More. Wisely.**

Each of these three words contains an idea and corresponding set of policies. This paper focuses mostly on the final idea: Wisely. At its core, 'wisely' means that whatever level of investment is chosen, it ought to be invested in the smartest manner possible. While straightforward in theory, the application of a wiser approach to infrastructure is more complicated in practice. There is generally a reason why sub-optimal choices that fail to maximize total social benefits or minimize total social costs are frequently made and often encouraged by problematic policy or outmoded regulations. Despite bipartisan recognition of the problem and proposals by both the Administration and Democratic leadership, Congress has yet to, and remains unlikely to, pass major new infrastructure legislation.

This paper explores a set of core ideas that can help America make wiser infrastructure investment choices. Changes are needed at all levels of government, especially the state and local levels including infrastructure authorities, where most infrastructure decisions are made. The federal government has an important, but limited, role in structuring these choices. The federal government's most impactful role is to promote wiser federal infrastructure investment choices and to incentivize wiser decision-making at the local level. Incentive programs, even small ones, from the federal government such as the TIGER[3] competitive transportation grant program, or the Race to Top education program[4]have shown that "competitive programs have impact"[5]in promoting change at the state and municipal level.

Continue reading.

The Brookings Institute

Aaron Klein

Wednesday, July 25, 2018

Understanding the Impact of Local Governments’ Financial Planning On Muni Investors.

Indra Nooyi, CEO of PepsiCo, once said that you can either run an organization for your duration or you can strive to run it for the organization’s duration. The latter simply alludes to a strategic mindset to understand the implications of your actions in the future and preparedness towards future contingencies.

After some of the well-known bankruptcies of U.S. municipalities, including Detroit and Stockton, more and more local governments are breaking the monotony of simply following their revenue and expenditures and turning toward building a sustainable framework of long-range financial strategy to make budget decisions over future budget cycles.

In this article, we will take a closer look at understanding the need for long-range financial plans (L-RFPs) for local governments and how they can bring sustainable growth.

Continue reading.

municipalbonds.com

by Jayden Sangha

Jul 26, 2018

Municipal Bonds Weekly Market Report: Jobless Claims Hits 49-Year Low

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

- Treasury yields were all up big, while most municipal yields saw smaller gains this week.
- Muni bond funds saw large inflows this week.
- Be sure to review our previous week’s report to track the changing market conditions.

Continue reading

municipalbonds.com

Brian Mathews

Jul 24, 2018

U.S. Bond Funds Draw Most Cash in Nearly 6 Months.

NEW YORK, July 25 (Reuters) – U.S. fund investors pushed the most cash in nearly 6 months into bonds in the latest week and inched back into stocks for the first time in 5 weeks, Investment

Company Institute data showed on Wednesday.

The data, collected over the seven-day period through July 18, shows investors tip-toeing into a market despite ongoing concern over the U.S. conflict with its trading partners.

During that week, Federal Reserve Chairman Jerome Powell expressed an optimistic view on the U.S. economy and early earnings reports mostly bolstered the outlook for the most recent quarter.

Bond mutual funds and exchange-traded funds based in the United States collected nearly $8.7 billion during the week and stock funds pulled in another $1.5 billion, according to the trade group.

The strong sales for debt funds were helped by nearly $1.8 billion pumped into municipal bond funds that offer tax-free income, the most cash for those products since late January, ICI’s records show.

Seen as a lower-risk source of income than equities, bond funds have drawn strong demand despite the risk of rising interest rates and inflation, not to mention the year-to-date negative performance of many such debt funds.

Bond ETFs, in particular, have also drawn interest from institutions that traditionally favored trading individual bonds.

Nearly 87 percent of the cash that moved into stock funds went into products primarily invested within the United States, according to the ICI.

After strong demand for stocks outside the country in 2017 and earlier this year, investors started pulling cash in recent weeks as anxiety spiked about U.S. interest rate hikes as well as the consequences of a growing trade war for the dollar and equity markets around the world.

The following table shows estimated ICI flows for mutual funds and ETFs (all figures in millions of dollars):

	7/18	7/11	7/3	6/27	6/20/2018
Equity	1,492	-3,155	-10,614	-17,948	-5,173
Domestic	1,297	-1,546	-11,376	-12,535	-3,880
World	195	-1,609	762	-5,413	-1,293
Hybrid	-1,829	-1,048	-2,552	-1,134	-857
Bond	8,659	7,445	4,587	2,980	4,549
Taxable	6,894	6,416	4,231	2,455	3,806
Municipal	1,765	1,028	356	525	742
Commodity	-308	101	-1,027	-612	-264
Total	8,013	3,343	-9,606	-16,714	-1,745

(Reporting by Trevor Hunnicutt; Editing by Dan Grebler)

Municipal-Bond Funds Draw Flood of Cash as Market Extends Gains.

- **Funds got a $1.68B inflow last week, most since January**
- **Eleven straight weeks of inflows follows positive return**

Bondholders are no longer seeing losses from their investments in state and local-government debt — and they’re pouring money back into the market.

Mutual funds that focus on municipal bonds picked up $1.68 billion in the week through July 18, the biggest influx of cash since the end of January, according to the Investment Company Institute. It was and the eleventh straight weekly gain.

Strong demand comes as the market recovers from losses in January that left it in the red for much of the year. Municipal bonds have since swung to a 0.04 percent gain, a relatively strong showing given the 1.47 percent loss for Treasuries and 2.79 percent drop for corporate debt, according to Bloomberg Barclays indexes.

"Solid returns of the muni market over all relative to other fixed income sectors is what's drawing in the interest," said Michael Pietronico, chief executive officer of Miller Tabak Asset Management in New York, which manages $1.2 billion of municipal debt.

He said there's also "a lot of uncertainties in regards to tariffs and trade issues globally that is driving money into defensive sectors, particularly munis."

Bloomberg Markets

By Danielle Moran

July 25, 2018, 10:41 AM PDT

S&P: The U.S. Not-For-Profit Senior-Living Sector Remains Stable, Supported By Favorable Demand And Growing Liquidity And Financial Flexibility.

The U.S. not-for-profit rated senior-living sector demonstrated continued stability in 2017, highlighted in part by ongoing strength in macro-level factors related to the economy and housing sector, as well as by sector-specific trends related to strong demand and growing liquidity and financial flexibility, particularly relative to operations.

Continue Reading

Jul. 23, 2018

Steel Tariffs Tightening Supplies, Raising Costs for City Construction Projects.

Columbus won't need steel for the next phase of the Route 315/West North Broadway interchange project until February, but it's putting in its order now.

That might not be early enough.

City officials say it recently has become harder to acquire the materials they need for public projects since federal steel tariffs took effect, and they have been unable to get waivers for federal Buy American policies that require domestically produced parts for public projects.

It could take six to eight months to obtain the girders, bearings and other steel parts for the highway ramp, so the city needs to order now — months before it even selects a contractor — if the project is going to stay on track to open in May.

“Currently, right now in the country, steel is at a premium,” Public Service Director Jennifer Gallagher told City Council members before they approved spending $1.6 million on those parts last week.

Tariffs that President Donald Trump’s administration announced in May could be a boon to U.S. steel producers, but they also could make it more expensive for local governments to pay for public infrastructure.

And the tariffs could jeopardize timelines for completing projects if steel orders aren’t made early enough. Fabricators that take raw steel and turn it into usable components are seeing delays in acquiring the material because domestic producers have been overwhelmed by demand.

“For us to get the raw plate material to fabricate it used to be we would order steel today and get the steel two months later. Now, it’s five to six months,” said Evan Morrison, vice president of Ohio Structures Inc. in Canfield, southwest of Youngstown.

Buying steel for a construction project is an unusual step for the city. Typically, contractors include materials in their bids, but the city won’t put the Route 315/West North Broadway project’s second phase out to bid until the fall. By then, it could be too late to get steel in time.

“It’s just like anything else: You place an order and you get put in line,” said Jim Pajk, the city’s assistant administrator for design and construction. “You’ve got to get yourself in line as early as you can. We’re seeing that line was stretching out.”

Morrison said his company is considering bidding on the city’s steel contract for the interchange, but it already has asked whether the delivery date can be extended. Even if fabricators already have placed orders, barges, rail lines and trucks that deliver it are backed up, too, he said.

“There’s no fabricator that’s going to have this much inventory on hand,” he said.

Ohio Contractors Association President Chris Runyan said he hasn’t heard about significant delays on projects yet because contractors have submitted their orders early. But project price tags are rising as contractors bake steel price volatility into their bids, he said.

When the city received bids for a new police substation and fire station, the cost was more than $2 million higher than expected, said Joe Lombardi, the city’s finance director. Council members approved two contracts totaling about $18 million for those projects last week.

Construction prices have been increasing steadily for the past several years, and the Ohio Department of Transportation has “not seen recently anything that would be out of line with that trend,” spokesman Matt Bruning said.

As prices rise, public projects often are delayed or scaled back, said Kent Scarrett, executive director of the Ohio Municipal League.

“It sort of feeds on itself, because the more you delay, these costs aren’t going down. The delay is costing our communities on the residual side by missing opportunities now,” he said.

Columbus also is contending with potential delays because the Buy American policies are making it harder to acquire nuts and bolts for a project that would allow the city to treat more raw sewage at its Southerly Wastewater Treatment Plant during heavy rain.

The city is paying for the project using U.S. Environmental Protection Agency loans, but it has received waivers for the Buy American policy for nuts and bolts in previous years. Purchasing those components from domestic producers is backed up by about four months, said John Ivanic, assistant director in the Department of Public Utilities.

Buy American policies have existed for decades, but Trump issued an executive order in 2017 that doubles down on them. Under that order, the executive branch can require those who receive federal financial assistance to use materials produced in the United States.

The federal EPA has taken public comments on providing waivers to Buy American policies in 2018, but it has not taken any formal action, said James Lee, a spokesman for the Ohio EPA. Columbus is the only loan recipient that has expressed difficulty in complying with the requirement, he said.

"The policies were poorly executed, the tariffs and such. We're all dealing with that. The people who are really suffering are the workers in the construction industry because these projects have to be scaled back," said Robin Davis, a spokeswoman for Mayor Andrew J. Ginther.

By Rick Rouan

Jul 29, 2018 at 5:33 AM

The Columbus Dispatch

Wisconsin City to Offer Mini-Bonds to Residents.

Mini-bonds are similar to traditional municipal bonds, but on a smaller scale.

The city of Madison, Wisconsin, will sell mini-bonds to residents to help fund an expansion of a botanical garden, an approach to raising money officials there haven't tried in 40 years.

The Olbrich Gardens expansion project includes construction of a learning center and an energy-efficient greenhouse. The project is being financed jointly by the city and the Olbrich Botanical Society, with each providing up to $6 million.

"Working alongside the capital campaign overseen by the Olbrich Botanical Society, this bond offering is another way to be a part of a facility that will serve all ages and demographics for years to come," Mayor Paul Soglin said in a statement. "I am excited to give our residents easier access to investing in our community and getting a good return on that investment."

The mini-bonds will provide an additional funding stream, allowing residents to invest in the project and reap tax-free interest on the returns. Mini-bonds are similar to traditional municipal bonds, which are typically issued to banks and other financial institutions, but on a smaller scale. They're usually sold in denominations of $5,000, but will be lowered to $500 to "make the bonds more accessible to community investors," the city said in a release.

Via broker-dealer Neighborly Securities, the city will sell up to $2.1 million in bonds during a seven-day order period from Oct. 3 to 9. Bonds will be issued on a first-come, first-served basis, with orders ranging from $500 to $50,000. Residents can set up an account online to purchase the mini-bonds rather than working through a traditional arrangement with a broker, said David Schmiedicke, the city's finance director.

Other cities have had success issuing mini-bonds to help fund projects. In February, Cambridge, Massachusetts sold $800,000 in mini-bonds in one day to help pay for a variety of improvements, including solar panels at the public library. Four years ago, Denver sold out of $12 million in mini-bonds in one hour—during what was supposed to be a five-day sale.

It's the first real mini-bond offering for Madison, though the city "issued something akin to mini-bonds in the 1970s," Schmiedicke told Route Fifty. "It was a short-lived program. Today's technology provides a more streamlined approach for issuing smaller denomination bonds to give more Madison residents a chance to invest in their city."

The city will hold two as-yet unscheduled informational sessions for residents, one in late September and the other in early October.

Route Fifty

By Kate Elizabeth Queram,
Staff Correspondent

JULY 25, 2018

Key GOP Lawmaker Releases Last-Ditch Infrastructure Plan.

U.S. Rep. Bill Shuster's draft bill includes gasoline and diesel tax hikes.

The Republican chairman of the House Transportation and Infrastructure Committee released a draft public works bill on Monday that calls for phasing in a gas tax increase of 15 cents per gallon over three years, along with a raft of other measures.

For U.S. Rep. Bill Shuster, of Pennsylvania, who is not seeking reelection, the proposal amounts to a last ditch attempt during his final months in office to spark movement on an infrastructure package, after efforts to do so by the Trump administration lost steam.

In the long-term, parts of the bill are geared toward shifting how the U.S. pays for transportation infrastructure away from taxes on gasoline and diesel fuel, despite a nearer-term hike in those taxes.

Continue reading

Route Fifty

By Bill Lucia,
Senior Reporter

July 23, 2018

FRA Announces $318 Million in CRISI Grant Funding Availability.

Last week the Federal Railroad Administration issued a notice of grant funding of $318 million for rail infrastructure and safety improvements through the Consolidated Rail Infrastructure and Safety

Improvement Grants Program known as CRISI. The deadline for applications is September 17, 2018.

CRISI grants are designed to assist with financing passenger and freight rail system improvements to achieve safety, efficiency, and reliability benefits. Eligible applicants include states, public agencies, Amtrak, and Class II and Class III rail carriers and railroad or equipment manufacturer working with eligible applicants.

FRA will consider CRISI funding for intercity passenger rail service, to reduce rail congestion, and to improve short-line and regional rail infrastructure; projects to enhance passenger or freight multimodal connections; and other safety improvements, including deployment of non-PTC safety technology.

FRA's share of total costs for CRISI projects is not to exceed 80%, but FRA prefers applications where the Federal projects costs is under 50 percent.

This is the second round of CRISI funding this year. In May, FRA issued a funding opportunity for $250 million in CRISI grants for Positive Train Control.

Nossaman Infra Insight Blog

By Justin Marks on July 24, 2018

[S&P: The U.S. Not-For-Profit Senior-Living Sector Remains Stable, Supported By Favorable Demand And Growing Liquidity And Financial Flexibility.]

The U.S. not-for-profit rated senior-living sector demonstrated continued stability in 2017, highlighted in part by ongoing strength in macro-level factors related to the economy and housing sector, as well as by sector-specific trends related to strong demand and growing liquidity and financial flexibility, particularly relative to operations.

Continue Reading

Jul. 23, 2018

[S&P: U.S. Not-For-Profit Acute Health Care Ratios: Sector Is Buffeted By Disruption, Yet 2017 Median Trends Remain Unchanged From Last Year.]

The 2017 U.S. not-for-profit acute health care medians highlight the same sector issues as seen in 2016 and we expect this trend to continue for the year ahead. Operating income and operating cash flow show continued declines while balance sheets remains stable at levels exceeding the prior peaks before the Great Recession.

Continue Reading

Jul. 17, 2018

S&P: U.S. Not-For-Profit Acute Health Care Speculative Grade Median Financial Ratios -- 2017 vs. 2016

Overall speculative grade credit metrics in 2017 are largely consistent with 2016 with stand-alone organizations dominating the category and some modest overall deterioration in ratios; There is continued movement of credits into speculative grade categories as operations weaken; however, historically this has been offset by ratings being removed as a result of mergers and acquisitions;

Continue Reading

Jul. 17, 2018

How the Volcker Rule Affected Tender Option Bonds.

The Volcker Rule is a federal regulation that went to effect on April 1, 2014. The rule, which is named after former Federal Reserve Chairman Paul Volcker, is actually section 619 of the *Dodd-Frank Street Reform and Consumer Protection Act.*

This rule prohibits banks from using their own accounts for short-term proprietary trading or to invest in hedge or private equity funds. Essentially, this rule prohibits banks from taking on too much risk in an effort to increase profits.

Tender Option Bonds, or TOBs, are structured products that use leverage to increase the overall yield of a municipal bond portfolio. So, let us take a look at how the Volcker Rule impacts these structured muni debt instruments.

Continue reading.

municipalbonds.com

Brian Mathews

Jul 19, 2018

Why Munis are a Great Buy.

All the focus in the fixed income world is currently centered around whether the yield curve will invert. However, investors should know something-the yield never inverts in municipal bonds. That's right, the muni yield curve has never inverted. The reason why being that short-term munis are always very rich, with small supply and high demand. However, looking at longer-term yields, munis look like a great buy. While the average ten-year muni yield is only 2.43% versus 2.86% for Treasuries, for any investor in a tax bracket above 15%, buying munis makes more sense.

FINSUM: *The current spread between ten-year munis and Treasury bonds makes the former look like a smart purchase right now, especially because the market seems to be in healthy shape.*

Nasdaq

July 18, 2018, 10:03:13 AM EDT By dkorth@finsum.com (FINSUM), FINSUM

Blockchain Bonds – Raising Money for City Projects.

When Berkeley vice mayor Ben Bartlett saw President Donald Trump announce the December 2017 tax bill that would reduce corporate tax by 14 percent, it sparked an idea in him, and blockchain bonds were born.

The tax decrease implemented by the Trump administration decreased any real incentive corporations had to seek tax breaks by investing in projects that the government deemed "noble," such as affordable and senior housing.

Issuing micro-bonds

The answer, according to Bartlett, may rest in a pilot program that was recently approved unanimously by the city council to use blockchain technology to issue micro-bonds that could raise money for various city projects, such as affordable housing.

The blockchain bonds pilot program is still at the fine-tuning stage, but it would allow the city to issue micro-bonds in amounts of $10 to $25, which is substantially lower than the current minimum of $5,000.

Such a move would make the bonds more accessible to more people.

"These bonds — we call them micro-bonds because they're small — are really cool because you can target them to make one building," claimed Bartlett.

"They're extremely flexible like that because the cost is so low, and they're fast, too. The micro bond proposal is leveraging the blockchain to crowdfund bonds, essentially. You can also do geotargeting to the bond."

"Blockchain technology is attractive because it allows you to instantly record transactions indelibly, and it can't be altered," Bartlett said.

"When you can do that, you lower the cost so much on issuance that you can make the bond available for 25 cents, honestly."

Affordable and homeless housing

Initial plans are for the blockchain bonds pilot test to begin sometime in the fall, with the first project being a USD 3 million firetruck, which Bartlett believes will provide something "attractive and visual for the community to see."

The firetruck is just the beginning, with more pressing issues on Bartlett's mind, such as affordable and homeless housing.

He's also looking at the idea of using blockchain technology to secure voting, as well as managing internet of things (IoT) applications like connected city vehicles and street lighting.

Working towards this goal, Bartless and Mayor Jesse Arreguin have launched the Berkeley Blockchain initiative in partnership with the Blockchain Lab at the University of California, which applies technology to municipal finance.

“Currently, governmental entities sell their bonds to banks who then resell the bonds to numerous intermediaries before reaching an investor,” Bartlett wrote on Medium.

“Each intermediary charges fees and markups. The UC Berkeley Haas Institute estimates that bond issuers lose approximately $4 billion annually as a result of this process.”

“There’s a lot more people using facilities, a lot more people needing housing and a lack of funding,” Bartlett said. “How do you avoid bankruptcy, how do you stall the growth of homelessness? How do you keep people well? One way to do that is to let the jurisdiction increase wealth for itself.”

Crypto Disrupt

by David Cullinan
Lover of all things crypto, blockchain and AI, professional tech scribe & part of the editorial team at Crypto Disrupt.

July 17, 2018

Bonds on the Blockchain: Streamlined, Low-Cost, Transparent Funding

Berkeley, Calif., is getting ready to test using blockchain to issue micro bonds to raise money for city projects, such as affordable housing.

City staff are fine-tuning plans for a pilot test of a program the city council unanimously approved on May 2 that would let the city issue micro bonds in amounts of $10 to $25 — much lower than the current minimum of $5,000. That would make bonds more accessible to more people.

“These bonds — we call them micro bonds because they’re small — are really cool because you can target them to make one building,” said Ben Bartlett, the city’s vice mayor. “They’re extremely flexible like that because the cost is so low, and they’re fast, too. The micro bond proposal is leveraging the blockchain to crowdfund bonds, essentially. You can also do geotargeting to the bond.”

Blockchain is a decentralized digital ledger in which transactions are quickly recorded. Benefits of the technology include greater security and transparency.

“Blockchain technology is attractive because it allows you to instantly record transactions indelibly, and it can’t be altered,” Bartlett said. “When you can do that, you lower the cost so much on issuance that you can make the bond available for 25 cents, honestly.”

The pilot test will likely start in the fall and raise funds for a $3 million firetruck, he said — something “attractive and visual for the community to see.”

But Bartlett has bigger applications in mind. One is to address Berkeley’s shortfall in affordable and homeless housing. Beyond that, he’s looking to use blockchain to secure voting and managing internet-of-things applications such as street lights and connected city vehicles. For this goal, Bartlett and Mayor Jesse Arreguin launched the Berkeley Blockchain Initiative with the Blockchain Lab at the University of California at Berkeley and Neighborly, which applies technology to municipal finance.

"Currently, governmental entities sell their bonds to banks who then resell the bonds to numerous intermediaries before reaching an investor," Bartlett wrote on Medium. "Each intermediary charges fees and mark ups. The UC Berkeley Haas Institute estimates that bond issuers lose approximately $4 billion annually as a result of this process."

Issuing bonds via blockchain would disrupt this process by letting government entities, nonprofit organizations and owners of properties that provide low-income housing, for example, to issue micro bonds directly, removing the middle man and democratizing asset ownership, he wrote.

The idea came to Bartlett after a series of actions by President Donald Trump. One was the December 2017 tax bill that reduced corporate tax rates from 35 percent to 21 percent. That decreased the incentive corporations had to seek breaks for investing in things the government finds "noble," such as affordable and senior citizen housing, Bartlett said.

Last year, Trump suggested pulling federal funding from UC-Berkeley after protests turned destructive, and as part of his immigration reform plan, he's threatened to withhold funding from sanctuary cities such as Berkeley, which limit their cooperation with federal agencies on immigration enforcement.

"There's a lot more people using facilities, a lot more people needing housing and a lack of funding," Bartlett said. "How do you avoid bankruptcy, how do you stall the growth of homelessness? How do you keep people well? One way to do that is to let the jurisdiction increase wealth for itself."

Because the municipal bond market is worth about $3.8 trillion, Berkeley's proposal is attracting attention. Bartlett said he's spoken about the idea in front of 120,000 people at various conferences and fielded calls from at least 30 cities, several states and even other countries. "Everyone's seeking this new way to speed capital and improve their communities," he said.

The Berkeley city council isn't the first public-sector entity to consider blockchain for government applications. Delaware is looking into using blockchain to streamline the incorporation process for companies that want to form Delaware-based businesses.

The Illinois Blockchain Initiative, a consortium of state and county agencies that explores ways to leverage the technology, has partnered with identity solutions firm Evernym to provide self-sovereign digital identities.

According to a 2017 report by the National Association of State Chief Information Officers, potential use cases for blockchain include property, finances, public and private records and physical asset keys.

GCN.Com

By Stephanie Kanowitz

Jul 16, 2018

About the Author
Stephanie Kanowitz is a freelance writer based in northern Virginia.

Public Pension Funding Crisis: Who Was Jeremy Gold And Why Should You Care?

The bottom line: public pension plans' poor funding levels would be even worse if they were accounted for the way that private pension plans are, the fact that their accounting methods differ has contributed to the funding crisis, and Jeremy Gold was either a prophetic or foolish in attempting to call attention to this fact.

Let's start with more actuary-splaining:

Actuarial valuations . . . in the corporate world

In the corporate pension world, there are two types of actuarial valuations: accounting valuations and funding valuations. The former determine what liabilities and expense are recorded on the company's books, and the latter determine what contributions the employer will make to the pension fund, or define a range of choices.

The interest rate — or, in actuarial terminology, the discount rate (since you're discounting to the present, the present value of a future benefit) — for accounting valuations is pretty nearly the corporate bond rate; once upon a time, it was just a generic bond rate; then more attention was paid to ensuring that the duration of the bond rate is equivalent to the duration of the plan liabilities (that is, simply defined, that the weighted average of the future payouts of the bond index match the future payouts of the pension plan); now most companies use a yield curve to determine the discount rate.

Continue reading.

Forbes

by Elizabeth Bauer
Contributor

Jul 17, 2018

An Assumed 'Treasury Put' May Have Doomed Puerto Rico Bond Investors.

Was the Detroit bankruptcy a turning point in the municipal bond market?

For years, bond investors snatched up debt issued by the Puerto Rican government, even as the island's economic and fiscal situation deteriorated. What's more, bond yields never rose high enough to reflect the risk Puerto Rico clearly displayed.

Many investors are now suffering. A 2009 Puerto Rico general obligation bond traded last month at 42 cents on the dollar.

A new academic paper suggests those market conditions may not have been as off-base as they look now, in the aftermath of a debt default, the creation of an oversight board, and bitter battles between bondholders, government officials, bond insurers, and many other counterparties.

[Continue reading.](#)

Market Watch

July 19, 2018

[Wall Street Banks Want Muni Whistle-Blower Suit Dismissed.](#)

- **Top underwriters say complaint lacks specificity, knowledge**
- **Size of municipal VRDO market estimated at about $160 billion**

Eight banks that help sell municipal bonds for Illinois asked a judge to dismiss a $1 billion lawsuit accusing them of fraud and collusion.

The remarketing agents for variable-rate demand obligations say that the suit filed on April 5 by Edelweiss Fund LLC under the Illinois False Claims Act doesn't identify specific statements made by any of the defendants, false or otherwise. They also claim that it's based upon conjecture rather than inside knowledge; and that the majority of deals cited were done through conduits "made on behalf of non-State entities who bear all of the financial risks of the transactions."

The banks seeking dismissal of the lawsuit are: Morgan Stanley; JPMorgan Chase & Co.; Citigroup Inc.; Bank of America Corp.; Barclays Capital; Fifth Third Bancorp; William Blair & Co.; and BMO Capital Markets Corp.

Michael Lissack, a spokesman for Edelweiss, declined to comment.

'Robo-Reset'

Variable-rate securities are long-term municipal bonds whose rates are reset periodically and are puttable back to the issuer. Remarketing agents set the rates and often take bonds that have been put back into inventory for resale.

Instead of "actively and individually" marketing and pricing bonds at the lowest possible interest rates, the banks "engaged in a coordinated 'Robo-Resetting' scheme where they mechanically set the rates en masse without any consideration of the individual characteristics of the bonds, the associated market conditions or investor demand," the Edelweiss lawsuit alleged. The suit was filed by a group of whistle blowers on behalf of the state of Illinois.

"Defendants 'Robo-Reset' these rates in order to keep the bonds in the hands of their holders, and thus alleviate the need for defendants to remarket the bonds," the suit said.

The lawsuit alleged that this method of setting rates kept those rates artificially high, and that it cost Illinois issuers $349 million. It sought triple that amount in damages and penalties.

In the early years of this century, issuers sold between $30 billion and $60 billion of such debt annually, often in conjunction with interest-rate swaps, according to Thomson Reuters Deals Intelligence.

In 2008, they sold more than $115 billion in such paper as they refinanced both auction-rate and insured floating-rate debt, as the auction market froze and insurance companies were downgraded. Since then issuance has dwindled, totaling $5 billion in 2017. The total size of the outstanding VRDO market is about $160 billion, according to data compiled by Bloomberg.

Bloomberg Markets

By Joe Mysak

July 17, 2018, 7:33 AM PDT

Why Didn't Investors Demand Higher Yields for Buying Puerto Rican Government Bonds?

For years, Puerto Rico's economic and fiscal picture was deteriorating. Between 2005 and 2013, real GDP declined by 15 percent, while between 2000 and 2015 Puerto Rico's government liabilities to GDP grew from 70 percent to 109 percent. Nevertheless, investors continued to purchase millions of dollars of Puerto Rico's bonds with only a modest risk premium. In a paper to be presented at the 2018 Municipal Finance Conference, *"What Went Wrong? The Puerto Rican Debt Crisis and the 'Treasury Put,'"* three economists from the University of Illinois at Chicago ask why investors were so willing to continue to lend to Puerto Rico.

Their answer: investors assumed the federal government would ultimately bail out Puerto Rico.

[T]he Treasury Put is an "implicit guarantee by the federal government to provide support in the event of financial distress by the issuer of Puerto Rican bonds as perceived by investors."

"The expectation of a federal bailout was perfectly reasonable given past behavior by the federal government, especially the prior bailout of New York," authors Robert Chirinko, Ryan Chiu, and Shaina Henderson say. However, when the government refused to bail out the city of Detroit in 2013, investors realized their assumptions about a federal bailout for Puerto Rico were wrong. This provided a natural experiment to measure the value of what they call the "Treasury Put." Per the authors, the Treasury Put is an "implicit guarantee by the federal government to provide support in the event of financial distress by the issuer of Puerto Rican bonds as perceived by investors." The authors say their work challenges the view of some analysts, including the Government Accountability Office, that the Puerto Rico debt crisis was the result of inadequate disclosure by Puerto Rico of its financial condition. The authors begin by comparing the yields on privately insured and uninsured Puerto Rican general obligation bonds issued on the same days between the years 2000 and 2013, relative to the yields on Aaa, Baa, and junk-rated corporate bonds. Using that data, they estimate the risk premium that investors demand for buying uninsured Puerto Rican debt, and find it to be "exceptionally low," given Puerto Rico's fundamentals. This, they say, "was eminently reasonably given the expectation of financial support from the U.S. Treasury."

Continue reading.

The Brookings Institute

by Joseph Figueroa and David Wessel

Monday, July 16, 2018

Present Consequences of Unfunded Pension Liabilities and Ways Forward.

State governments with large unfunded pension liabilities are paying more to borrow from capital markets than are other states, according to Chuck Boyer of the University of Chicago Booth School of Business.

In the paper, *"Public Pensions, Political Economy and State Government Borrowing Costs,"* to be presented at the 2018 Municipal Finance Conference at Brookings this week, Boyer argues that markets view states with large pension deficits as riskier investments. His evidence suggests that states are already paying for municipal government's unfunded pension liabilities in the form of higher borrowing costs. He asks two questions: 1) how are state governments' borrowing costs affected by unfunded pension obligations? and 2) do states with political constraints face higher borrowing costs?

Boyer constructs a panel dataset using each state's Comprehensive Annual Financial Reports for the period 2005 to 2016. He focuses on balance sheet variables—revenues, expenses, assets, and liabilities—to capture a state's financial health and credit default swap (CDS) spreads – the premium paid to protect buyers from an issuer defaulting – to measure borrowing cost. The author reasons that CDS reflects market sentiments better than market yields because CDS are more liquid, and because they are standardized, whereas market yields may be affected by additional features of a particular bond.

Continue reading.

The Brookings Institute

by Jeffrey Cheng and David Wessel

Monday, July 16, 2018

Green-Bond Sales Surge Toward Record as Borrowers Burnish Brands.

- **New issues by U.S. companies reach $6.7 billion through July**
- **American businesses still lagging the rest of the world**

If the bond market is any guide, Corporate America is hugging a lot more trees than last year.

Sales of green bonds by U.S. companies in 2018 have already topped last year and are on pace for a record, according to data from the Climate Bonds Initiative. The pickup hasn't been fueled so much by a desire to fatten the bottom line — there's no clear and consistent evidence of a pricing benefit — rather many companies want to burnish their brands and satisfy investor demand.

"The main thing that we find that makes corporates want to issue is they already have a fairly robust sustainability program with a focus on the environment," said Suzanne Buchta, global head of environmental, social and governance debt capital markets at Bank of America Merrill Lynch. "Green bonds give them an opportunity to share that same story with another audience, which is the fixed-income investors who have green bond money."

Governments, companies and institutions issue green bonds to fund projects that are supposed to help the environment or climate, though the exact definition is open to interpretation — leading some to criticize the nascent asset class. The first time a U.S. corporation sold a green bond was in 2013. Since then, issuers have included Tesla Inc., Apple Inc., Toyota Motor Corp. and BofA.

The European Investment Bank and World Bank started issuing green bonds in 2007. The global market has grown exponentially, of which the U.S. market remains a small fraction. Last year, global issuance soared to an all-time high of $173 billion and estimates for 2018 are around $200 billion, data compiled by Bloomberg New Energy Finance show.

In the U.S. green bonds usually need third-party verification and ongoing reporting, which adds extra costs. Typically, they are priced in line with similar assets and there is no evidence borrowers get a discount. This may be keeping some would-be players on the sidelines.

"I think what we're seeing is corporates are very sensitive about the pricing benefit that they may or may not get from the green bond market," said Matthew Kuchtyak, an analyst at Moody's Investors Service. "And the general evidence research to date has shown that there is not necessarily a pricing benefit in the primary market for green-bond issuers."

But advocates for green bonds argue benefits like investor diversification and a positive marketing story are worth it.

"It's so easy for U.S. corporates to raise money lately, it might take a correction before people realize the benefits of an investor marketing edge," said Sean Kidney, chief executive officer of the Climate Bonds Initiative, an organization that promotes green bonds.

Bloomberg Business

By Shelly Hagan

July 18, 2018, 7:25 AM PDT

— With assistance by Daniel Shurey, and Aiman Mallah

Municipalities Could Benefit from Issuing More Green Bonds.

Editor's Note: *This paper will be presented at the 2018 Municipal Finance Conference on July 16 & 17, 2018. The conference is a collaboration of the Brookings Institution's Hutchins Center on Fiscal and Monetary Policy, the Brandeis International Business School's Rosenberg Institute of Public Finance, Washington University in St. Louis's Olin Business School, and the University of Chicago's Harris Institute of Public Policy. It aims to bring together academics, practitioners, issuers, and regulators to discuss recent research on municipal capital markets and state and local fiscal issues.*

A green bond is one whose issuer commits to using 100 percent of bond proceeds for environmentally friendly purposes. For instance, municipalities can use green bonds to fund projects focused on renewable energy, clean transportation, sustainable water management, or climate change adaptations, among others. In a paper to be presented at the 2018 Municipal Finance Conference at Brookings, Malcolm Baker and George Serafeim of Harvard Business School, Daniel Bergstresser of Brandeis International Business School, and Jeffrey Wurgler of the NYU Stern School of Business find that yields at issue for green municipal bonds are on average 0.06 percentage points below yields paid on otherwise equivalent bonds.

The paper, "Financing the Response to Climate Change: The Pricing and Ownership of U.S. Green Bonds," provides an overview of the U.S. municipal bond market covering 2,083 municipal bonds labeled green by Bloomberg, and another 643,299 ordinary municipal bonds, issued between 2010 and 2016. The annual issuance of bonds identified as green rose from less than $500 million a year (or less than 0.18 percent of total annual municipal issuance) in 2010 to 2013 to over $2 billion in 2014, and totaled $6.5 billion (or 1.9 percent of total municipal issuance) in 2016. Most environmentally sensitive projects, such as pollution control and mass transit, are still funded by ordinary bonds, as the table below shows. Therefore, municipalities could, and perhaps should, already be issuing green bonds in far greater numbers, the authors say.

Continue reading.

The Brookings Institute

by Finn Schuele and David Wessel

Monday, July 16, 2018

Fitch: U.S. Colleges and Universities Show Stable Liquidity for FY2017 Despite Pressures.

Fitch Ratings-Chicago-20 July 2018: Both public and private U.S. colleges and universities demonstrated stable debt burdens and liquidity in fiscal 2017 in the face of growing operating pressures, according to a Fitch Ratings' median report. Trends highlighted in the median report and the Fitch Analytical Comparative Tool (FACT) show level debt burdens and steady to improving liquidity against expenses in fiscal 2017.

Median operating results for both public and private universities were generally stable in fiscal year-end 2017 after declining in fiscal 2016 despite clear pressures on non-tuition revenue sources. These pressures include flatter state funding, continuous federal spending and budgetary pressure, and evidence of a constrained cash flow environment in healthcare. However, the credit fundamentals of the sector remain evident, as debt burden and coverage levels remained steady in fiscal 2017.

Fitch's U.S. College and University FACT is an interactive, point-in-time comparative assessment of Fitch-rated U.S. colleges and universities. It allows market participants to compare key financial metrics for public and private higher education institution against the rated portfolio, rating category, regional peers, and over time.

Fitch's published median report for U.S. private and public colleges and universities and FACT are available at www.fitchratings.com.

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Wells Fargo Sees 'Historically Tight' High-Yield Muni Spreads.

Lyle Fitterer, head of municipal fixed income at Wells Fargo Asset Management, examines muni spreads and the outperformance of high-yield municipal bonds. He speaks with Bloomberg's Taylor Riggs in this week's "Muni Moment" on "Bloomberg Markets."

Watch video.

TV Shows – Bloomberg Markets

July 19th, 2018, 9:02 AM PDT

Public Pensions Adopt Cost Sharing Mechanisms to Stem Volatility.

- **Maine and South Dakota pensions tweak cost of living increases**
- **About a third of states have funds sharing risk with workers**

In spring 2016, Sandy Matheson, the executive director of the Maine Public Employees Retirement System, was panicking.

After earning 2 percent the previous fiscal year, record low bond yields and global stock market turmoil were dragging the pension's returns even lower — and further away from its 6.9 percent assumed annual return.

She modeled government pension payments under a scenario where investments returned 4 percent a year for four years and then 6.9 percent thereafter. The result: government contributions would increase every year until 2032, reaching 21 percent of payroll from 10 percent.

"My hair was on fire," Matheson said. "[I was] near hysterical at the thought of what's going to happen if we continue on earning less than our discount rate. We'd just be cutting benefits."

Risk Sharing

Matheson, with the help of the fund's actuarial firm, Cheiron, put together a plan in which the risks of investment gains and losses weren't just assumed by taxpayers, but shared between local governments, their employees and retirees. Maine adopted the risk-sharing plan for municipal employees that participate in the system starting the fiscal year than began July 1. Matheson plans to brief lawmakers on extending it to state employees and teachers.

“The goal of the model is to prevent any kind of damage or harm to the plan, due to the volatility in the markets,” Matheson said. “Employer rates have always gone up and down with the market but both employee and employer rates will now go up and down. They’ll share in market risk.”

Most U.S. public pensions were fully funded as recently as 2000, but the collapse of the internet bubble and the Great Recession caused by the financial crisis of 2008 — combined in some cases with years of contribution shortfalls and unfunded benefit increases — resulted in pension debt exceeding $1 trillion. Between 2003 and 2013 the cost of making required pension payments almost doubled, according to a 2017 report from the Pew Charitable Trusts.

In response, some pensions have adopted formal cost-sharing mechanisms, adjusting contributions or benefits, instead of making unplanned benefit cuts or contribution increases. Almost 30 defined benefit pension plans in 17 states use cost-sharing mechanisms to manage risk, according to the Pew report.

Some states, such as Illinois and New York, have constitutional or statutory prohibitions on changing retiree benefits.

Capped Rates

Maine capped contribution rates by municipalities at 12.5 percent and 9 percent for employees, giving both parties certainty about how high costs would go to make up for investment losses. If pension losses exceed the capped contribution rates, retiree cost of living adjustments are reduced. Maine’s local governments and employees share in investment gains and losses at a 55 percent to 45 percent split.

Had Maine’s plan been in effect after the financial crisis, contribution rates would have increased to 12.5 percent and 9 percent and held there for five years. Retirees would have had a 30 percent annual reduction in cost of living adjustment for seven years, according to Gene Kalwarski, chief executive officer at Cheiron, a McLean, Virginia-based actuarial and financial consultancy.

“Under a traditional plan, you have one lever that deals with something like a recession, that’s the employer contribution,” Kalwarski said. “Here we’ve got the COLAs as well as the member contributions that reduce what otherwise would have been an employer contribution spike.”

When the markets rebound and investment gains exceed the assumed investment return, the COLA would increase until reaching a cap of 2.5 percent. Further gains would allow employers and employees to reduce contributions for services performed by current members when the plan is fully-funded, to a minimum of about 14 percent, 7.7 percent for employers and 6.2 percent for employees.

That would have served the pension well in the 1990s when roaring stock market gains allowed governments to stop making annual contributions, Kalwarski said.

Cost Adjustment

In South Dakota, where employer and employee pension contributions are each fixed in law at six percent of pay, the state adopted a plan that changes cost of living adjustments depending on the funding status of the pension, said Rob Wylie, executive director of the South Dakota Retirement System.

“We were looking for ways to have the plan move with the marketplace, reward the plan when times were good, but also contract the plan when times were not so good,” Wylie said. In most other public pensions “the benefits aren’t the flex point, the contributions are.”

South Dakota’s pension is 100 percent funded. If the funding level falls below 100 percent, the cost of living adjustments can be moved between 0.5 percent and 3.5 percent depending on the plan’s funded status and inflation. If the ratio of the pension’s assets to liabilities falls below 80 percent, certain ancillary benefits must be cut, in addition to the cost of living adjustments.

While beneficiaries know their cost of living adjustments may vary depending on the market, their defined benefit payment is secure, Wylie said. Before the pension adopted its new structure in 2016, South Dakota’s actuary estimated that cost of living adjustments represented 25 percent of its total liability.

“A defined benefit puts all the risk on the employer and defined contribution puts all the risk on the member,” said Kalwarski. “Why put it on one side completely? Those shouldn’t be your only choices.”

Bloomberg Markets

By Martin Z Braun

July 17, 2018, 6:18 AM PDT

Wall Street's Muni-Bond Traders Feel Pinch as Fees Keep Tumbling.

- **Mark-ups decline for ninth straight year, regulator finds**
- **Transparency, electronic trading cutting costs for customers**

Wall Street’s muni-bond traders keep getting pay cuts.

The fees they reap from buying and selling customers’ securities have fallen steadily for the past nine years as electronic trading expanded and regulators moved to inject more transparency into the $3.8 trillion market, according to a study released Wednesday by the Municipal Securities Rulemaking Board.

The average fee — measured by the difference between what a dealer and a customer pay or receive for a security — dropped to 73 basis points by early this year, less than half what it was in 2005, Simon Wu, chief economist for the MSRB, found.

Municipal Bond Effective Spread for Customer-Buy and -Sell Trades (2005–2018) Source: MSRB “Our analysis shows that effective spreads have fallen substantially since 2005 for customer trades of less than $1 million,” Wu said in a statement.

Regulators have been steadily seeking to improve the information available on the state and local-government bond market, which is dominated by individual investors. In 2005, the MSRB began requiring same-day disclosure of trading prices, allowing bondholders to gauge where the market is trading before buying and selling securities. In May, new rules took effect that will require dealers to disclose the fees on many trades, a step that some analysts said may continue to push costs down.

Bloomberg Markets

By Danielle Moran

July 18, 2018, 11:17 AM PDT

[S&P Credit FAQ: An Update To Our U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises Criteria Implementation.]

With S&P Global Ratings' updated criteria, "U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises," taking effect March 12, 2018, a review of the sector has followed. Market participants have inquired about the issuers reviewed and any rating impact to date. This article answers frequently asked questions on the topic.

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Jul. 18, 2018

S&P U.S. Municipal Toll Road Ratings And Outlooks: Current List

U.S. Toll Road Operator Ratings As Of July 16, 2018

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S&P U.S. Public Port Facilities Ratings And Outlooks: Current List

U.S. Port Facilities Ratings As Of July 13, 2018

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Jul. 18, 2018

S&P U.S. Public Parking Facilities Ratings And Outlooks: Current List

U.S. Public Parking Facility Ratings As Of July 16, 2018

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Jul. 18, 2018

P3 Digest for July 19, 2018

Would Trump's Proposed Federal Capital Revolving Fund Boost Large Federal Infrastructure Projects & Would P3s Have a Role?

Earlier this year, President Trump called for the establishment of a $10 billion revolving fund, which would be used to finance large federal civilian real property projects. Such a fund could help to blunt the impact of the Office of Management and Budget (OMB) scoring rules on these projects. (The OMB scoring rules generally require agencies to have sufficient discretionary budget authority to fund the entire amount of a capital project in year one, although exceptions exist for projects funded through the General Services Administration's Federal Buildings Fund that qualify as "operating leases."). In a recent article posted in Covington & Burling's Inside Government Contracts blog, attorneys Peter Terenzio, Justin Ganderson and Sandy Hoe discuss the significance of the fund and raise a number of important questions.

This proposed funding mechanism, which is known as the Federal Capital Revolving Fund or the Federal Capital Financing Fund, would permit agencies for budgeting purposes to separate certain real property capital investments from their operating expenses, which is similar to what state and local governments do. Agencies would essentially borrow from the revolving fund to pay for the entire cost of acquiring a capital asset and then repay the fund in interest-free, annual installments from their discretionary budgets. This structure would allow agencies to avoid seeing the entire amount of the project scored against their discretionary budgets in the first year.

Although the proposed revolving fund would provide a way for agencies to pay for certain civilian real property projects, Terenzio, Ganderson and Hoe raise a few questions and offer several observations about the fund.

For example, the Covington attorneys note that under the proposed framework, OMB "appears to have positioned itself as a gatekeeper" to the fund, but has "not identified the criteria that would be used to 'review' an agency's potential project" to determine whether it should be able to tap into the fund. And "if the criteria are too restrictive then otherwise meritorious projects could go unfunded."

The White House's proposal also stipulates that, although the fund will be capitalized at the outset through $10 billion in mandatory appropriations, only $2 billion in outlays can be made in any one year. Terenzio, Ganderson and Hoe observe that many federal projects are likely to be far more costly, and this spending cap could cause agencies to develop projects that do not fully meet near- or long-term needs.

Given the apparent annual cap on the fund, Terenzio, Ganderson and Hoe ask whether the revolving fund could be supplemented through an agency's discretionary funding in year one. They argue that such a "hybrid" funding approach "could provide agencies with more flexibility to meet long-term real estate needs and could help facilitate larger projects."

The authors also ask whether private financing could be used to supplement the revolving fund, possibly through the establishment of public-private partnerships, and comment that P3s are "increasingly being considered by state and local governments, and even the federal government, to expand the fiscal base on which these governmental entities provide services to their constituents."

Although there is no guarantee that Congress will implement the revolving fund, Terenzio, Ganderson and Hoe conclude in their article that if Congress fails to do so, "agencies will be forced to continue to address their real property infrastructure needs under the constraints that flow from the current OMB scoring rules."

Finally, when we asked the authors whether there had been any notable developments since they published their article, they commented that OMB Director Mick Mulvaney sent a letter on July 9 to Senator Richard Shelby (R-AL), the chairman of the Senate Committee on Appropriations, to reiterate the importance of the fund and to indicate that the Trump Administration previously "transmitted legislative language on June 12, 2018 and looks forward to working with the Congress to enact the [Federal Capital Revolving Fund] proposal." Mulvaney had sent a letter that included an expression of support for the revolving fund to Representative Rodney Frelinghuysen (R-NJ), the chairman of the U.S. House of Representatives Committee on Appropriations in June 2018.

Municipal Bonds Weekly Market Report: Consumer Confidence Remains High, Despite Tariff Trouble

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

- Treasury yields were mixed, while municipal yields dropped this week.
- Muni bond funds turned back to inflows this week.
- Be sure to review our previous week's report to track the changing market conditions.

Continue reading.

municipalbonds.com

Brian Mathews

Jul 17, 2018

Credit Ratings Agency Offers Dim Outlook for Rural America.

Population declines, an aging workforce and sluggish job growth pose challenges.

Demographic and economic trends will pressure the finances of local governments in rural America in the coming years, a credit ratings agency said in a report issued Thursday.

Moody's Investors Service notes that employment in rural areas is lagging, as the population contracts and the workforce grows older. Last year, total employment in rural counties was down 4.3 percent from 2007 levels, whereas in urban counties it was up 7.5 percent.

Of the country's roughly 2,000 rural counties, according to Moody's, 69 percent had fewer people working in 2017 than in 2007.

"The fact that rural counties have fewer jobs today than 10 years ago indicates a diminished economic base from which local governments derive revenue, a credit trend that will continue to challenge much of rural America," the report from the ratings agency says.

The uphill battle is steeper for rural areas that lack sizable oil and gas industries or tourism. And while agriculture jobs have expanded they remain a relatively small share of total employment.

People moving to cities and declining birth rates, the report notes, have contributed to an erosion of the country's rural population by 0.5 percent between 2010 and 2017. During that same time period, the urban population in the U.S. grew by more than 6 percent.

Federal policies could further complicate the situation.

Tariffs imposed by the Trump administration will likely hurt manufacturing and agriculture in rural regions, according to Moody's.

And last year's federal tax cuts are unlikely to spur widespread, rural growth, "because rural areas are still at a disadvantage in competing for new investment, given their shrinking working-age population and an unreliable pipeline of future employees," the report says.

With economic headwinds threatening tax revenues, some rural local governments are also dealing with higher costs, Moody's notes.

The report points to Caldwell County, Kentucky as an example.

Between 2007 and 2017, the population there dropped every year. But the county estimates that jail and ambulance costs increased to $1.7 million from $824,000.

Moody's says some rural local governments are keeping their finances sturdy, in part, by taking steps to raise revenues and slash spending. But there's a caveat: localities could risk driving away people and businesses if taxes become too high or services deteriorate too far.

Route Fifty

By Bill Lucia,
Senior Reporter

JULY 19, 2018

Bill Lucia is a Senior Reporter for Government Executive's Route Fifty and is based in Washington, D.C.

New York Dominates Next Week's Municipal Bond Deals.

NEW YORK (Reuters) – New York will bring the biggest U.S. municipal bond deal to market amid an overall weak supply load next week, issuing nearly $1.2 billion of future sales and income tax-backed debt to help finance capital projects in the Big Apple.

The New York City Transitional Finance Authority is set to issue $850 million of negotiated future tax-secured subordinate bonds and another $301 million of competitive taxable future tax-secured subordinate bonds in a three-part series. J.P. Morgan will act as the deal's underwriter.

The bonds earned a AAA rating from S&P Global Ratings and an A-one rating from Moody's Investors Service.

The strong ratings are due in part to New York City's diverse and resilient economy, favorable bond provisions and a large population that supports the future sales and income taxes the bonds are secured by, S&P said.

In another major New York-focused deal next week, the Dormitory Authority of the State of New York is set to issue $559.04 million in taxable Montefiore Obligated Group Revenue Bonds Series 2018A and 2018B. The bonds, from the Montefiore Medical Center, will be used for refinancing of certain existing debt and reimbursement purposes.

Outside of a handful of large deals, which also includes the Idaho Health Facilities Authority's sale of $314.9 million of revenue bonds, the municipal market is poised to suffer through a sleepy week ahead.

Next week will bring $5.31 billion in bond debt issuance, with $4.23 billion in tax exempt and $1.08 billion in taxables, and a sharp drop-off from the current week's $9.22 billion of scheduled deals.

Meanwhile, U.S. municipal bond funds have reported an inflow surge compared to last week. Those funds saw $1.3 billion of net inflows in the week ended July 18, the most in more than a year, and a surge from the $651 million recorded the previous week, according to data released by mutual fund tracker Lipper on Thursday.

The four-week moving average remained positive at $535.4 million, said Lipper, a unit of Thomson Reuters. High-yield muni bond funds reported inflows of $313.8 million, down from $313.9 million in the previous week.

by Laila Kearney

Additional reporting by Hilary Russ; Editing by Daniel Bases and Phil Berlowitz

JULY 20, 2018

USDA Partners to Improve Rural Water Infrastructure for Nearly 250,000 People in 103 Communities.

Projects in 35 States Will Improve Quality of Life and Build a Foundation for Rural Prosperity

WASHINGTON, July 16, 2018 – Assistant to the Secretary for Rural Development Anne Hazlett today announced that the U.S. Department of Agriculture (USDA) is investing $267 million in 103 infrastructure projects to upgrade water and wastewater systems in rural communities.

"Robust, modern infrastructure is foundational for quality of life and economic opportunity – no matter what zip code you live in," Hazlett said. "Under Secretary Perdue's leadership, USDA is committed to being a strong partner in addressing rural infrastructure needs to support a more prosperous future in rural communities."

USDA is making investments in 35 states through the Water and Waste Disposal Loan and Grant program. The funds can be used to finance drinking water, storm water drainage and waste disposal systems for rural communities with 10,000 or fewer residents.

Below are some examples of USDA's partnerships in water infrastructure:

- The Sisseton Wahpeton Oyate Tribe in South Dakota will receive a $116,000 loan to help finance storm sewer infrastructure improvements for a new housing development for the tribal members on the Lake Traverse Indian Reservation. The project will create proper drainage for a 37.5-acre

site that will consist of 67 lots for new homes.
- The city of Erin, Tenn., will use a $2.1 million loan and a $1.4 million grant to improve its wastewater treatment plant, nearly doubling its capacity. This will help the city recruit more industry. The plant serves the residents of Erin and Tennessee Ridge as well as businesses in the Houston County Industrial Park. However, it is obsolete and very expensive to operate. USDA's investment will benefit 625 commercial and residential customers.
- The town of Alexander, N.Y., in Genesee County, will receive a $2.7 million loan and a $2.2 million grant to create Water District #5. Water quality testing indicates that a significant portion of residents' wells have coliform and E. coli contamination, which poses serious public health threats. This project will alleviate the health problems and extend public water service to 124 residential and three non-residential users in the town who currently do not have safe, potable water.

In FY 2018, Congress provided a historic level of funding for water and wastewater infrastructure. The 2018 Omnibus spending bill includes $5.2 billion for USDA loans and grants, up from $1.2 billion in FY 2017. It also directs Agriculture Secretary Perdue to make investments in rural communities with the greatest infrastructure needs.

Rural community leaders can apply for these funds electronically by using the interactive RD Apply tool. They can also apply through one of USDA Rural Development's state or field offices.

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. In addition, to view the categories of the recommendations, please view the Rural Prosperity infographic.

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 services such as schools, public safety and health care; and high-speed internet access in rural areas. For more information, visit www.rd.usda.gov.

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FTA "Dear Colleague" Letter Raises Concerns Regarding Federal Share Treatment of TIFIA and RRIF Loans.

The Federal Transit Administration ("FTA") recently penned a "Dear Colleague" letter regarding the Agency's implementation of the Capital Investment Grants Program, stating that FTA will consider federal loans or financing tools in the context of all federal funding sources for a project, implying that such financing assistance will be calculated as part of a transit project's federal share. Other modal agencies consider federal loan programs, such as TIFIA or RRIF, to be part of a project's non-federal share.[1]

The letter has caused a significant amount of discussion in the industry and on Capitol Hill. Treating federal loans as part of a transit project's federal share would make it more difficult for project sponsors to meet federal-share requirements or to present a favorable benefit-cost ratio.

In response to FTA's letter, Representative Peter DeFazio (D-OR) and Delegate Eleanor Holmes Norton (D-DC), the Ranking Members of the House Transportation and Infrastructure Committee and Highways and Transit Subcommittee, respectively, sent a letter to Secretary Chao saying the policy "directly conflicts with section 603(b)(8) of title 23, United States Code, which clearly establishes TIFIA as a non-Federal share of project costs if the loan is to be repaid with non-Federal funds." House Appropriations Committee Chairman Rodney Frelinghuysen also sent a letter to Secretary Chao requesting clarification on the issue.

As we have noted often, the U.S. Department of Transportation has prioritized innovative project delivery approaches and leverage of federal funds in its administration of discretionary transportation funding programs. If FTA treats TIFIA and RRIF assistance as part of a project's federal share, this would work at cross purposes to the Department's broader efforts to promote innovative project delivery solutions, many of which rely on these low-interest federal financing tools.

[1] The Federal Highway Administration guidance on non-federal share states: "The proceeds of a secured TIFIA loan may be used for any non-Federal share of project costs required under Title 23 or Chapter 53 of Title 49, if the loan is repayable from non-Federal funds. See 23 U.S.C. 603(b)(8) on the terms and limitations of a TIFIA loan."
(https://www.fhwa.dot.gov/ipd/finance/tools_programs/federal_aid/matching_strategies/)

By Shant Boyajian on July 19, 2018

Nossaman LLP

How Do We Finance Low-Carbon Infrastructure?

Editor's Note: *This blog draws from the new working paper, "Blending climate funds to finance low-carbon, climate-resilient infrastructure," which can be downloaded here.*

INFRASTRUCTURE AND CLIMATE CHANGE

The world's core infrastructure—including our transport and energy systems, buildings, industry, and land-related activities—produce more than 60 percent of all greenhouse gas (GHG) emissions globally. At the same time, the world has significant infrastructure needs. From 2015-2030, approximately $90 trillion of infrastructure investment is needed, a doubling of the global capital stock.

Yet, unless the new infrastructure is low-carbon and climate resilient (LCR), the world will be locked into a high-carbon pathway and will miss the Paris Agreement's goal of keeping the global average temperature increase well below 2 degrees Celsius by 2050. LCR infrastructure includes renewable energy, mass transit, and energy efficiency.

Continue reading.

The Brookings Institute

Joshua P. Meltzer and Christina Constantine

Thursday, July 19, 2018

Sterling in N.Y. Bucks Trend with Expanded Muni Reach.

Sterling Bancorp in Montebello, N.Y., is branching deeper into its home state with a new municipal group focused on an array of nonpublic financing services during a time when loans to bond issuers are on the decline.

The $30.5 billion-asset company, which provides financing to local government banking clients through lease-purchase agreements, direct loans and the purchase of privately placed bonds, has tapped Tammy Leisen from Capital One Financial to lead its new Long Island municipal banking team. The group also includes Karen Bauer and Caryl Caponi, who also worked in municipal finance at Capital One.

Sterling, which acquired Astoria Financial last year, has worked with local governments in New York's Hudson Valley region for more than a decade and has a separate team that provides credit to municipalities on a national level for infrastructure projects such as community lighting, solar energy and public parking. The company is also looking at expanding its municipal banking business in New Jersey.

"The attraction to the Long Island market with its strong business, consumer and municipal demographics is a continuation of our overall corporate strategy to increase market share after the merger with Astoria Bank," said Leisen, who managed a portfolio of more than 80 government clients as a senior vice president at Capital One's Melville, N.Y., office.

"Sterling considers the government banking sector in the greater New York metro market strong and viable, and an excellent place to invest the company's time and resources," Leisen added.

Sterling is expanding its municipal banking business as some banks step back from loans and privately placed bonds for issuers. Kevin Dunphy, managing director and head of public finance for Mitsubishi UFJ Financial Group, said before last year's sweeping federal tax changes, banks conducted a majority of their municipal bond business as direct placements or direct loans.

Private placement bond deals through June 30 are down 57% from a year earlier, according to the Securities Industry and Financial Markets Association.

"Given the reduction of corporate tax rates, banks are uncompetitive with the capital markets and retail investors," Dunphy said. "In addition, some clients feel burned by banks increasing interest rates under margin rate factor clauses. Therefore, they said they would be reluctant to use the product in the future."

Leisen, who was a senior vice president at Wells Fargo for seven years before joining Capital One, said Sterling will work with Long Island localities of all sizes with credit, deposit and treasury management support.

“These bankers have a strong business acumen and broad expertise managing municipal relationships and providing superior client service,” Tom Geisel, president of corporate banking, said in a press release. “The expansion of our community banking team is aligned with our growth aspirations, as we continue to increase our Long Island market share.”

This article originally appeared in The Bond Buyer.

American Banker

By Andrew Coen

July 20 2018

Headwinds Seen on Horizon for Municipal Bonds.

Municipal bonds turned in a mostly solid performance on Monday as traders prepared for the start of the week’s supply.

In a midyear report, Charles Schwab & Co. said that while munis outperformed both Treasuries and corporate bonds in the first half of 2018, it’s a trend that may be reversed in the second half.

“We see some headwinds on the horizon for the muni market,” Cooper Howard, Schwab’s senior research analyst, wrote. “However, we think focusing on higher-rated munis, and keeping average duration within five and eight years, can help investors mitigate the effect of those headwinds on their portfolios.”

The firm said munis are less likely to outperform Treasuries in the second half of the year due to technical factors related to tax reform.

“When the 2017 tax reform was being debated, Congress proposed eliminating issuance of certain types of tax-exempt munis,” Schwab said. “Due to the potential restrictions, bankers rushed to get deals done that would have otherwise likely been done in the first half of this year. As a result, issuance of munis spiked in the latter part of 2017 and largely dried up at the beginning of 2018. The limited supply of new munis this year helped the municipal bond market outperform both the corporate and Treasury markets. However, due to the rise in yields for long-term Treasuries, investment-grade muni returns are still negative year to date.

“Total returns for munis are down 0.3% this year, largely due to rising long-term Treasury rates,” Schwab said in a municipal bond market update released on Monday. “Rising rates likely won’t pose a headwind to muni returns going forward because longer-term Treasury rates are closer to their peak in our view.”

Schwab argued that low valuations could limit future relative performance. Historically, munis are less likely to outperform Treasuries when relative valuations are low. The 10-year municipals-ove--bonds spread has improved since early May, but is still below its longer-term average, the firm said.

Secondary market

Municipal bonds were stronger on Monday, according to a late read of the MBIS benchmark scale. Benchmark muni yields fell as much as one basis point in the one- to eight-year and 13- to 30-year maturities, rose less than a basis point in the 10- and 11-year maturities and were unchanged in the nine- and 12-year maturities.

High-grade munis were mostly stronger as well, with yields calculated on MBIS' AAA scale falling as much as one basis point in the one- to seven-year and 13- to 30-year maturities, rising less than a basis point in the nine- to 12-year maturities and remaining unchanged in the eight-year maturity.

Municipals were unchanged on Municipal Market Data's AAA benchmark scale, which showed both the 10-year muni general obligation yield and the 30-year muni maturity yield steady.

Treasury bonds were stronger as stocks traded higher.

On Monday, the 10-year muni-to-Treasury ratio was calculated at 85.1% while the 30-year muni-t--Treasury ratio stood at 97.9%, according to MMD. The muni-to-Treasury ratio compares the yield of tax-exempt municipal bonds with the yield of taxable U.S. Treasury with comparable maturities. If the muni/Treasury ratio is above 100%, munis are yielding more than Treasury; if it is below 100%, munis are yielding less.

"The secondary market is not retail friendly," a New Jersey trader said on Monday. "Because of the lack of supply, to part with bonds the buyside accounts are putting out high offerings and people tend to hold onto what they own because it's so hard to replace."

Due to the July redemptions, demand continues to be significantly higher than the volume of bonds coming into the market, he observed. "The Street activity is very quiet and it continues to be all about the new issues," he said. "It's a great time to bring a deal right now."

He predicted that the upcoming weeks and months will be similarly scarce, unless volume dramatically increases.

"I don't see any end in sight to this. It would take an awful lot of negative news to have any effect on the municipal market right now," he said, pointing to the possibility of a substantial calendar or some kind of forced selling. "I've been doing this for 30 years and right now I don't see anything out there right now indicates any forced selling."

Previous session's activity

The Municipal Securities Rulemaking Board reported 27,112 trades on Friday on volume of $4.997 billion.

California, New York and Texas were the states with the most trades, with the Golden State taking 14.031% of the market, the Empire State taking 13.038% and the Lone Star State taking 11.446%.

Prior week's actively traded issues

Revenue bonds comprised 54.42% of new issuance in the week ended July 6, down from 54.68% in the previous week, according to Markit. General obligation bonds made up 39.98% of total issuance, down from 40.01%, while taxable bonds accounted for 5.60%, up from 5.31% a week earlier.

Some of the most actively traded munis by type were from Puerto Rico and West Virginia issuers.

In the GO bond sector, the Puerto Rico Commonwealth 8s of 2035 traded 17 times. In the revenue bond sector, the West Virginia Hospital Finance Authority 4s of 2051 traded 115 times. And in the taxable bond sector, the Puerto Rico Sales Tax Financing Corp. 6.05s of 2036 traded 21 times.

Primary market

Weekly supply is estimated at $6.6 billion, consisting of $5.5 billion of negotiated deals and $1.2 billion of competitive sales.

In the competitive arena, the Massachusetts School Building Authority is selling $200 million of Series 2018B subordinated dedicated sales tax revenue bonds on Tuesday. The financial advisor is Acacia Financial Group; the bound counsel is Mintz Levin.

In the short-term competitive sector, Colorado is selling over $900 million of notes in two separate offerings. The state will also sell $310 million of Series 2018A education loan program TRANS on Tuesday; the financial advisor is Kutak Rock and the bond counsel is RBC Capital Markets. The state will sell $600 million of Series 2018 general fund tax and revenue anticipation notes on Thursday; the financial advisor is North Slope Capital Advisors and bond counsel is Greenberg Traurig.

On Wednesday, the Dormitory Authority of New York is selling $1.81 billion of state sales tax bonds in five deals.

The offerings consist of $497.04 million of Series 2018C Bidding Group 4 bonds; $450.44 million of Series 2018C Bidding Group 3 bonds; $408.63 million of Series 2018C Bidding Group 2 bonds; $377.02 million of Series 2018C Bidding Group 1 bonds; and $73.195 million of Series 2018D taxable bonds. The financial advisor is Public Resources.

Also on Wednesday, the Metropolitan Atlanta Rapid Transit Authority is selling $168.25 million of Series 2018A sales tax revenue bonds. Financial advisors are Hilltop Securities, First Tryon Advisors and TKG & Associates; the bond counsel is Holland & Knight.

In the negotiated sector, Citigroup (C) is set to price Atlanta’s $279 million of Series 2018B water and wastewater revenue and refunding bonds on Tuesday.

Citi is also set to price the Mesquite Independent School District, Texas’ $125 million of Series 2018 unlimited tax school building bonds, backed by the Permanent School Fund guarantee program.

On Wednesday, Morgan Stanley (MS) is set to price the Maine Health and Higher Educational Facilities Authority’s $183.87 million of revenue bonds. The issue consists of Series 2018A tax-exempts and Series 2018B taxables.

N.Y. set for sales

New York City and state issuers will bring a full calendar of offerings in July, it was announced on Monday.

The New York City Comptroller’s Office said the NYC Transitional Finance Authority will sell about $1.03 billion of tax-exempt and taxable Building Aid Revenue Bonds. Proceeds from the bond sale will be used to fund education capital projects and refund outstanding bonds. The pricing of around $919 million of tax-exempt fixed rate bonds will take place on Tuesday, July 17, via negotiated sale through TFA’s underwriting syndicate for building aid revenue bonds, led by book-running senior manager Ramirez & Co. with Bank of America Merrill Lynch and Jefferies serving as co-senior managers. There will be a retail order period on Friday, July 13 and Monday, July 16. Concurrent with the sale of tax-exempt bonds, the TFA intends to sell $111 million of taxable fixed rate bonds on Tuesday, July 17 via competitive bid.

The NYC Municipal Water Finance Authority also expects to offer $355 million of fixed rate tax-exempt bonds through the Environmental Facilities Corp. via negotiated sale the week of July 16.

And in the week of July 23, the NYC Transitional Finance Authority plans to offer $1.1 billion of fixed rate tax-exempt and taxable future tax secured bonds via negotiated and competitive sales.

The New York State Comptroller's Office released the schedule for planned bond sales for the state, city and their major public authorities in the third quarter.

The sales of $9.05 billion include $5.45 billion of new money and $3.6 billion of refundings as follows: $5.76 billion scheduled for July, of which $3.45 billion is new money and $2.31 billion are refundings; $1.99 billion scheduled for August, of which $700 million is new money and $1.29 billion are refundings; and $1.30 billion scheduled for September, all of which is new money.

The anticipated sales in the third quarter compare to past expected sales of $4.29 billion in the second quarter of 2018, and $8.58 billion during the third quarter of 2017.

The prospective calendar includes anticipated bond sales by the following issuers: the City of New York, the Dormitory Authority of the State of New York, New York City Housing Development Corp., New York City Transitional Finance Authority, the New York State Environmental Facilities Corporation, the Port Authority of New York & New Jersey, the State of New York Mortgage Agency and the Triborough Bridge & Tunnel Authority.

Bond Buyer 30-day visible supply at $11.08B

The Bond Buyer's 30-day visible supply calendar increased $325.9 million to $11.08 billion on Tuesday. The total is comprised of $5.01 billion of competitive sales and $6.07 billion of negotiated deals.

Treasury to sell $35B 4-week bills

The Treasury department said on Monday that it will sell $35 billion of four-week bills on Tuesday.

The bills are due Aug. 2 and are a reopening of an auction in February.

Treasury auctions discount bills

The Treasury on Monday sold $48 billion of 91-day bills at a 1.945% high rate and $42 billion of 182-day bills at a 2.10% high rate.

For the 91s, the coupon equivalent was 1.982% while the bid-to-cover ratio was 2.85%. The media rate was 1.92% and the low rate was 1.90%. The bills are due on Oct. 11.

For the 181s, the coupon equivalent was 2.152% while the bid-to-cover ratio was 2.78%. The media rate was 2.07% and the low rate was 2.03%. The bills are due on Jan. 10, 2019.

Data appearing in this article from Municipal Bond Information Services, including the MBIS municipal bond index, is available on The Bond Buyer Data Workstation. Click here for a brief tour of the Workstation, or contact Vanessa Kim at 212-803-8474 for more information.

The Bond Buyer

by Chip Barnett & Christine Albano

July 09 2018

Green Bonds Are in High Demand, But Are They a Better Deal?

Green bonds help governments finance environmental projects. It's unclear whether they help governments' finances.

States and localities spend billions on infrastructure every year. Going forward, Christiana Figueres, the former United Nations climate chief, wants them to pay for it "whenever applicable" with green bonds — an emerging way of financing projects with clear and measurable environmental benefits.

The push by Figueres is part of a new initiative called the "green bonds pledge" to ensure that all infrastructure built from now on is climate-resilient and low carbon. In her address at a Climate Bonds Initiative event in London earlier this year, Figueres promised the governments and corporations taking the pledge that "a wealth of opportunity will be unlocked."

But opportunity for who?

While the benefits for the environment are clear, it's much less clear that governments issuing green bonds get any better treatment than those issuing other types of debt. Even the Climate Bonds Initiative has found no conclusive evidence that green bonds are cheaper for governments to issue. So far, it seems that any evidence of a rate advantage for green bond issuers can be accredited to unrelated factors.

One of those factors is supply and demand.

Green bonds are still a tiny part of the bond market, but more and more investors are being compelled to buy them to meet environmental mandates. Green bonds are often oversubscribed, meaning there are more orders placed to buy bonds than are available to sell. The average green bond sale in the U.S. is three times oversubscribed, according to research by the Climate Bonds Initiative.

Demand certainly helped DC Water when it issued the first-ever green bond by a water utility in 2014. The utility actually upsized its issue by $50 million on the day of the sale thanks to the high demand from investors, says DC Water's former chief financial officer, Mark Kim.

Another factor driving better rates for some green bonds is the reputation and transparency of the government issuer.

DC Water, for instance, has a good reputation in the municipal market in part because it releases annual green bond reports that detail where all that money is being spent and gives updates on environmental outcomes. But that's not the case with every green bond issuance and, therefore, may affect what rate issuers get.

Overall, there is evidence that good transparency and reporting standards — not just for green bonds — can help government issuers get a better rate. The state of Massachusetts was one of the first major governments to embrace this idea when it began allowing investors to buy bonds directly from the state, rather than going through a broker, and launched an investor relations page where bond buyers could find all the state's financial and interim disclosures.

Colin MacNaught, who helped spearhead that effort and now runs a startup called BondLink that helps governments create investor relations sites, says any pricing bumps in the green bond market work the same way. "That granular detail is super important," he says. "Managers want to report back to their investors on the environmental impact their fund is having."

MacNaught adds that governments already do a lot of analysis on a project's expected impact before it sells the bonds. So committing to consistent impact reporting, he says, shouldn't be too much more of a stretch. "If an issuer can do that, you'll see an impact on pricing."

For these reasons, Dan Kaplan, who manages the $3.9 billion portfolio for the wastewater treatment division in King County, Wash., says green bonds are "much ado about nothing." Municipal bond sales in general are often oversubscribed, he says, so the notion that green bonds generate "extra" demand is misleading.

Kaplan agrees with MacNaught that better reporting, as well as a good credit rating, are what bring down the cost of issuance — not some "external label" applied to projects that governments would be doing anyway. "What you're seeing is not even necessarily a bump from transparency," he says, "but the benefits of being a large, well-run and well-established organization."

GOVERNING.COM

BY LIZ FARMER | JULY 11, 2018

U.S. Municipal Market Supply to Hit $9.6 bln Next Week.

CHICAGO, July 13 (Reuters) – Bond and note issuance in the U.S. municipal market will total$9.6 billion next week as supply ratchets higher after a slump earlier this month due to the mid-week Fourth of July holiday, according to Thomson Reuters estimates on Friday. Supply of new issues has dropped in the $3.8 trillion market. Issuance of $160 billion worth of municipal debt at 2018's midpoint was down almost 17 percent compared to the same period in the prior year. In a research report on Friday, Barclays projected weaker second half issuance of $135 billion to $150 billion.

The inability of states, cities, schools, hospitals and other issuers to advance refund their debt on a tax-exempt basis due to federal tax law changes has put a damper on issuance.

In the coming week, the New York City Transitional Finance Authority will sell $1.03 billion of building aid revenue bonds. About $919 million of tax-exempt debt will be offered to retail investors on Friday and Monday ahead of formal pricing through lead underwriter Ramirez & Co on Tuesday. Another $111 million of taxable bonds will be sold competitively on Tuesday.

The New Jersey Transportation Trust Fund Authority has $1.2 billion of federal highway reimbursement revenue refunding notes pricing on Wednesday through Morgan Stanley following a Tuesday retail order period.

Fresh off a trio of credit rating upgrades, Washington, D.C. will sell $517 million of new and refunding general obligation bonds that are scheduled to price through Ramirez on Wednesday. A stronger economy and revenue growth led to higher ratings of Aaa from Moody's Investors Service and AA-plus from S&P Global Ratings and Fitch Ratings.

Topping the week's slate of competitively bid deals is a $400 million North Carolina GO public improvement bond issue selling on Wednesday. The AAA-rated bonds carry maturities in 2019 through 2038, according to the preliminary official statement. Following a week of net outflows, municipal bond funds reported nearly $651 million of net inflows in the week ended July 11, according to Lipper.

Reporting by Karen Pierog; Editing by Daniel Bases and Tom Brown

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Municipal Bond Dearth Reducing Borrower Cost.

Municipal bond prices have rebounded from their worst first-quarter slump of the past 15 years.

The uptick comes as U.S. states and cities continue to curb borrowing, the Wall Street Journal reports.

Municipalities borrowed $156 billion in the first two quarters of this year, a 17% drop from the year earlier. Citigroup estimates that the year-over-year decline will reach 25% by the end of the 2018.

Supply is on the low end for several reasons, including a decision last year by Congress to end tax exemption for early refinancings of outstanding municipal bonds. Low supply, meanwhile, has lifted the value of existing bonds and reduced borrowing costs for some governments, particularly on riskier bond deals, the Journal notes. As an example, 12-year bonds backed by settlement payments from tobacco companies to the state of California sold with yields of 3.07% in June, compared with yields of 3.25% in March of last year.

“It’s a seller’s market,” Howard Cure, director of municipal-bond research at Evercore Wealth Management, tells the publication. “We’re trying to be careful about that aspect of it and not go down that path of sacrificing for a little extra yield and having a big decline in credit quality.”

The Bloomberg Barclays Municipal Bond Total Return Index ticked up 0.87% in the second quarter. This is after falling by 1.11% in the first quarter.

–Cheryl Winokur Munk

July 11, 2018 4:31 p.m. ET

Barron’s

When Muni Bonds Outside Your State Make Sense.

Higher yields, diversification may help influence those decisions.

Most people buy municipal bonds issued by an entity in their home state because the interest paid is generally exempt from federal and states income taxes.

With the changes in the tax code, getting that state income tax exemption is important for people who live in high-tax states like New York and California. The new tax law capped state and local tax deductions to $10,000, so for these residents, buying municipal bonds from entities in their state can help lower their taxable income.

But sometimes it makes sense to buy municipal bonds that aren’t issued in the state where you reside, even if you live in a high-tax state. Fixed-income experts say there are several reasons to think about adding municipal bonds from other states.

Diversification. Duane A. McAllister, managing director and senior portfolio manager at Baird Advisors in Milwaukee, says having a mix of muni bond exposure helps protect investors from regional economic swings. If an investor lives in the New England area and there's a recession there, Texas may be doing well.

"We talk about U.S. economic growth, but it's not uniform," McAllister says. "There are times when a particular state may be over or underperforming whatever is occurring on a national basis."

Mark Paris, chief investment officer and head of municipal strategies for Invesco Fixed Income in New York, says there are a lot of projects in different states that can offer fixed-income investors attractive yields. Invesco likes infrastructure projects such as toll roads in Texas, bridges in New York state and hospital bonds in Florida.

"You're investing in the essential services end in the revenue section," he says. "You don't have to worry about the pension issues" that can bog down other types of municipal bonds.

Certain states also issue more bonds than others. A big state like California or New York have a lot of credit offerings to choose from, versus a state like Connecticut or Virginia, Paris says. Residents of smaller states may have limited choices.

Every investor is different, but McAllister says having a portfolio made up of half in-state municipal bonds and half national bonds is a good place to start.

"You're lowering your overall risk because not everything is in one particular state," he says.

States with economic turmoil. Some states, like Illinois, New Jersey or Connecticut with high debt levels may make it undesirable for residents to buy municipal bonds. Although defaults are rare, they do happen, McAllister says.

Paris concurs. "Those are places where we make a very strong argument for you to start to look at the national marketplace," he says. "We certainly don't think that they're going to go into the default, but there could be downgrades of their credit."

Shocks can happen to seemingly healthy regions, too. Orange County, California's bankruptcy filing in 1994 is one example. It was a Triple-A rated bond, but as interest rates rose, some of the county's shakier holdings lost value, affecting the entire portfolio. "It eventually worked out," McAllister says. "But oooh, I can tell you there were lots of sleepless nights for investors there. And that's not what you sign up for."

That said, investors with more risk appetite might be willing to look at a state like Illinois because some triple-A rated municipalities or universities may be penalized because of the overall economic strife and have to offer higher yields, says Jason Ware, co-founder and head of institutional trading at 280 CapMarkets in San Francisco.

Higher yield. Yields on munis vary, and some may yield higher than what is currently available in-state. If the yield is high enough, giving up the tax-free status may be worth it, the sources say. To figure it out, McAllister says take the bond's yield, subtract the number one, then divide by your state tax rate.

For example, if the yield was 2 percent and the state tax rate was 5 percent, it would get you 2.10.

“So I need to find a bond that yields 10 basis points more,” he says.

Ware says some states that don’t have an income tax offer higher yields because there’s less demand from residents for tax-free income. Municipal bonds from Washington, Nevada and Texas can sometimes fall in this category.

Demand can also make home-state bonds less attractive. Paris says there’s a lot of demand for California muni bonds because of the tax-code changes, so yields are lower. To get a sense of prevailing yields, look at the daily Municipal Market Data scale. California general obligation bonds are trading around 3 percent, just above the top of the Municipal Market Data scale, which is at 2.97 percent. But Texas bonds generally are trading at 3.25 to 3.30 percent.

“You get about 10 percent more interest going into a national bond right now outside of California,” he says.

When considering buying out-of-state municipal bonds, work with a financial advisor to understand your effective state income-tax rate.

“They’ll have understanding of what’s available in the market which help lead to them making the best decision in terms of deciding how they fit in a portfolio,” Paris says.

By Debbie Carlson, Contributor | July 12, 2018, at 11:38 a.m.

U.S. News & World Report

States Should Re-Evaluate Their Assumed Rates Of Return.

The assumed rate of return is one of the major actuarial assumptions underlying pension fund valuations. It influences the calculation of a plan’s total liabilities and drives the required annual contributions to the plan. A high assumed rate will result in lower levels of estimated liabilities and allow politicians to appropriate lower annual contribution to the pension systems. This portends disaster when the assumed rates of return are higher than actual returns. Even small differences in these two numbers can cause a plan’s unfunded liability to balloon.

An example of this type of problem occurred over the last decade with the Pennsylvania Public School Employees’ Retirement System (PA-SERS). In the early 2000s, PA-SERS had a published funding ratio of over 100%, meaning its assets fully covered its liabilities. But over the course of the last fifteen years, the funding ratio fell to just above 60%. Amanda Kass and Jared Reynolds from the Center for Municipal Finance at the University of Chicago, link much of this precipitous decline to an assumed rate of return higher than what the plan actually earned. In other words, by using an unrealistic assumed rate of return two decades ago, but receiving a “fully funded” atta-boy, the politicians did not have to put in tons more money . Essentially, they cheated.

Kass and Reynolds found that while the average assumed rate of return in this period was over 8%, the average realized rate was 6%. Further, between 2001 and 2015, PA-SERS only managed to exceed its assumed rate of return on three occasions.

The situation with PA-SERS is illustrative of the larger issue surrounding the assumed rate of return and actuarial assumptions across the nation. Using politically advantageous assumed rates of return was deemed to be “the most important assumption” when it comes to valuing pension plans, by a study conducted by the Center for Retirement Research at Boston College. This same study concluded that even if the median rate of return over a 30 year period managed to equal the assumed rate, many plans would still be unable to meet full funding requirements, due to the sheer variability in investment returns.

State and local governments need to examine all of their assumptions, including the assumed rate of return, to ensure that they are market-driven, and reflective of reality and not politically motivated or wishful thinking. This is the first step to ensuring that taxpayer and beneficiary alike, will have the transparency necessary to fully understand their plan’s liabilities, and offer the best chance for a full and accurate assessment of unfunded liabilities.

by Christopher Burnham

Jul 12, 2018

Forbes

Fitch: Ongoing NAFTA Uncertainty Lifts Trade Risks for US States

Fitch Ratings-New York-11 July 2018: Protracted uncertainty around the North American Free Trade Agreement (NAFTA) renegotiations could elevate risks for some US states with the most to lose from a NAFTA termination, Fitch Ratings says. These states export heavily to Canada and Mexico, most have small populations, and export industries account for a sizable portion of their gross state products (GSPs).

Fitch’s base case continues to be a favorable conclusion to the NAFTA talks that does not materially disrupt trade in the bloc. Talks are likely to resume, although full ratification of a revised agreement is unlikely before 2019. In the interim, risks of a termination or substantial rewriting of the NAFTA agreement that would affect trade and investment remain.

If NAFTA is terminated and World Trade Organization rules take their place, US states with greater trade exposure to Mexico will be more at risk of higher or new tariffs on exports. Some of the highest tariff rates could be imposed on farm, livestock, energy and automotive products.

Continue reading.

Agreement at Start of New Budget Year in Fitch's '5 U.S. States to Watch'

Fitch Ratings-New York-10 July 2018: The new fiscal year began smoothly last week with most states passing budgets on time and with limited contention, according to Fitch Ratings in a new report that provides brief budgetary overviews for all Fitch-rated states.

July 1 came and went with enacted budgets in place in all but two states, and lingering issues for the two outliers (Massachusetts and South Carolina) either have been or are likely soon to be resolved. Among the states with agreements in place were the five “U.S. states to watch,” a designation Fitch came up with at the start of 2018 for states that were grappling with heightened budgetary issues.

“Connecticut benefited from substantial windfall revenues related to federal tax changes and now has a budget reserve funded at a post-recession high despite ongoing budget challenges," said Managing Director Laura Porter. Elsewhere, "Illinois passed an on-time budget for the first time in four years, although significant structural problems persist."

Illinois' lingering structural issues include a lack of progress in addressing its sizable accounts payable backlog and questions around $400 million in unpaid step-pay increases. Nonetheless, "enacting an on-time budget with bipartisan support allows Illinois to enter the new year with a clear fiscal plan and clarity for the state's key fiscal partners," said Porter.

Other timely starts to the budget year include Louisiana, which addressed a budget gap resulting from temporary tax expiration with help from revenues related to federal tax changes. For the first time in over a decade, Kentucky's budget includes full actuarial pension contributions for all of the state's pension plans, but long-term budgetary challenges are not fully resolved.

Budget sessions were not without some fireworks. Passing its budget at the 11th hour and averting a government shutdown was New Jersey, which is now under one-party control for the first time in eight years. The governor and legislators compromised on a series of tax increases to support projected revenue growth of almost 6%. "New Jersey's budget will grow by about 4% as the state addresses a wide swath of critical needs while gradually ramping up its pension contribution," said Porter.

Fitch's "U.S. State Budget Update" is available at 'www.fitchratings.com'.

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Municipal Bonds Are in Firing Line When Economic Growth Run Ends.

- JPMorgan Asset Management sees U.S. recession as soon as 2019
- 'You'll start seeing warts show up,' portfolio manager says

States and municipalities are basking in accelerating tax revenue as the U.S. economy extends its second-longest expansion on record. But muni bonds from the weakest links look vulnerable when the cycle turns, according to David Sivinski, executive director and portfolio manager at JPMorgan Asset Management Inc.

Sivinski expects a U.S. recession as soon as next year, dragging the muni bond market into turmoil shortly after. When that happens, states already under fiscal pressure — such as New Jersey, Illinois, and Connecticut — may be in trouble, said Sivinski.

“Right now you’re in sort of a sweet spot where taxes are coming in, and most municipalities are not having too much of a financial problem,” Sivinski, who manages $1.2 billion in municipal bonds, said in a telephone interview on July 10.

“It’ll only be once that downturn hits, six to nine months later you’ll start seeing some of the warts show up as some may say,” added Sivinski, whose firm had $1.68 trillion of assets under management at the end of the first quarter.

The Bloomberg Barclays Municipal Bond Index has returned 0.03 percent year to date. Since the start of the Great Recession, it’s climbed about 55 percent.

“When [the recession] hits, what ends up happening is revenues start to come down,” said Sivinski. “If some states or localities have financial problems that’s when they start cropping up.”

Every state would be hit hard by a recession, but some could fare better than others, Sivinski said.

“You obviously have states like New Jersey, Illinois, and Connecticut that are having issues now. This would not help them,” said Sivinski. “There are some states that are AAA rated that will probably be able to withstand it better, and you’re talking about the Virginias and the North Carolinas and those kinds of states. But they’re still going to feel the pinch.”

Sivinski also expects bonds with longer maturities to potentially benefit from recession because of the possibility of lower rates.

Bloomberg Markets

By Sophie Alexander

July 12, 2018, 10:30 AM PDT

[One Way to Make Money on Dorms: Wait for Investors to Fail]

- **Harrison Street CEO says inexperienced buyers taking on risk**
- **Merrill anticipates wave of distressed properties up for grabs**

While investors increasingly look for a home in student housing, Harrison Street's Chris Merrill has been around the block.

He anticipates newcomers to the unfamiliar market will take a lot of risk — and create a landslide of distressed properties that he can scoop up cheaply over the next 12 to 24 months.

"Investors need to dive deep into the micro market, understanding enrollment trends, demand/supply fundamentals, location and unit mix, for instance," said Merrill, co-founder and chief executive officer of Chicago-based Harrison Street Real Estate Capital LLC, which has been buying student housing since its inception in 2005.

The investors streaming into student housing are taking advantage of an asset class that's known to weather economic downturns because people tend to go back to school during tough times. Among recent deals was an agreement by Greystar Real Estate Partners to buy EdR, one of the largest developers, owners and managers of U.S. student housing, for about $3.2 billion. Separately, an affiliate of Blackstone Group LP formed a joint venture with Greystar to acquire a portion of EdR's properties.

While the Blackstones and Greystars of the investing world may have the clout to manage large dorm portfolios, smaller entrants have trouble accessing the the highly fragmented market, Merrill said. Since its inception, Harrison Street, with roughly $15 billion of assets under management, has amassed properties at more than 130 universities in the U.S. and Europe.

Cracks are already forming: The number of delinquent student-housing loans financed by municipal bonds has climbed 3.4 percent since the beginning of the year, according to data provider Trepp LLC.

For long-term investors in student housing, "opportunities will emerge as a result of those that are taking excess risk as a result of inexperience," Merrill said.

Bloomberg Markets

By Kristy Westgard

July 13, 2018, 7:19 AM PDT

[Local Government Jobs Near Pre-Recession Level But States Lag.]

- **Public school growth boosts employment: Wells Fargo's Cohen**
- **Conservative tax not spend policy seen limiting state jobs**

Local government employment has almost returned to pre-recession levels, while jobs at the state level have lagged, U.S. Bureau of Labor Statistics data show.

Since the start of the recession, local government employment is down 0.01 percent and state government employment has declined by 0.72 percent.

The slowdown in state government employment is a result of more conservative policy, said Natalie Cohen, head of municipal research at Wells Fargo.

“States have tightened their belt consistently and they continue to do that. We have a lot more conservative ’no tax, don’t spend’ governors,” Cohen said in a telephone interview.

Cohen attributes the uptick in local government employment to the increase in hiring at public schools.

“As the economy improves districts hire back teachers and school administrators,” she said.

There are a total of 5.1 million state employees and 14.5 million local employees in the public sector, according to BLS data. That is down 114,000 and 158,000 employees respectively since the peak in summer 2008. Private sector employment has risen 9.1 percent, from 116 million at the start of the recession to 127 million today, the data show.

Looking forward, Cohen expects state hiring to increase because of potential new sources of revenue for states, including sports betting, marijuana, and online sales taxes.

The recent divergence in local and state government employment is not statistically significant, said Angie Clinton, a BLS economist.

“State is down slightly and local is up a bit, but we’d say this is little change,” she said in a telephone interview.

Month over month, local government employment is up 0.1 percent and state government employment is unchanged, BLS data show.

Bloomberg Markets

By Sophie Alexander

July 9, 2018, 8:53 AM PDT

The Week in Public Finance: It’s Natural Disaster Season. Can Your Government Afford It?

Most states don’t know how much they spend on extreme weather events.

The Atlantic Coast caught a break this week when Hurricane Chris was downgraded to an offshore tropical storm.

California, meanwhile, hasn’t been as lucky. The National Guard has already activated troops to begin wildland fire training after several major fires this month in the northern part of the state and near the Oregon border consumed tens of thousands of acres. It’s the earliest activation in five years in what’s expected to be a treacherous fire season.

But after last year, which was the most expensive year on record for natural disasters, how much more can states really afford?

The answer: Most don't know.

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GOVERNING.COM

BY LIZ FARMER | JULY 13, 2018

Municipal Bonds Are Scarce. That's Good News for Borrowers.

U.S. states and cities are issuing fewer bonds, partly in response to changes to tax exemptions on refinancings.

The prices for municipal bonds have recovered from their worst first-quarter slump of the last 15 years. The reason: U.S. states and cities continue to cut back on their borrowing.

Municipalities borrowed $156 billion in the first two quarters of this year, down 17% from last year. Citigroup researchers are projecting that year-over-year decline will reach 25% by the end of the year.

The low supply is pushing up the value of existing bonds and reducing borrowing costs for some governments, particularly on riskier bond deals. Twelve-year bonds backed by settlement payments from tobacco companies to the state of California sold with yields of 3.07% in June, compared with yields of 3.25% in March of last year.

"It's a seller's market," said Howard Cure, director of municipal-bond research at Evercore Wealth Management, which invests in public debt. "We're trying to be careful about that aspect of it and not go down that path of sacrificing for a little extra yield and having a big decline in credit quality."

The Bloomberg Barclays Municipal Bond Total Return Index edged up 0.87% in the second quarter, after falling by 1.11% in the first quarter. The first-quarter drop was the biggest decline of any first quarter in the past 15 years.

About half of the drop in supply resulted from Congress's decision last year to end tax exemption for early refinancings of outstanding municipal bonds, according to an estimate by Vikram Rai, head of municipal strategy at Citigroup. Borrowers also rushed to sell municipal bonds amid talk of other legislative proposals—such as a ban on tax-exempt issuance by hospitals and universities—that weren't ultimately enacted.

"The rush to market toward the end of 2017 emptied out a lot of the forward pipeline," Mr. Rai said.

Aftershocks from the 2008 recession are also contributing to the drop-off. Municipal bonds typically become eligible for refinancing a decade after they are issued. Issuance of new money bonds fell 24% in 2008 as the recession destabilized city and state finances, leading to a smaller-than-usual crop of bonds eligible for refinancing in 2018.

Those factors combined to push the total amount of refinancing deals in the first half of this year down to $44 billion, the lowest since 2000.

All that scarcity has driven up prices despite rising interest rates, which typically erode the value of outstanding bonds. Central-bank officials last month raised the benchmark federal-funds rate by a quarter-percentage point, their second rate rise this year. They projected a total of four increases for 2018, up from three at their March meeting.

Exchange-traded funds are one relatively new beneficiary of the stronger demand for municipal bonds. Their municipal-debt holdings have grown from zero in 2007 to about $30 billion this year, according to federal data. The iShares National Muni Bond ETF received inflows of $630 million last month, the highest since December 2016, according to FactSet. The inflows followed a decision on June 1 to cut fees for that ETF by more than 70%.

Demand is expected to remain high in July and August, as outstanding bonds mature and investors look for new municipal debt investments, analysts said.

Some government borrowers could get an additional market boost from a recent Supreme Court decision banning public-employee contracts that require workers to pay union dues. The decision is expected to empower governments seeking to curtail pension benefits.

"You're talking about the states retaining some negotiating leverage and being able to improve their fixed cost structure long-term," said John Miller, co-head of Global Fixed Income at Nuveen Asset Management.

The Wall Street Journal

By Heather Gillers

July 8, 2018 2:59 p.m. ET

Write to Heather Gillers at heather.gillers@wsj.com

How WIFIA is Surviving the EPA Firestorm.

A federal loan program for water projects appears to be flowing freely despite an ethics scandal at the Environmental Protection Agency, which administers it, and the Trump Administration's efforts to scale back EPA regulations.

Two of the applicants for the Water Infrastructure and Finance Act's low interest loan program in Kings County, Washington, and Omaha, Nebraska, have closed on loans and the Orange County, California, Water District expects to close on its loan by the end of the month.

EPA director Scott Pruitt resigned last week amid an ethics scandal at the agency, which has come under fire from environmental groups for perceived attempts to weaken air and water pollution regulations.

WIFIA – which Joseph Kane, a senior research associate at the Brookings Institute, said is in its nascent stage – appears to have bipartisan support.

Though the loan program was created in 2014 under the Obama Administration, it fits the current administration's model of setting up infrastructure programs that encourage private investment, Kane said.

“It transcends the partisanship – or left vs. right perspectives on how each would pay for infrastructure,” Kane said. “I think there is bipartisanship interest in trying to explore all potential avenues. Particularly on a pilot process.”

The WIFIA program provides low-cost loans and loan guarantees to eligible borrowers for water and wastewater projects. It is designed to work in conjunction with tax exempt debt and other financial resources. WIFIA can provide up to 45% of funding for a project.

The inaugural WIFIA round will provide about $1 billion in credit assistance to finance $2.3 billion in water infrastructure investment from $20 million of budget authority, according to the EPA.

The WIFIA program received $25 million in funding, including an additional $8 million in the Consolidated Appropriations Act of 2017 that President Donald Trump signed into law on May 5, 2017. That funding enabled EPA to structure the program and move ahead in April 2017 with requests that state and local water agencies send letters of interest.

In a July 2017 statement announcing the federal funding, Pruitt said that “rebuilding America’s infrastructure is a critical pillar of the President’s agenda.”

Acting EPA Administrator Andrew Wheeler also told the Washington Post in a July 6 article that he “doesn’t think the agency is going to change that much, because we are implementing what the president has laid out for the agency. He made several campaign promises that we are working to fulfill here.”

EPA announced in April that it was seeking letters of interest for state and local water projects on an additional $5.5 billion in funding. And in May, it extended the deadline for those letters of interest on this second round of funding from July 18 to July 31.

EPA received 43 letters of interest across 19 different states for projects in April 2017 for the initial $2.3 billion allocated for the program created in 2014. Once the finalists were selected by EPA they had to undergo financial and engineering reviews to make sure the project was viable and the agencies had the financial ability to repay the loans.

The agency selected 12 entities across nine different states to apply for funding in the program’s first round.

The projects selected represented large and small communities across the country seeking funding for wastewater, drinking water, stormwater and water recycling projects.

King County, Washington and City of Omaha, Nebraska water agencies closed on their WIFIA loans. King County received $134.5 million for its $275 million rain and wastewater treatment project on the loan that closed April 20. Omaha received on June 21 a $69.7 million WIFIA loan to build a $142.2 million partially underground structure to store and treat sewage.

King County will save up to $32 million from financing with a WIFIA loan compared to a bond issuance, according to EPA’s online description of the financing.

Though the Omaha description doesn’t specifically mention bonds, it says the city will save $20 million in interest costs.

“Omaha has worked closely with the EPA at all levels to execute the Clean Solutions for Omaha Program in a way that will be sustainable for the future and save our ratepayers about $20 million dollars in interest on this project,” Omaha Jean Stothert said in a statement.

Orange County, Calif. Water District expects to close on its $124 million TIFIA loan that will help fund a $253 million expansion of its groundwater replenishment project by July 26.

Three states – California, Maryland and Indiana – are receiving the most funding.

California submitted 19 of the 43 applications in the initial round. The Golden State's efforts were rewarded as it received $1.3 billion, more than half of the WIFIA loan total, Kane wrote in a blog post on the Brooking's website. Indiana received $436 million and Maryland received $200 million, he wrote.

Kane partly attributed the size of California's programs – Pure San Diego's project costs $1.2 billion and it requested $492 million – for the state's share of WIFIA loans.

"It is not random or a mistake that some of the biggest water needs are in California given the drought concerns," he said. "Some of the more progressive utilities are in California, so they have the capacity to understand what WIFIA is about and to apply in time."

It is a new program and other places might not understand its parameters or have California's technical capacity, he said.

Fitch Ratings gave OCWD's $135 million WIFIA loan a AAA rating and affirmed a top rating for the water district's outstanding debt.

"The WIFIA loan is a very low cost loan," Fitch analyst Shannon Groff said. "They had already planned on doing the final expansion, so we had already baked that into our rating."

The program makes the water district less dependent on more expensive water from wholesaler Metropolitan Water District of Southern California, Groff said. If needed, OCWD could stop the purchase of Met water for year, she said.

"They get a great interest rate through the WIFIA loan, just as they would with bonds," Groff said, "but they are able to delay payment for five years past project completion."

The water district expects to begin construction in November 2019 and finish by second or third quarter 2002, but doesn't have to begin loan repayment until 2028, Groff said.

"We are estimating a 3% interest rate for our WIFIA loan – and even though we are AAA-rated, that is still better than we could get in the open market based on our projections," said Randy Fick, the water district's chief financial officer.

Orange County's project probably made the cut for WIFIA's first round, "because it's a proven project that has been in place for quite a while," Groff said.

When the initial ground replenishment project was completed in 2008, it added 70,000 acre feet of water to the water district's system. The second expansion added another 30,000 acre feet and the latest iteration will bring output to 133,000 acre feet, Fick said.

The WIFIA funding helps pay for the second expansion, said Fick said.

The project takes highly-treated sewage designed for the Pacific Ocean through several more steps of treatment involving reverse osmosis and microfiltration before injecting it into the county's groundwater storage system.

Water districts around California are now trying to imitate Orange County's ground water replenishment system, which was controversial when it was first proposed in the early 2000s and residents were referring to it as a toilet-to-tap plan.

To date, an EPA spokeswoman said the agency has received applications from seven of the 10 remaining entities that were selected. EPA expects to close two of those loans in the next month and the remaining five by the end of the year. Two agencies are in the process of submitting their applications. The Maine Water Company has decided not to submit an application for its Saco River Water Treatment Facility project.

The latest surveys from EPA suggest that states and localities nationally will need $700 billion over the next two decades to meet their water needs, Kane said.

"Given the scale of the demand we are seeing from the entities applying, it reveals there is a need for an alternative channel for low cost financing," Kane said. "Traditional finance channels of borrowing through municipal bonds and state revolving funds is clearly not adequate to drive or accelerate the investment needed."

By Keeley Webster

BY SOURCEMEDIA | MUNICIPAL | 07/12/18 07:04 PM EDT

Climate Change AG Investigations and Municipal Litigation.

Several state attorneys general ("state AGs") recently have undertaken high-profile investigations into energy producers' research and public statements about the potential effects of climate change. Thus far, energy companies like ExxonMobil ("Exxon") have encountered limited success challenging these investigations. In addition, a number of cities and municipalities have filed lawsuits against major energy producers, alleging that these companies knowingly contributed to the harmful effects of climate change.

This article surveys recent developments in these state AG investigations and municipal lawsuits against energy companies. Although these investigative and litigation trends remain in their early stages, it appears that energy producers may continue to face increasing climate-change government investigations and related litigation.

Download pdf.

King & Spalding

July 11, 2018

Municipal Bonds Weekly Market Report: Unemployment Remains Low at 4.0%

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

- Treasury and municipal yields mostly dropped this week.
- Muni bond funds reversed inflow trend with outflows this week.
- Be sure to review our previous week's report to track the changing market conditions.

Continue reading.

municipalbonds.com

by Brian Mathews

Jul 10, 2018

Understanding the Benefits/Risks of High-Yield Municipal Bonds.

One of the main principles of investing that every investor should understand is the idea of risk versus reward.

Every investment has some degree of risk and, in exchange, the owner of the investment should be rewarded with a higher potential for gain. A Certificate of Deposit, for example, has a very low level of risk but offers very minimal gain in the form of a fixed interest rate. A technology stock, on the other hand, has much more risk but considerably more upside.

Typically, investors see municipal bonds as a relatively conservative investment with the purpose of distributing tax-free income until the bond matures. However, not all municipal bonds are created equal and there are various risks versus rewards for each bond.

Continue reading.

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by Brian Mathews

Jul 12, 2018

Fitch: Recent Healthcare Outlier Downgrades Not Reflective of Wider Trend.

Fitch Ratings-New York-09 July 2018: Fitch Ratings does not consider two recent multi-notch downgrades affecting healthcare issuers in South Carolina, driven by extraordinarily large net pension liabilities, harbingers of wide-ranging rating actions in the healthcare sector or other sectors, including higher education. Rather, these outliers highlight outsized pension liabilities under any measure compounded by constraints in the healthcare business model given its more limited revenue defensibility when compared to other sectors in U.S. public finance.

ISSUER-SPECIFIC ACTIONS CONSIDERED IN BROADER PORTFOLIO CONTEXT

On Jan. 9, 2018, Fitch released its updated "U.S. Not-For-Profit Hospitals and Health Systems Rating Criteria". The updated criteria place a heightened emphasis on maintenance of leverage ratios and liquidity consistent with an issuer's operating profile through the cycle in a forward-looking rating case stress. These leverage ratios explicitly incorporate lease and net pension liabilities as direct debt equivalents. Since the release of the criteria, Fitch completed a review of 138 separate health care providers, with reviews focused predominantly on issuers where the potential for change due to the application of new elements of the criteria might lead to changes in ratings.

As noted when Fitch released the new criteria, the agency's expectation was for affirmation to be the predominant outcome of application of the new criteria. The review group of 138 credits reflects approximately 50% of Fitch's total hospital and health system portfolio. There were a total of 35 upgrades (13% of the total portfolio) and 25 (9%) downgrades as a result of these reviews. The majority of rating changes were one notch. Of the upgrades, three credits were upgraded 3+ notches and of the downgrades, a total of five moved 3+ notches. To place these changes in a broader context, Fitch does not expect further rating changes solely based on criteria revisions for the remainder of the 270+ portfolio.

GASB PENSION LIABILITY ALLOCATED WHERE FUNDING BURDEN RESIDES

Rating actions included reviews of government-sponsored healthcare providers, a relatively small subset of Fitch's overall healthcare portfolio. These reviews incorporated the first application of Fitch's approach to evaluating public, defined benefit pension liabilities in revenue-supported entities. For many of these issuers, which participate in state-administered, cost-sharing multi-employer plans, Fitch looks to GASB 68 when considering where the proportionate share of a net pension liability should be placed among governmental units participating in such plans. GASB 68 generally assigns the liability where the primary funding obligation resides absent a clear legal and financial assumption of the liability by the state government.

Fitch applies this approach to both local government participants and to government enterprises participating in a state-administered cost-sharing plan, such as health care, utility and higher education enterprises. There is no basis to treat the government issuers and the government enterprises differently when considering where the burden rests in a common plan. Just as direct employers are responsible for the current salaries of their own employees, Fitch views them as being responsible for deferred compensation/future pension benefits, including when insufficient resources have been set aside and an unfunded liability exists.

CAPACITY TO RESPOND VARIES ACROSS SECTORS; HEALTHCARE RELATIVELY CONSTRAINED

Fitch notes however, that the capacity to respond to and absorb an increased pension burden, regardless of plan type, through either revenue tools or operating cost flexibility varies very dramatically among issuers. Fitch explicitly considers this by assessing an issuer's revenue defensibility and operating risk flexibility to set a context for review of an issuer's financial leverage. The ability of a government with general taxing capacity is at the high end of revenue flexibility, as would be a public university that has flexibility both to raise tuition and fees and to shape the cost and extent of its offerings.

Absent general taxing powers, health care providers have among the lowest revenue and operating flexibility of participants with pension obligations. Under Fitch's rating approach, issuers with stronger revenue defensibility and operating risk flexibility assessments can have higher ratings at every level of leverage compared to issuers with more limited revenue and operating flexibility. Leverage tolerance at each rating level for health care providers is significantly lower given the nature of the business model. As a result, different types of participants having a large unfunded liability will be affected very differently, including when they carry proportionate shares of the liability of a cost-sharing, multi-employer plan.

SOUTH CAROLINA DOWNGRADES – LARGE PARTICIPANTS IN UNDERFUNDED PLAN

Fitch recently downgraded Spartanburg Regional Health Services District (Spartanburg Health) and Lexington County Health Services District (Lexington Health), both participants in the state-administered South Carolina Retirement System (SCRS), a cost-sharing multi-employer plan. Each is a statutory public hospital and a political subdivision of the state. Neither has direct authority to levy a tax in support of its operations. Each issuer reported its proportionate share of the system's large net pension liability in its financial statements in accordance with GASB 68. The state, as another participating employer in SCRS and several other state-administered plans, also reports its proportionate share of the net pension liability. As of fiscal 2017, the state reported carrying 12.9% of the SCRS net pension liability, with additional amounts from four other plans. Altogether, Fitch measures the state's aggregate net pension liability, adjusted by Fitch to a 6% discount rate at 2.6% of personal income. Combined with tax-supported debt brings the total to only 4% of personal income, a level which Fitch views as being a low burden on the state's resource base despite the weakening trajectory of SCRS in recent years.

Under Fitch's healthcare criteria, Fitch assesses leverage on an adjusted basis, including leases and Fitch-adjusted net pension liabilities. Spartanburg Health reported a net pension liability of $656 million and Lexington Health reported a net pension liability of $739 million, based on the 7.25% discount rate used by SCRS to calculate the liability. Just as when assessing state and local issuers, Fitch adjusts the reported net pension liability using a standard discount rate (6%) to provide consistency among issuers and better reflect the magnitude of the commitment posed by pensions. For Spartanburg Health, the Fitch-adjusted pension liability is $904 million. For Lexington Health the Fitch-adjusted pension liability is $1.1 billion. Even without the Fitch adjustment, the size of the net pension liability as reported would have driven a rating action.

Fitch assigned a 'BBB' rating to Spartanburg Health based on its cash to adjusted debt of 57% and net adjusted EBITDA to adjusted debt of 2.7x over a five-year horizon. (Downgrade from A). Fitch assigned a 'BB+' rating to Lexington Health based on its cash to adjusted debt of 40% and net adjusted EBITDA to debt of 5.1x over a five-year horizon. (Downgrade from A+) .

SOUTH CAROLINA STATE LAW OUTLINES PARTICIPANT OBLIGATIONS

In determining the level of net pension liability to include in Spartanburg Health's and Lexington Health's leverage profile, Fitch considered state law that applies to funding the statewide multi-employer plan and past state practices to assess whether either issuer's burden was likely to be relieved or reduced through direct state funding.

State law provisions relevant to this analysis are found in the South Carolina constitution and the act governing the statewide plan. Read together it is clear from these provisions that the state is obligated to assure actions are taken to maintain long-term solvency of the plan. . Fitch believes the most likely scenario to closing the unfunded liability is that the state will increase both employer and employee contributions, with the bulk of the burden falling to employers, consistent with the state's historical practice. While recent statewide reforms should positively affect the trajectory of the plan's unfunded liability over time if plan assumptions are met, a significant gap remains, and recent changes to contribution and amortization practices will have only a gradual impact, similar to how reforms to other public defined benefit pensions generally have worked.

Further, Fitch believes it would be wrong to conclude that the pension obligation belongs at the state level. Fitch includes in the state rating the NPL attributed to it as reported in the state's audited financial statements. Although additional appropriations by the state are an available tool, Fitch believes it unlikely the state will address unfunded liabilities directly from its own resources and relieve local government and public authorities of contributions funded by their own revenues. Fitch also believes it unlikely in a common plan for a state to give relief to one plan participant and not others in the plan, whether done directly or indirectly.

SIMILAR FRAMEWORK ACROSS STATUTORY SCHEMES; ULTIMATE BURDEN ON EMPLOYERS

Statutes governing cost-sharing plans often have a broadly similar framework, as exemplified by South Carolina's plan. Public employees are required to become members and participating employers are liable for contributions. Benefits owed to individual employees are declared a liability of the plan and not a liability of any participating employer (including the state). Because the direct liability for pension benefit payments lies with the plan, it is sometimes argued that the employers therefore have no liability that should be considered in their rating. Fitch does not believe this withstands reasonable scrutiny, however, because the statutes also typically provide that the plan is obligated to meet its responsibility through mandatory assessments on participating employers and employees where needed, to complement returns from invested assets. The net pension liability is, in effect, a measure of the burden of future mandatory contributions that will need to be made by employers to meet their obligation to their own employees.

The statutory framework typically includes state oversight and state responsibility for assuring plan solvency through assessments on plan employers. Typically, once an employer opts to participate in the plan, participation is irrevocable, with a state intercept mechanism in the event a participating employer does not make the mandatory contribution; benefits cannot be forfeited. A state government generally has the power to appropriate as an alternative to assure plan solvency whether this is in the statute or not. Fitch does not factor this power into a rating where it has not generally been exercised to restore balance to a statewide common plan or provide direct funding on behalf of participating employers.

TEXAS HOSPITAL DISTRICTS IN CONTRAST

As noted above, how an issuer's unfunded pension obligation and overall leverage profile affect a rating outcome depends very much on an assessment of an issuer's capacity to respond to an increased burden with either available revenue tools or operating cost flexibility. Fitch's ratings on Texas hospital districts provide a helpful contrast. Texas hospital districts have independent taxing powers and can levy property taxes within certain bounds to enhance revenues from operating resources.

Fitch recently downgraded Dallas County Hospital District (Parkland) to 'A+' based on application of the updated criteria. Parkland has a reported net pension liability for its own single employer plan of $423 million and a Fitch-adjusted net pension liability of $588 million. Its relevant metrics include net adjusted debt to EBITDA of 4.1x and cash to adjusted debt of 37%. However, the district has substantial unused taxing power that can be tapped to maintain its financial balance and meet any increased pension liability without straining its financial profile. Fitch noted the 'A+' Issuer Default Rating (IDR) and limited tax General Obligation (GO) ratings reflect Parkland's weaker net leverage profile under a stress scenario through the cycle relative to its mid-range operating profile and exceptionally strong revenue defensibility. Fitch views Parkland's unusually strong 'aa' revenue defensibility, as demonstrated by Fitch's estimated $1 billion taxing margin available for operations, as mitigating a weaker net leverage position, allowing Fitch to place the final rating in the 'A' category despite a weak financial profile, which would typically result in a lower rating.

The importance and relevance of individual issuer characteristics particularly as it relates to pension liability is also illustrated by Fitch's 'AA+' rating of Bexar County Hospital District, in Texas. The district's cash-to-debt and cash-to-adjusted debt of 133% and 94%, respectively, as of Dec. 31, 2017 (based on unaudited data at the time), reflect unrestricted cash and investments of $895 million in relation to $670 million of long-term fixed rate GO debt and adjusted debt. Under Fitch's criteria, adjusted debt includes Fitch's capitalization of operating leases (estimated at $60 million) and the Fitch-adjusted net pension liability (estimated as of its fiscal 2016 audit at $224 million based on a 6% discount rate, instead of the $139 million level reported by the district, which uses a 7.5% discount rate). The district, which participates in a statewide agent multi-employer plan, migrated to a cash balance plan in 2012, limiting exposure to future significant pension liability changes. Net adjusted debt-to-adjusted EBITDA, which is a measure of how many years of cash flow is needed to repay long-term debt outstanding, was solid at 0.3x at Dec. 31, 2017.

CASE STUDY – SOUTH CAROLINA CONSTITUTION & RETIREMENT PLAN STATUTES

The following excerpt from South Carolina's Retirement Systems Act describes the pension obligation as one of the retirement system (not the state itself), which is not uncommon among U.S. plans. Fitch uses GASB treatment of the allocation of the liability among plan participants as its reasonable-basis methodology. The language below further states that employers participating in the plan are obligated to appropriate and that benefits to members are non-forfeitable:

Section 9 1 1690: "Credit of State is not pledged for payments; rights in case of termination of System or discontinuance of contributions.

All agreements or contracts with members of the System pursuant to any of the provisions of this chapter shall be deemed solely obligations of the Retirement System and the full faith and credit of this State and of its departments, institutions and political subdivisions and of any other employer is not, and shall not be, pledged or obligated beyond the amounts which may be hereafter annually appropriated by such employers in the annual appropriations act, county appropriation acts and other periodic appropriations for the purposes of this chapter. In case of termination of the System, or in the event of discontinuance of contributions thereunder, the rights of all members of the System to benefits accrued to the date of such termination or discontinuance of contributions, to the extent then funded, are nonforfeitable."

The state constitution (excerpted below) describes the obligation of the state to assure adequate funding of the plan by all members. In the event of an unfunded liability, Fitch believes the most likely scenario to closing it is that the state will increase both employer and employee contributions, with the bulk of the burden falling to employers, consistent with the state's historical practice. Lexington Health is the third largest, and Spartanburg Health is the eighth largest participant in SCRS by covered employee as of the system's fiscal 2017 financial statement.

Article X, Section 16: "[t]he General Assembly shall annually appropriate funds and prescribe member contributions for any state-operated retirement system which will insure the availability of funds to meet all normal and accrued liability of the system on a sound actuarial basis as determined by the governing body of the system."

Finally, the following section from the Retirement Systems Act describes state remedies in assuring employer funding of the pension obligation including withholding of state funding until the defaulted payment is cured. This mechanism is essentially an intercept provision. Fitch believes certain revenues received from the State, including Medicaid and others, could and would be withheld in the unlikely event a participating entity did not make its required pension contributions. This mechanism further supports Fitch's view that the liability ultimately is the responsibility of the employer and there is no flexibility associated with the pension contribution burden.

SECTION 9 1 1170, Collection of Employers' Contributions:

“If . . . .the full accrued amount of the contributions and interest provided for under this section due . . . from an employer other than the State has not been received by the System from the chief fiscal officer of the employer within thirty days after the last due date as provided in this item, then upon notification by the Board to the State Treasurer and Comptroller General as to the default of the employer as provided in this item, any distributions which might otherwise be made to the employer from any funds of the State must be withheld from the employer until notice from the Board to the State Treasurer that the employer is no longer in default.”

In 2017, South Carolina enacted Act 13, which reformed contributions and actuarial assumptions of SCRS, positioning the system to gradually reduce the burden of liabilities in the coming decades if the lowered 7.25% investment return and other actuarial assumptions can be achieved. This rate, while below average for major systems, is above the 6% level assumed by Fitch in assessing expectations for pension liabilities and long-term investment returns. Other reforms included a gradual reduction in the amortization period for the unfunded pension from 30 years to 20 years by fiscal 2028.

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Fitch: Statutory Lien Treatment Lifts AZ, RI Local GO Ratings.

Fitch Ratings-Austin-12 July 2018: Enhanced bondholder protection provided by statutory lien provisions in Arizona and Rhode Island local government statutes has resulted in general obligation (GO) bond ratings two notches above the local governments’ Issuer Default Ratings (IDR) in those states, according to Fitch Ratings.

As discussed in Fitch’s tax-supported rating criteria, a statutory lien is defined in Section 101(53) of the U.S. Code as a lien arising automatically by force of statute on specified circumstances or conditions. The statutory lien preserves bondholder rights to tax revenues securing the tax-backed bond received by the municipality after it enters bankruptcy court.

Although the automatic stay provisions of the Code would not prevent a payment default, the holder of a statutory lien is entitled to recover the value of the lien in the bankruptcy proceeding. The determination of value is not detailed in the Code, but recovery values may be substantially higher than an unsecured credit that competes with other general claimants for a claim on the municipality's revenues. As a result of the robust protection afforded bondholders benefiting from a statutory lien in a bankruptcy, Fitch rates ULTGO bonds issued by local governments in both states and backed by revenues with a statutory lien for bondholders two notches higher than the IDR.

Fitch acknowledged this credit feature in Arizona following 2016 and 2017 amendments to the state's local government statutes. Fitch reviewed the provisions and determined they provide bondholders with a substantial preferential right in a bankruptcy proceeding, warranting a GO bond rating two notches higher than an entity's IDR. The statutory lien applies only to ad valorem tax revenues and applies both to GO bonds previously issued and to be issued in the future. Rhode Island established a statutory lien for GO bondholders in 2011.

The GO bond ratings of the Arizona and Rhode Island entities (currently 18 in Arizona, six in Rhode Island) are linked to their IDR, and any change in credit quality that affects the IDR will also impact the GO bond rating.

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Taxable Municipal Bonds: An Overlooked Fixed-Income Allocation For Portfolio Diversity

Summary

- This article concludes my analysis of taxable municipal bond CEFs.
- In this installment, I look to validate the inferences I made previously that taxable muni bonds can be a powerful diversifying asset class, especially in a tax-advantaged portfolio.
- The results show that two taxable municipal-bond funds have performed better than more widely recommended fixed-income asset classes at improving risk-adjusted and absolute returns.

Continue reading.

Seeking Alpha

July 6, 2018

How a Public Bank Could Help You.

A campaign is underway in New York to take money out of Wall Street and put it into the hands of the city.

New Yorkers are known for speaking their minds, but can they put their money where their mouth is? A new campaign is underway to make one of the richest cities into the world reclaim local wealth and make the banking system work for people who actually live here, by putting people over profits.

Community banks and neighborhood credit unions have been around for decades as a way for communities to build assets, launch mom-and-pop businesses, and help keep money in the hands of working people, rather than lining the pockets of international financial institutions. But what if a city as a whole decided to create its own bank? The Public Bank NYC campaign calls for a full-fledged bank, owned and operated by and for the city, which could serve as a public trust invested in social justice, accountable to the public.

Right now, billions of the City of New York's dollars are being held in commercial banks. That's a problem, because it's those same banks that make decisions about whom to lend to, and at what rates—not just on Wall Street but in everyday Main Street businesses and neighborhoods as well. Those banks are also the same big financial institutions that were deemed "too big to fail" during the last financial collapse, and were only kept afloat during the Great Recession with a huge bail-out, ultimately funded by public money.

Continue reading.

The Nation

By Michelle Chen

How High Court Rulings Affect Muni Issuers.

Three rulings by the U.S. Supreme Court this term will have a lasting impact on the finances of many municipal bond issuers, according to report released by Fiera Capital.

"As anticipated, the Supreme Court ruled against public sector unions in the high-profile case of *Janus v. American Federation of State, County, and Municipal Employees*. The Janus ruling will have important long-term credit implications for many state and local governments," Bryan Laing, vice president of credit research at Fiera, wrote in a market comment released late Friday. "This case, along with the recent ruling on sports wagering and online sales tax collections combine for a busy season for state and local governments at the nation's highest court."

The impact of the Janus v. AFSCME ruling is more than likely to be a weakening of union finances, Laing said, which may have a dampening effect on their power over the longer term. He said it was an important long-term development for many municipal issuers, particularly those facing elevated pension burdens.

Continue reading.

The Bond Buyer

By Chip Barnett & Christine Albano

July 02 2018

What It Means When the Biggest Banks Reduce Their Muni Debt Holdings.

For both individual and corporate investors, your tax rate serves as one of the biggest alluring or deterring factors in buying any municipal debt instruments. Typically, the interest earnings from municipal debt is tax exempt, safeguarding your total interest income from your marginal or corporate tax rate.

However, recent Securities and Exchange Commission filings by some of the major U.S. banks showed them reducing their state and local government bond holding by billions of dollars. For instance, Bank of America, JPMorgan Chase and Wells Fargo collectively reduced their local and state government holdings by close to $8 billion dollars during the first three months of 2018 and many other small and mid-size banks are following suit.

In this article, we will take a closer look at the steady increase in municipal debt demand after the economic collapse of 2008, the factors leading to significant reduction in muni debt exposure by major banks and what the future holds for the demand of municipal debt instruments.

Continue reading.

municipalbonds.com

by Jayden Sangha

Jul 05, 2018

The New Gold Rush for Green Bonds.

Investors are lining up to buy green bonds. Can they survive the hype.

Hanging on the wall just outside Bryan Kidney's office in Lawrence, Kan., is the framed first page of a bond offering statement. Unlike most — or really, any — bond statements, this one required a color printer. It could even be described as cheeky: It's for the sale of the city's first green bond, and every reference to "green bond" or "green project" is printed in green ink.

Kidney, the city's finance director who shepherded the $11.3 million sale last year, says the green ink originally started out as a joke.

But then, he thought, why not? When the projects are fully implemented, Lawrence is projected to save 3,201 tons of carbon dioxide equivalents (CO_2e) annually, which is equal to burning 3.5 million fewer pounds of coal. “I get really passionate about this stuff,” Kidney says. “I was just so excited that Lawrence stepped up to be a leader in sustainability.”

Green bonds are an emerging category of finance. Their purpose is to fund projects with clear, definable and measurable environmental benefits. As the Trump administration has walked back federal climate change policy — most notably, backing out of the Paris Agreement — states and localities are increasingly taking charge of their own environmental strategies. Green bonds are a natural funding tool. The vast majority of them finance water-related projects, but they also are used to finance, for instance, solar and wind power or reduced methane emissions. In Lawrence’s case, they are funding a slew of energy efficiency projects identified by a state Facility Conservation Improvement Program audit. The audit determined that certain upgrades, such as energy-efficient lighting and heating and cooling systems, would reduce the carbon footprint for this city of 96,000 and save it money in the long run.

The concept of green bonds was developed a little more than a decade ago by a London-based group called the Climate Bonds Initiative. The idea was to help the world’s growing cadre of environmentally conscious investors identify climate-friendly investments. These are folks who aren’t only interested in a financial return on their investment. They want to know that their money has helped improve the environment. “If you’re doing a bond issuance that’s electric or coal generated, those investors don’t want to be part of that transaction,” says Tim Fisher, government affairs manager for the Council of Development Finance Agencies. “They’re putting their investments into securities that have a double- or even triple-bottom line.”

For the first few years, green bonds remained something that only large global institutions like the European Investment Bank and the World Bank dabbled in. It wasn’t until 2013 that the first green bond issuance made its way to the U.S. municipal market when Massachusetts sold $100 million in bonds to finance energy efficiency projects. The following years saw other large issuers like California and New York take part. To date, those three states — Massachusetts, California and New York — are by far the most frequent issuers, accounting for $2 out of every $3 of green bonds issued in the past five years. More recently, a few municipalities have begun to experiment with them. But even as muni market issuance of green bonds doubled last year to $11 billion and is predicted to almost double again this year, green bonds remain largely outside of the mainstream.

So it’s saying something when a place the size of Lawrence decides to jump in. The city may very well be a bellwether of the next big leap for green bonds. That would be good news for issuers since the bonds have the potential to attract a fresh set of investors at a time when tax reform has created fewer incentives for banks and insurance companies to buy municipal bonds. Some even think that green bonds will someday be cheaper for states and localities to issue than general obligation debt. But before any of that happens, there are underlying challenges with green bonds’ authenticity that have to be resolved first.

Since they debuted a decade ago, green bonds have been issued under a variety of names — environmental impact bonds and climate bonds being among the most prevalent. Whatever their name, one of the biggest threats to the long-term viability of these bonds is a matter of meaning. The definition of what’s “green” seems to alter slightly with each issuer.

In recent years, some groups have taken a stab at narrowing down the variables in what makes a bond green. Moody’s Investors Service has come up with a green bond assessment tool, which looks at the likelihood that the bond money will go toward environmental improvements. S&P Global Ratings has also come out with commentary. But neither provides a rating or measurement of how environmentally positive a bond might be. Elsewhere, the Climate Bonds Initiative has released a set of green bond principles for issuers while state and local governments are increasingly seeking third-party certification for their green bonds.

Compounding matters is the reality that the investment community doesn't agree on what's green and what isn't. Everything is optional. Julie Egan, director of municipal research at Community Capital Management, a major green bond investor, says her standard for "green" is that it has to be an innovative project. But that doesn't always apply when she's shopping for some of her clients who might not feel the same way. When she looks at a water and sewer system's green bond sale, she often sees something that looks like "the exact same thing they've been doing for years. Is it green? Technically, for some people, it is: They're providing clean water," she says. "But there's no new technology. It just is not something that would create a great deal of excitement at our firm."

Clearly, what some might see as environmentally forward-thinking in one place is just run-of-the-mill in another. It's led to accusations of so-called greenwashing, a term originally coined in the 1980s and meant for corporations that present themselves as caring environmental stewards, even as they are engaging in environmentally unsustainable practices. Some governments are now being accused of slapping on a label to entice investors while doing nothing else to ensure the sustainability of a project. Case in point: In early 2015, the Climate Bonds Initiative's CEO called out the Massachusetts State College Building Authority for its "pathetic" green bond sale that included funding a garage for 725 cars. Until these inconsistencies are resolved, the future of green bonds will remain in doubt.

For water utilities, green bonds have seemed like a natural fit. The reasons are fairly obvious. These authorities spend a lot of money on cleaning water — a slam dunk of an environmental benefit if ever there was one. Water and sewer authorities have many ways in which they go about defining, packaging and communicating about their green bonds. That is, many green bond investors want additional reports on the environmental impact of the projects they're financing. For issuers, that's an additional process.

The way in which DC Water handled its green bond is an early model. DC Water, which serves the greater Washington, D.C., region, was the first water authority to issue green bonds, not just in the U.S. but globally. In July 2014, it sold $350 million in environmental impact bonds to finance a phase of its Clean Rivers Project. In part because the concept was so new — it was only the third green bond issuance in the U.S. — DC Water looked to Europe for best practices. Following the green bond principles outlined by the Climate Bonds Initiative, it opted to get a third-party verification and used that to both market the sale and offer a glimpse into the sort of annual impact reporting investors could expect on the bonds' proceeds. "Quite frankly, for DC Water, we wanted to set a high bar because we wanted to distinguish ourselves from other issuers," says Mark Kim, the authority's former chief financial officer and now the chief operating officer of the Municipal Securities Rulemaking Board.

The approach worked. In fact, DC Water upsized its issue by $50 million on the day of the sale thanks to the high demand from investors. Since then, the authority has issued more than a half-billion dollars in green bonds. It releases annual green bond reports that detail where all that money is being spent and gives updates on environmental outcomes. Investors who bought a DC Water green bond in 2014, for example, know that their money helped finance the first phase of the DC Clean Rivers Project, which has now helped significantly reduce nitrogen and phosphorus levels in the Anacostia and Potomac rivers.

That level of reporting isn't for everyone. And that's another challenge for the green bond movement. The additional reporting can be expensive, though it doesn't necessarily have to be. In some cases, as in Lawrence, the impact reporting is already part of the project: Lawrence has a sustainability coordinator whose job includes reporting on the city's energy savings and carbon emissions.

There are other strategies. In 2016, when the Massachusetts Water Resources Authority issued $682 million in green bonds, the first of what has been a handful of green bond sales for the authority, it took steps to avoid the extra cost of ongoing environmental impact reporting. All the bonds have been refinancings for projects completed under the federal Clean Water Act and Safe Drinking Water Act. "We thought it would be just as easy to issue refundings as green bonds because investors already know what that money was spent on," says CFO Tom Durkin. "We have limited resources and try to be frugal here. To have to produce a glossy five- or six-page report seemed like one more burden we didn't want to put on our Treasury Department."

Cleveland, on the other hand, made no claims about impact reporting in its 2016 green bond sale. It offered up $32 million in green bonds for stormwater projects and sewer upgrades and repair, telling investors in its offering statement that the city assumes no obligation to ensure the projects comply "with any legal or other standards or principles that relate to Green Projects." Instead, it committed to simply reporting on the use of proceeds until the bond money was spent. Investors bought them anyway.

Many issuers remain unconvinced of the advantage of green bonds. In part that's because there has yet to be a proven pricing benefit. The bonds don't win better rates from investors to justify the expense of the additional reporting, but Lawrence's Kidney and others make the case that selling green bonds opens up governments to new institutional investors. These are people who sit on the environmental or social investing side of a firm — nowhere near the municipal investor desk. For others, like the Eastern Municipal Water District in Southern California, that's just not enough of a selling point. "[When] we start to see a pricing bump," says Eastern's Deputy General Manager Debby Cherney, "then we'll certainly take a much more serious look at coming into the market."

Without agreed-upon standards about what a green bond is and what the reporting requirements should be, some say it's only a matter of time before an issuer falls out of favor by either using proceeds for a project that isn't green, or by not delivering on the environmental impact reporting that's expected. Until that happens — and some believe it's inevitable — governments are likely to keep pushing the margins. "Not all green bond issuers are alike and I'd say some have not adhered to best practices," says Kim, the former DC Water CFO. "Some have taken liberties with their designation." But he thinks enforcement has to come from investors. "They need to do their due diligence and hold municipal bonds accountable for what they're selling," he says. "And if they don't like what they see, don't buy it."

Maybe. Perhaps this new breed of environmentally conscious buyers will be different, but relying on investors to police the muni bond market hasn't worked before. It's more likely that until there is a real cop on the beat to instill some kind of standard, the legitimacy of the green bond market as a whole will remain in question.

GOVERNING.COM

BY LIZ FARMER | JULY 2018

States Finalize Fiscal 2019 Budgets - Updated July 5

As of July 5, 49 states have enacted a new or revised budget for fiscal 2019. Massachusetts does not currently have a full-year budget for fiscal 2019; however, an interim budget has been passed to fund the state through the end of July.

46 states began fiscal 2019 on July 1 (New York began on April 1, while Texas begins on September 1 and Alabama and Michigan on October 1). Last year, 17 states enacted budgets covering both fiscal 2018 and fiscal 2019.

For the most current information on states' budgets, please visit NASBO's state-by-state listing of proposed and enacted budgets.

Additionally, for summaries of governors' budget proposals for fiscal 2019 please click here.

By Brian Sigritz posted 05-09-2018

NASBO

Municipal Bonds Are Scarce. That's Good News for Borrowers.

U.S. states and cities are issuing fewer bonds, partly in response to changes to tax exemptions on refinancings.

The prices for municipal bonds have recovered from their worst first-quarter slump of the last 15 years. The reason: U.S. states and cities continue to cut back on their borrowing.

Municipalities borrowed $156 billion in the first two quarters of this year, down 17% from last year. Citigroup researchers are projecting that year-over-year decline will reach 25% by the end of the year.

The low supply is pushing up the value of existing bonds and reducing borrowing costs for some governments, particularly on riskier bond deals. Twelve-year bonds backed by settlement payments from tobacco companies to the state of California sold with yields of 3.07% in June, compared with yields of 3.25% in March of last year.

"It's a seller's market," said Howard Cure, director of municipal-bond research at Evercore Wealth Management, which invests in public debt. "We're trying to be careful about that aspect of it and not go down that path of sacrificing for a little extra yield and having a big decline in credit quality."

The Bloomberg Barclays Municipal Bond Total Return Index edged up 0.87% in the second quarter, after falling by 1.11% in the first quarter. The first-quarter drop was the biggest decline of any first quarter in the past 15 years.

About half of the drop in supply resulted from Congress's decision last year to end tax exemption for early refinancings of outstanding municipal bonds, according to an estimate by Vikram Rai, head of municipal strategy at Citigroup. Borrowers also rushed to sell municipal bonds amid talk of other legislative proposals—such as a ban on tax-exempt issuance by hospitals and universities—that weren't ultimately enacted.

"The rush to market toward the end of 2017 emptied out a lot of the forward pipeline," Mr. Rai said.

Aftershocks from the 2008 recession are also contributing to the drop-off. Municipal bonds typically become eligible for refinancing a decade after they are issued. Issuance of new money bonds fell 24% in 2008 as the recession destabilized city and state finances, leading to a smaller-than-usual crop of bonds eligible for refinancing in 2018.

Those factors combined to push the total amount of refinancing deals in the first half of this year down to $44 billion, the lowest since 2000.

All that scarcity has driven up prices despite rising interest rates, which typically erode the value of outstanding bonds. Central-bank officials last month raised the benchmark federal-funds rate by a quarter-percentage point, their second rate rise this year. They projected a total of four increases for 2018, up from three at their March meeting.

Exchange-traded funds are one relatively new beneficiary of the stronger demand for municipal bonds. Their municipal-debt holdings have grown from zero in 2007 to about $30 billion this year, according to federal data. The iShares National Muni Bond ETF received inflows of $630 million last month, the highest since December 2016, according to FactSet. The inflows followed a decision on June 1 to cut fees for that ETF by more than 70%.

Demand is expected to remain high in July and August, as outstanding bonds mature and investors look for new municipal debt investments, analysts said.

Some government borrowers could get an additional market boost from a recent Supreme Court decision banning public-employee contracts that require workers to pay union dues. The decision is expected to empower governments seeking to curtail pension benefits.

"You're talking about the states retaining some negotiating leverage and being able to improve their fixed cost structure long-term," said John Miller, co-head of Global Fixed Income at Nuveen Asset Management.

The Wall Street Journal

By Heather Gillers

July 8, 2018 2:59 p.m. ET

Write to Heather Gillers at heather.gillers@wsj.com

Five Steps to Prepare the Next Generation of Water Workers.

Much like investing in water infrastructure, the country often overlooks the pressing need to invest in a skilled workforce to manage these systems. Nearly 1.7 million "water workers" construct, operate, and maintain water systems found in every region, whether employed in utilities, engineering firms, or other industries. And many water workers are in short supply due to a wave of retirements and a lack of younger talent, even though they earn more competitive wages, tend to only need a high school diploma or less, and develop valuable skillsets over time.

These workforce challenges are not unique to the water sector. Multiple other infrastructure employers are also struggling to hire, train, and retain more workers, especially those in the trades. If local water employers can design new ways to develop their workforce pipeline, the solutions could be replicated across the country and the broader infrastructure sector.

Developing these solutions, though, requires new techniques. In other words, local success depends on local innovation, ideally supported by broader regional collaborations and national investments. Building off a new "water workforce playbook" we developed through conversations with water and workforce leaders across the country, below are five steps that all types of localities can follow to accelerate their recruitment, training, and retention efforts:

Continue reading.

The Brookings Institute

by Joseph Kane

Friday, June 29, 2018

Addressing our Infrastructure Woes: Is Private Equity the Answer?

The ancient Romans were among the first advanced civilizations to understand the importance of public roads and other infrastructure. Modern civilization has come a long way from these early beginnings. From colossal bridges and tunnels to super highways and major hi-speed rails, the need for replacing outdated infrastructures – or creating entirely new ones – remains a continuing financial challenge for states and local governments. Typically, the cost for these projects is substantial, ranging in the millions, and even billions, of dollars. For most local governments who simply cannot afford to pay for or finance these costs, public-private partnerships are the only option.

While the concept of public-private partnerships is not new and has been used successfully for decades in the United States, new financial pressures on federal, state and local agencies have resulted in a renewed focus toward P3s as a means to reduce operating budgets by turning operations and maintenance responsibilities over to private companies.ii However, attracting private equity to fund infrastructure projects still presents major challenges, particularly in regions where public-private partnerships have not gained acceptance due to the political climate or regulatory hurdles in these regions. Unfortunately, major public infrastructure projects such as tunnels, roads and bridges have seen only limited investment by private equity firms who are hesitant to invest due to political fears and the slower pace of completing governmental projects. "Any time you're involving a governmental agency or authority, it can be much more difficult to complete the deal…There can be political issues, and things often just move a lot slower."iii Indeed, "[m]any people thought the Trump administration's push for U.S. infrastructure upgrades would open the floodgates for private equity firms to step in and help modernize the country's infrastructure…"iv Contributing to the reluctance of these firms to get involved is the fact that some states lack any legislation governing public-private partnerships. As a result, these states are missing out on a golden opportunity to attract private equity as a means of funding sorely needed infrastructure improvements.

A majority of states, such as Florida, do have specific legislation addressing public-private partnerships.v In Florida, for instance, there is legislation covering public transportationvi, turnpikesvii, local transportation facilitiesviii and expressway and bridge authoritiesix. In fact, Florida has, in recent years, had some significant P3 projects, as have other states. These "P3 friendly" states present the perfect environment for private investors who have the necessary capital and desire to partner with state and local governments. Investors can make a return on their capital, while the public benefits from improved or new infrastructure. It's potentially a "win-win" for both sides, and should prompt more states to follow in the footsteps of Florida and other states with P3 legislation. While road and bridge projects have been the most traditional applications of P3s in the past, some investors are predicting a broadening of the types of projects that will be funded via P3s, such as in the water and wastewater industries, and potentially in the university housing markets. Thus, moving forward, there should be more opportunities for government contractors in industries that have not traditionally used the P3 model.xii

Click here for footnotes.

Saul Ewing Arnstein & Lehr LLP

July 6, 2018

Municipal Bonds Weekly Market Report: With Inflation Hitting Target Goal, Fed Might Raise Rates Twice in 2018

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

- Treasury and municipal yields all dropped this week.
- Muni bond funds saw inflows for the fourth week in a row.
- Be sure to review our previous week's report to track the changing market conditions.

Continue reading.

municipalbonds.com

by Brian Mathews

Jul 03, 2018

Supreme Court Declines Review of Tenth Circuit Case Holding Tribal Acquisition of an Interest in an Allotment Defeats Eminent Domain Authority.

The Supreme Court recently denied a petition to review the Tenth Circuit's opinion in *Public Service Company of New Mexico v. Barboan*1. The Tenth Circuit affirmed the district's court ruling that tribal ownership of a fractional interest in an "allotment," land the United States holds in trust for individual Indians, bars condemnation of any interest in the allotment, despite 25 U.S.C. § 357 that authorizes condemnation of "lands allotted in severalty to Indians" under state law. The Tenth Circuit agreed that tribal ownership of a fractional undivided interest in an allotment converts an allotment from "lands allotted in severalty" to "tribal land," and so Section 357 no longer applied. The Supreme Court denied Public Service Company of New Mexico's petition for a writ of certiorari on May 3, 2018.2

The *PNM* decision could have significant effects on right-of-way acquisitions and negotiations with individual Indian allottees for both new rights-of-way and renewals. The decision ignores the very real consequences to entities providing necessary public commodities whose infrastructure is now or will be located on allotted lands. We have seen this play out in a federal district court in Oklahoma where that court recently found a pipeline company in trespass, after concluding that the pipeline company could not invoke Section 357 because of tribal ownership of fractional interests in allotments, and ordered the pipeline to cease operations immediately and remove the pipeline within six months.3 In our opinion, the Tenth Circuit’s now final decision deprives utilities and other public entities of the ability to ensure access for fair market value without regard to allotment landowner consent, which in turn may negatively impact continued, reliable transportation of necessary public commodities—and the public—across allotted lands. The impacts of the Tenth Circuit’s decision are significant geographically as well because tens of thousands of fractional interests in allotments have been transferred to, and will continue to be transferred to, Tribes nationally under recent federal statutes and federal policies.

To view all formatting for this article (eg, tables, footnotes), please access the original here.

by Deana M. Bennett and Lynn H. Slade

Modrall Sperling

USA July 4 2018

Reducing Exposure to Lead in Drinking Water: Status of Revisions to Lead and Copper Rule (Parts 1 & 2)

The Administration is considering substantial changes to the current regulatory approach to reducing exposure to lead in drinking water. The US EPA (EPA) is assessing long-term revisions to the Lead and Copper Rule (LC Rule), a Safe Drinking Water Act (SDWA) regulation that seeks to protect public health by minimizing lead and copper in drinking water, primarily through corrosion control measures. Lead contamination in drinking water has been the subject of national scrutiny in the aftermath of the public health crisis in Flint, Michigan, where high levels of lead leached from aging pipes into the city’s drinking water after the city switched its source of drinking water to the Flint River, the quality of which was more corrosive than the prior source. Congress eventually banned lead pipes in new construction with amendments to the SDWA in 1986, but in a 2016 survey, the American Water Works Association estimated that 6 million lead-containing service lines continue to distribute drinking water to 15-22 million people in the United States. As state and local governments nationwide confront similar challenges, EPA appears poised to address the legacy of lead infrastructure through updates to the LC Rule. In January 2018, EPA Administrator Scott Pruitt pledged to update the LC Rule as part of his “war on lead” in drinking water.

The SDWA requires EPA to determine a health-based maximum contaminant level goal (MCLG) for identified contaminants that may be found in drinking water. MCLGs reflect levels at which no adverse health effects are likely to occur, with an adequate margin of safety and are not enforceable. The MCLG for lead is zero, based on EPA’s finding that there is no safe level of lead exposure, particularly for young children and pregnant women.

The SDWA also requires EPA to establish enforceable national primary drinking water regulations. For each contaminant with an MCLG, EPA must designate either a maximum contaminant level (MCL) or a “treatment technique.” MCLs must be set “as close to the MCLG as feasible,” whereas “treatment techniques” are allowed if it is not economically or technologically feasible to ascertain the MCL. EPA has established a “treatment technique” for lead, which is set forth in the LC Rule.

First promulgated in 1991, the LC Rule includes requirements for corrosion control treatment, source water treatment, lead service line replacement, and public education, as well as monitoring, reporting, and recordkeeping . Some of these requirements are triggered if action levels are exceeded. The action level for lead is 15 parts per billion (ppb) (or 0.015 mg/L) and is triggered if more than 10% of consumer taps sampled during a monitoring period contain lead concentrations in excess of 15 ppb. An exceedance indicates that corrosion control is not effective and the public water system must take additional steps to reduce lead in drinking water. The applicable corrective action depends upon the size of the public water system and the actions previously taken. Replacement of lead service lines is a last resort.

Critics have argued that the LC Rule is too reactive, too complex, and too lenient. EPA discussed these concerns in an October 2016 white paper, which declared that the LC Rule and its implementation “are in urgent need of an overhaul.” The white paper indicates that EPA views the LC Rule as insufficiently proactive because it compels protective actions only after an action level is exceeded, thus creating a disincentive for public water systems to identify potential problems in drinking water before they become a public health concern. The LC Rule is also “one of the most complicated drinking water regulations for states and drinking water utilities to implement.” Identifying the source(s) of lead contamination can be difficult, and the LC Rule is the only regulation that requires sampling in homes, often by the consumers themselves. Many lead service lines are also partially or entirely privately owned, and the responsibility for addressing the lead contamination may be up to the homeowner. Furthermore, the LC Rule confers public water systems with considerable discretion in regard to how they optimize corrosion control treatment, leaving many systems without fully optimized or maintained corrosion controls.

To address these concerns, EPA is considering technology-driven and health-based revisions to modernize and strengthen the LC Rule. Regulatory changes may include full lead service line replacement, health-based benchmarks, more prescriptive corrosion control treatment requirements, point-of-use filters, and improvements to sampling requirements, among other ideas. US EPA’s Office of Ground Water and Drinking Water met with stakeholders as recently as January 2018, and solicited written comments from the public in March. EPA’s current rulemaking schedule calls for the Agency to release a draft rule in August 2018 and a final rule in February 2020.

Whether the EPA ultimately follows through with a draft rule in 2018 remains to be seen. Meanwhile, communities across the United States are taking action to address lead contamination in their jurisdictions. For example, the Michigan Department of Environmental Quality will soon release an update to its own Lead and Copper rule, which may provide a template for other states. In January 2017, the State of Illinois passed a law that requires each school to conduct lead testing, and mandates remediation if elevated lead levels are found. New York, New Jersey, Oregon, Virginia, and California have also implemented similar laws (some are voluntary). While these states and other public water systems may have learned lessons from Flint, actually tackling the invisible problem of lead contamination is challenging as it can be extremely costly to implement and is fraught with economic, political and legal issues.

Addressing those issues in a fair and balanced way is important, especially because failure to comply with the LC Rule can expose public water systems to significant criminal and civil liability. For example, the Flint, Michigan disaster led to 15 criminal charges, two class action lawsuits, and a settlement that requires the State of Michigan to fund $100 million for the City of Flint's replacement of lead service lines. The SDWA includes a citizen suit provision, and the Natural Resources Defense Counsel and Newark Education Workers Caucus recently filed a Notice of Intent to Sue the City of Newark, New Jersey and the New Jersey Department of Environmental Protection for alleged violations of the SDWA—specifically, failure to comply with various provisions of the LC Rule.

Please stay tuned for Part 2 of this post, which will address in more detail issues related to liability under the SDWA and LC Rule.

By Sarah Quiter on May 17, 2018

Hunton Andrews Kurth

Fitch: SCOTUS Janus Ruling Impact Limited for State and Local Credit.

Fitch Ratings-New York-27 June 2018: Today's Supreme Court ruling regarding the funding of public sector collective bargaining activities is not likely to have a meaningful effect on state and local government finances, according to Fitch Ratings.

The ruling for the plaintiff in Janus vs. AFSCME Council 31 eliminates the requirement that non-union public sector employees pay "agency fees" to contribute to the cost of collective bargaining and related activities. It reverses a 40-year-old SCOTUS decision that allowed public sector unions to require such fees.

Regardless of the legal framework, state and local governments remain limited in their ability to control labor spending. This was recently demonstrated by the influence on budgeted spending of mass labor actions by public school teachers in several states.

Twenty-eight states have adopted right-to-work laws. The Janus ruling essentially creates the same framework for the other 22 states and the District of Columbia for public-sector employees. "States with right-to-work laws that limit collective bargaining powers can still confront labor-related spending pressures," said Fitch Managing Director Amy Laskey.

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

"'What Investors Want to Know: The Impact of a Changing Labor Environment on Credit Quality" is available at www.fitchratings.com or by clicking on the above link.

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Fitch: Minor Stresses Emerging for U.S. NFP Children's Hospitals.

Fitch Ratings-Austin-25 June 2018: Operational stresses in the general acute health care sector are beginning to seep into some performance metrics for U.S. not-for-profit children's hospitals, according to Fitch Ratings in a new report.

Fitch's 'AA-' median rating for stand-alone children's hospitals is secure thanks to their robust liquidity, strong philanthropic support, solid operating margins and specialized clinical services relative to Fitch-rated general acute care hospitals. That said, median operating margins have fallen in each of the last two years.

Median operating margins declined sharply to 4.5% in fiscal 2017 from 6.1% in the prior year. Median operating EBITDA also declined last year albeit more subtly, falling to 11.9% in fiscal 2017 from 12.6% in fiscal 2016. Conversely, median EBITDA margins improved slightly to 14.5% last fiscal year compared to 14.2% for fiscal 2016. 'Lower operating margins have been balanced out by stronger investment returns over the last year, which explains the mixed margin performance for children's not-for-profit hospitals,' said Senior Director Kevin Holloran.

Stand-alone children's hospitals may also be vulnerable to volume erosion over time as payors and patients become increasingly price sensitive. 'The more aggressive push for risk-based contracts that have developed in several major metro areas could pose additional reimbursement pressure for those children's hospitals not yet structured to manage risk,' said Holloran.

Children's hospitals' high exposure to Medicaid and inherent vulnerability to governmental funding cuts will always be a credit concern. However, the sector will continue to be insulated from any decreases in either Medicaid or supplemental reimbursement. Helping matters is the strong political and public-policy support for specialized pediatric services that remains firmly in place. 'Any further dismantling of the ACA would have, at worst, a marginal impact on stand-alone children's hospitals since broad coverage for children already existed pre-ACA in most states,' said Holloran.

'2018 Median Ratios for Not-for-Profit Children's Hospitals' is available at 'www.fitchratings.com'

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Fitch Updates Rating Criteria for U.S. Mortgage Insurance or Guarantee Fund Programs.

Fitch Ratings-New York-28 June 2018: Fitch Ratings has published an updated criteria report titled 'U.S. State Housing Finance Agencies: Mortgage Insurance or Guarantee Fund Program Rating Criteria.' The report replaces the existing criteria of the same title published on July 7, 2017. Criteria elements have been clarified from the previous report to provide greater detail regarding the relative importance of each key rating driver. There have been no material changes to Fitch's underlying methodology and no rating actions are expected as a result of the application of the updated criteria.

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

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Maine Forgets the Unwritten Rules of Muni-Bond Sales: Joe Mysak

- **Governor won't approve GO bonds sold at auction on June 12**
- **AA-rated bonds had been priced closer to triple-A scale**

This isn't how the municipal-bond market is supposed to work.

On June 12, Maine sold $112.86 million of general-obligation debt at auction. The securities were rated Aa2 by Moody's Investors Service and AA by S&P Global Ratings, the third-highest grades. When the bids were calculated, Wells Fargo & Co. won the $97.4 million in tax-exempts and Citigroup Inc. won the $15.4 million in taxables, and the state did very well.

The yields on the tax-exempt bonds maturing in 10 years priced to yield 9.9 basis points over comparable AAA debt. The taxables due in 2019 yielded just 13.4 basis points over Treasuries, while those due in 2020 came in even better at 6.7 basis points more than the federal government pays to borrow.

But last week, Governor Paul LePage — a pugnacious Republican first elected in the big Tea Party wave of 2010 — told State Treasurer Terry Hayes that he was having second thoughts and wouldn't approve the sale, according to the Bangor Daily News. On June 25, the newspaper reported that the governor wasn't approving the sale because of "excessive 11th hour legislative spending."

Which means that any investors who had purchased these bonds from the banks got to read this supplement to the official statement: "Notwithstanding the sale of the Bonds on June 12, the Governor has subsequently determined that he does not want the Bonds to be issued at this time. Accordingly, the State will not deliver the Bonds and related documents as planned on June 26. Any future issuance of the Bonds, if any, will be pursuant to a new offering and sale thereof."

No.

Just: No. This isn't how the municipal bond market is supposed to work.

Yes, every once in a long while an issuer will choose to reject all the bids at an auction on the day of a sale.

And yes, buyers have been known to rebel and force the cancellation of a sale. This occurred in April of 2015 after Louisiana State University said budget cuts might force it into "exigency," a kind of collegiate restructuring, that took investors by surprise after the deal had gone through.

And yes, every once in a long while Wall Street itself will force the cancellation of a sale, which happened in December of 1986 when the Kansas Highway Department planned to borrow money to call some bonds that it had sold in January of 1985 and then escrowed "to maturity" in November of 1985.

But canceling the sale of general-obligation bonds approved by voters because of a political whim, because of some sort of spat between the legislative and executive branches of government? That's not done. That's against the unwritten rules.

And there are some. By pulling on this one thread, you threaten to unravel a very complicated fabric. The whole public finance business is based upon reputation, trust and strict adherence to law and convention.

Perhaps the biggest unwritten rule is not to tease, vex, antagonize, unsettle or otherwise discomfit the buyers. What happens next? As The Bond Buyer put it on June 25, the cancellation "may cost the state next time." The cynical part of me says that won't happen, because the market has no memory and because actions can have no consequences.

The more traditional part of me, though, says this is very different and those 10 bps spreads over triple-A should maybe be 40 or 50 bps. Why? Because inexplicably, Maine forgot the rules they've always abided by. Or maybe the underwriters will forget to show up altogether on the next day of sale.

Bloomberg Markets

By Joe Mysak

June 27, 2018, 5:14 AM PDT

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

See Public Records? Governments Are Making It Harder.

A growing number of states are limiting access to them.

The Holy Grail for government transparency is making it easy and simple for citizens to know what their government is doing and how it arrives at its decisions. We've always believed this can be achieved, in part, by providing access to public records.

Of course, transparency isn't open-ended. Every state has statutes clarifying what information must be made public and what information should be kept sealed. However, in recent years there's been a steady chipping away at the public's right to know. "This is a trend," says Barbara Petersen, president of the First Amendment Foundation, a Florida nonprofit that advocates for the public's right to oversee its government. "It's not just coming through legislation, but also through the agencies."

In Kentucky, for instance, the attorney general's office decided two years ago that government information transmitted through personally owned devices is immune from public scrutiny. In other words, if two council members sent emails back and forth using their own cellphones, the public would have no right to see those emails, no matter how much impact the conversation in them might have on a council decision. "If discussion about a dispute was conducted on these private devices," says Amye Bensenhaver, director of the Bluegrass Institute's Center for Open Government, "then when it came to the public meeting, everything could have already been worked out."

Even Florida, long known for its open public records law, has begun pulling back. The last time a systematic count was taken, the state had allowed for over 1,100 exemptions in which information could be concealed from the press and public.

What's more, although the state's law is expansive, there is no straightforward way to make sure it is implemented. "We're really stuck," says Petersen. "We've got this great law, but no means to enforce it other than through the courts."

Another burgeoning threat to the utility of public records laws is the exemption of legislative documents, a step such states as Iowa, Massachusetts and Oklahoma have taken. The state of Washington came close to enacting just such a bill, but the governor vetoed it and no attempt was made to override the veto thanks to a loud and effective outcry from the press.

There's another hitch to openness. Many records that would ordinarily be made public escape examination when the organization that maintains them is not a direct part of government. That is, the records have been transferred to a nonprofit or for-profit organization, both of which may not have to comply with freedom of information laws. "This is an issue that every city and state should be aware of in their procurement," says Alex Howard, deputy director of the Sunlight Foundation, which advocates for transparency. "They should make sure the public's right to know isn't being lost."

These disclosure issues can wind up in the courts, where opinions have varied across the states, according to Adam Marshall, an attorney at the Reporters Committee for Freedom of the Press. Some of the factors the courts might take into account include how much funding the entity receives from the city or state, the functions it performs and the degree to which the government controls what the private entity does.

Another barrier to access exists when a state or locality charges high fees for providing information. For example, in Florida, Charlotte County approved one-sixth the number of requests for information that Polk County did, yet it collected three times the amount of money, according to the University of Florida and the First Amendment Foundation. The reason: Charlotte charged $50 for every request, no matter how small; Polk, $10 per request.

Clearly, in the best of all worlds, when a citizen is turned down on a request for public information, she should be able to seek out people who can help. But states and localities don't always publish their public record stewards' names. According to a Florida audit, "there's a substantial absence of so-called public report custodians in the state." The audit found that 10 percent of the agencies it surveyed did not have a designated public records custodian; 10 percent didn't have the custodian contact information on their website; and 1 in 5 said the information was online, but independent auditors could not find it.

Technology is becoming a means to effective gathering and analysis of data that can be used to guide management efforts. So, it's ironic and counterproductive that it's increasingly difficult for the public to get to the actual data. "This is becoming a bigger problem," says Daniel Bevarly, executive director of the National Freedom of Information Coalition. "The public sector is lagging behind the preferences of the people they represent."

governing.com

By Katherine Barrett & Richard Greene | Columnists
Government management experts. Their website is greenebarrett.com.

JUNE 2018

2018 CDFA Original Research - Conduit Bond Fee Survey

Click here to take the CDFA survey.

CDFA | Jun. 29

Urban Institute Launches Community Development Financial Flows Tool.

How does your county fare in accessing federal community development funding?

Capital is vital for communities. Businesses depend on it to expand. Families need it to be safely and stably housed. Consumers need it to find affordable groceries. And cities need it to pave streets and update sewers.

But how well are federal community development finance flows targeted to areas that need them? Relatively little is known about community development investment trends at the local level. Our new Community Development Financial Flows data tool shows which counties are doing better at accessing federal funds and which are facing serious shortfalls.

We measured federally sponsored or incentivized community development capital to all US counties with populations greater than 50,000 (which accounts for 88 percent of the US population) using data from 2011 to 2015. We tracked funding in four dimensions—housing, small business, impact finance, and other community development—and created a combined measure that averages those four categories.

Continue reading.

The Urban Institute

by Brett Theodos

June 26, 2018

Muni Market Recap: Continued Trade Tension Keeping Things Interesting.

The bond markets rallied this week, 4 to 7 basis points with the yield curve continuing to flatten. Still, trade tensions, Yuan volatility, and focus on central bank future actions kept everyone on their toes.

I woke up in the middle of the night to find out the President Trump had declared beef with Harley Davidson and the World Trade Organization. It made me think of The Notorious B.I.G. song, “What’s Beef”, Beef is when you can’t sleep.

Stocks were volatile but ended higher on the week. U.S. Government Bond Yields rallied and the curve continued to flatten: 2yr 30yr yield difference declined from 50 basis points to 44 basis points differential, 2.97% vs 2.53%. Muni yields underperformed in the rally, with 30yr yields lower by 2 basis points and 2yr yields unchanged. 2yr 30yr yield difference on the Municipal curve declined by 2 basis points, from 32 basis points to 30 basis points. Muni yields are approximately 2yr 1.64% and 30yr 2.94% to end the week. In the Bay Area, the market move that mattered most was the continued decline of cryptocurrencies.

Continue reading.

Posted 06/29/2018 by Homero Radway

Neighborly Insights

Municipal Bonds Weekly Market Report: Fed Chair Powell Expects Rates to Keep Rising

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

- Treasury and municipal yields mostly dropped this week.
- Muni bond funds saw inflows for the third week in a row.
- Be sure to review our previous week's report to track the changing market conditions.

Continue reading.

municipalbonds.com

by Brian Mathews

Jun 26, 2018

Building More Resilient Cities: A Case for Blockchain

Discussion around the benefits of blockchain technology — security, transparency and efficiency — has pushed forward conversations about how additional sectors can benefit from this innovation. In addition to financial applications allowing the immediate, secure and transparent transfer of assets with no central administrator, blockchain technology can make cities more efficient and resilient — from giving homeless residents the ability to access critical services to making decentralized energy grids resistant to central power outages.

More than half of the global population live in cities, a number expected to rise to nearly 70% by 2050. In response, local governments are learning to become more bold, nimble and thoughtful to accommodate this rising urbanization along with other challenges like climate change. Examples of these efforts include Rockefeller Foundation's 100 Resilient Cities and Bloomberg Philanthropies' Mayors Challenge. Cities are changing old ways of doing business, leveraging greater technology to serve more residents.

Continue reading.

Neighborly Issuer Briefs

Posted 06/29/2018 by Kiran Jain

What the FCC Chairman's Visit to Ammon, Idaho Means for Municipal Broadband.

Last week, FCC chairman Ajit Pai — infamous for axing the Net Neutrality rules late last year and no friend of open internet advocates — embarked on a four-state road trip of the Northwestern United States to highlight how high-speed broadband has the potential to create jobs and unlock economic opportunity. Along the way, he stopped in Ammon, Idaho, a city of about 15,000 in the southeastern part of the state that has gained some fame for pioneering a broadband network known as the "Ammon Model."

The Ammon Model is many things to many people — city-owned broadband infrastructure; inexpensive, reliable internet; network virtualization. As Bruce Patterson, Ammon's Technology Director succinctly puts it, the Ammon Model is about "democratizing critical infrastructure." It is a city-owned broadband network that has built a virtual software layer to create a competitive marketplace for services, the most crucial being high-speed internet.

Continue reading.

Posted 06/28/2018 by Garrett Brinker

Neighborly Issuer Briefs

The Week in Public Finance: Will Weaker Unions Mean More Money for States?

The Supreme Court dealt a blow to public-sector unions this week. Whether it'll save governments labor costs is debatable.

The U.S. Supreme Court dealt a potentially crippling blow this week to public-sector labor unions when it eliminated the requirement for non-union employees to pay "agency fees" to contribute to the cost of collective bargaining and related activities.

The decision is expected to cause a drop in union membership, which has fallen in nearly every state over the past decade, and a subsequent decline in unions' revenue and power. A big question for governments is whether a weakening of labor unions will translate to lower labor costs in the 22 states that have not already adopted right-to-work laws, which let workers opt out of union fees.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | JUNE 29, 2018

States, Cities Win Edge in Pension War With Supreme Court Ruling.

- **Court decision allows public workers to skip union fees**
- **Unions may have less bargaining power with fewer members**

No financial issue has dominated American states and cities in recent years as much as the massive shortfalls in their workers' retirement funds, which have triggered battles between politicians and unions from New Jersey to California and helped push Detroit into a record-setting bankruptcy.

On Wednesday, the U.S. Supreme Court may have given governments a bit more of an upper hand.

The court ruled 5-to-4 that government employees have a constitutional right not to pay union fees, dealing a potentially heavy blow to the economic clout of the labor movement through a decision that affects 5 million workers. That may leave unions with a weaker voice in benefit and pay negotiations and curtail their power at the polls.

State and city pension funds were hit hard by the credit market crisis a decade ago, when stock prices plunged. That's left them with about $1.8 trillion less than they need to cover all the promised benefits, putting pressure on governments and workers to set aside more money to make up the difference.

Such unfunded obligations contributed to bankruptcies in Detroit and Puerto Rico that left bondholders and pensioners squaring off in court. In New Jersey, former Republican Governor Chris Christie fought with the state's labor unions over their benefits for years, even as his failure to make full annual pension payments caused the pension system to fall deeper behind. Illinois's bonds have been downgraded to one level above junk because of retirement system debt that stood at $137 billion by last June.

"The issue with resistance to alter pension agreements is a big one in states with underfunded pensions like Illinois," Daniel Solender, head of municipal investments at Lord Abbett & Co., which holds $20 billion of state and local debt, said in an email. "Up until now it has been unions versus the government on these issues but if workers do not need to financially support the unions and if they can act more independently, it might open the door for more compromises."

Union opposition to pension changes has been a major force in Illinois. In 2013, Illinois lawmakers approved a restructuring of the pension system, seeking to cut cost-of-living adjustments and raise the retirement age for some workers. But unions sued, and the state's supreme court sided with unions, saying it illegally cut benefits protected by the Illinois constitution.

"This is historic win for taxpayers," Governor Bruce Rauner, a Republican, said in a Bloomberg Television interview from Washington. "Taxpayers for too long have suffered from the excessive, unfair costs of the unfair, conflicted relationship between government union leaders and the politicians who they helped elect as well as negotiate with."

While the legal obstacles haven't changed, the Supreme Court decision could chip away at the resources that unions can bring to such fights. That could help states and local governments seeking to lower salaries and reduce benefits.

"We expect the Supreme Court decision may lower public union revenues, membership, and bargaining power in the 22 states that can no longer allow mandatory fees," Emily Raimes, an analyst at Moody's Investors Service, said in a statement. "These developments could change how state and local governments set employee wages and pensions, resulting in a positive long-term impact on government finances."

Bloomberg Markets

By Elizabeth Campbell and Michelle Kaske

June 27, 2018, 10:30 AM PDT

Public Pension Network Responds to Introduction of the Public Employee Pension Transparency Act.

Members of the Public Pension Network have submitted a letter to Congress regarding introduction of the Public Employee Pension Transparency Act (PEPTA). The letter notes that PEPTA, if passed, "…would set a dangerous precedent with regard to unfunded federal mandates, taxation of municipal bonds, and intrusion into the operations of state and local governments." The groups are urging members of Congress to oppose the bill.

[Read the full letter.]

June 25, 2018

[PILT Counties: Feds May Owe You Money.]

Counties receiving PILT payments may be due reimbursements for underpayment from 2015-2017

In 2008, Congress significantly amended the Payments In-Lieu of Taxes (PILT) statute by mandating full funding through 2014. Congress also repealed the original statute language that made the program discretionary and subject to the annual congressional appropriations process. Due to insufficient appropriations for 2015–2017, PILT recipients did not receive the full amount to which they were entitled under the PILT statute based on the Department of the Interior's full payment calculation.

As a result, Kane County, Utah filed a lawsuit in the U.S. Court of Federal Claims in June 2017, seeking to recover its own underpayments and the underpayments of all other PILT recipients nationwide for those years. In December, the court ruled in Kane County's favor for FY2015 and 2016 underpayments and issued a similar ruling on FY2017 underpayments in March 2018.

How to Join the Class Action Suit

To participate in the class action lawsuit and collect possible amounts due them, each underpaid PILT recipient must complete and submit a form "opting into" the lawsuit. If a county does not elect to join the class, they will not be included in the class action lawsuit—and will not receive any recovered funds. Counties will have until mid-September to opt into the class. [Click here for more information and to access the opt-in form.]

The federal government argued in court that despite Congress' removal of the original statute language treating PILT as a discretionary program, Congress placed the 2008–2014 timeline limitation on the current statute language making PILT mandatory. Federal Judge Elaine Kaplan disagreed, calling the government's argument "untenable."

In her December 2017 ruling, Judge Kaplan elaborated that the federal government "is urging the Court to read the current statute as though it still contained the limiting language that Congress repealed in October of 2008; in other words, the government asks the Court to find that Congress resurrected a repealed provision of law by implication…The government does not cite a single case that supports the resurrection of a repealed provision of law by implication."

The court also certified the lawsuit as a class action, and ordered that an official notice of the formation of a class be sent to each underpaid PILT recipient. That notice of the class formation will be mailed on June 19. Smith, Currie and Hancock, LLP will serve as class counsel.

The exact amount each county may receive from Interior and the length of the legal of time before issuing of payments remain unsettled issues. It is also unclear if the government will appeal the rulings.

National Association of Counties

By Jonathan Shuffield

Jun. 25, 2018

[Ransom Demands and Frozen Computers: Hackers Hit Towns Across the U.S.]

Online extortionists search for vulnerabilities, offer instructions on how to pay in bitcoin

Town officials in Rockport, Maine, were closing up shop on Friday, April 13, when they realized they couldn't open files on their computers.

After fielding messages from town workers, local information-technology contractor Gus Natale said he "went straight to the town office and started yanking plugs."

An unknown hacker had snuck malicious software onto the network and was demanding a payment of roughly $1,200 in bitcoin in return for codes to unlock the town's files.

"My thinking was, let's just get this paid. It's a small amount," said Town Manager Rick Bates. But, he added, Mr. Natale and a helper "did not want the bad guys to beat them."

Continue reading.

The Wall Street Journal

By Jon Kamp and Scott Calvert

June 24, 2018 7:00 a.m. ET

[Tulsa School District Tops U.S. Municipal Bond Deals Next Week.]

NEW YORK, June 29 (Reuters) – A school district in Tulsa, Oklahoma, will issue $57.8 million of general obligation bonds in a competitive sale next week, the largest deal on a tiny calendar as the market takes a breather for the Fourth of July holiday on Wednesday.

Just $170 million of estimated bond and note sales are scheduled next week, none of them negotiated. Tulsa's school district will also price $10 million of technology equipment taxable GO bonds.

Tulsa's deal comes in the wake of an Oklahoma Supreme Court ruling on June 22 that threw out a petition seeking to block tax hikes that will fund teacher pay raises.

The court decision is a boost for school districts statewide because it preserves tax increases on gasoline and oil production, Moody's Investors Service said on Wednesday.

Oklahoma lawmakers passed the tax hikes in March to fund an average $6,100 pay increase for teachers, who were among the lowest paid in the nation. Despite the pay raise, teachers went on strike for nine days, demanding more education funding.

If the move to block tax hikes had succeeded, school districts likely would still have had to pay the salary increases, Moody's said.

But the court ruling reduces the prospects that school districts will have to make mid-year cuts to fund those salaries.

The effort to undue tax hikes, however, might not be dead. Activists have until July 18 to submit a new petition that meets legal requirements for a November ballot referendum.

Next week's light issuance will run past July 1, which is usually the busiest day of the year for maturing municipal bonds, Janney Montgomery Scott analysts said in a Friday note.

"There will be plenty of money from maturities, redemptions and interest payments to put to work next week," Janney said. "The challenge will be finding bonds."

Total issuance by par amount in the second quarter was $93.5 billion, 7 percent lower than the same quarter in 2017 and 21.8 percent lower than the same period in 2016, according to preliminary Thomson Reuters data.

For the first half of the year, issuance fell 17 percent, pulled down by a nearly 57 percent drop in refundings that was too large to be fully offset by a 29 percent increase in new money bonds.

Investors have poured cash into municipal mutual funds for eight straight weeks. Inflows were $421 million in the week ended June 27, according to data from Lipper, a Thomson Reuters unit.

(Reporting by Hilary Russ Editing by Leslie Adler)

Hospitals are Moving to Single Ratings: Here's Why

Through the first six months of 2018, 39 percent of hospital tax exempt fixed rate bond issues came with a single rating, up from 21 percent during the same period in 2017, according to new research from HFA Partners.

In addition, the total number of bonds that carried a rating from all three credit agencies — Fitch Ratings, Moody's Investors Service and S&P Global Ratings — declined from 19 percent in 2017 to 14 percent in 2018. The average number of ratings per bond issue also declined from 1.8 in 2017 to 1.5 in 2018.

This emerging trend of single-rated issuance is most evident in the "BBB" rating space, because it tends to draw more sophisticated investors, according to HFA Partners.

While HFA Partners acknowledged that spotting a move toward single-rated bond issues is difficult because hospitals sold $5 billion worth of bonds in the first half of 2018, compared to $14 billion in 2017, they noted this trend is occurring across multiple sectors and emphasized several reasons why hospitals may move toward single-rated issuance.

Here are four reasons:

1. Cost. Each rating agency charges fees that add cost to the issuance. For example, S&P charges $100,000 for bond issues that range from $100 million to $200 million and a surveillance fee around $20,000. While those fees are small in comparison to the larger bond issue, they can add up over the life of the bonds.

2. Administrative burden. Dealing with multiple credit agencies, especially if reviews are done at different times per year, can take away from day-to-day operations.

3. Bank placements. “Over the last several years, hospitals have moved away from public bonds towards bank placements, which are typically unrated. With less public debt outstanding, borrowers aren’t as dependent on rating agencies and are better positioned to pare down on ratings,” the report from HFA Partners reads.

4. Worries about updated criteria. Some hospitals worry the more ratings that exist, the more likely the agency will change its criteria and approach to rating the healthcare sector. Both S&P and Fitch ratings already changed their rating criteria and approach in 2018. Worries of credit approach changes. “While this [update] can result in an upgrade, the impact of a downgrade is greater since investors base pricing on the lower of all available ratings,” the report states.

“Whatever the rationale is for hospitals to cut back on ratings, it is clear that municipal bond funds, who make up the bulk of buyers, have stepped up their analytical capabilities and are less reliant on rating agencies,” the report concluded. “As a result, the pricing penalty from carrying fewer ratings isn’t as significant for borrowers as it used to be.”

Read the full report here.

Becker’s Hospital CFO Report

Written by Alia Paavola | June 25, 2018

Why Do Cities Want Their Own Cryptocurrencies?

The allure of digital currencies has hit Dubai, Seoul, Berkeley, and more. What looks like another offshoot of the Bitcoin craze could be an evolution of the municipal bond.

Coming soon to Slovenia: a brand new city that runs completely on cryptocurrency.

If all goes according to plan, BTC City will rise from the ashes of a former commercial shopping district in the country’s capital of Lubljana, offering wallet-less shoppers and wide-eyed tech enthusiasts a chance to engage in a more modern brand of conspicuous consumption. Every store in the 1.5 million-square-foot plot will stop accepting cash and start accepting crypto.

It’s a big deal for the small, former Yugoslav country. But it’s small potatoes compared to some other municipal efforts to wade into the world of digital financial systems. BTC City’s aim is to get people to use the dozens of digital currencies that already exist. Elsewhere, cities are vying to create new ones from scratch.

Continue reading.

CITY LAB

SARAH HOLDER & LINDA POON

JUN 20, 2018

Once-Safest Muni Bonds Tainted as Investors Await Downgrades.

- **Rating cut to Illinois sales-tax bonds may herald others**
- **SNW Asset Management sees less value, shifts to 'underweight'**

Late last month, Fitch Ratings downgraded $2.5 billion of Illinois's sales-tax bonds by five steps, dropping them closer to debt backed only by the state's promise to repay.

It may not be the last ratings cut for state and local-government bonds backed by dedicated revenue including tolls, fees or specific taxes — a pledge that investors once assumed protected them from a government's financial distress.

SNW Asset Management, a unit of OppenheimerFunds, sees less value in such bonds because of the risk of deep downgrades, said Mark Stockwell, a municipal analyst at the Seattle-based firm. He said the sector is "devolving" and becoming more closely correlated with general-obligation debt or securities repaid with money that lawmakers have to appropriate each year.

In a research note to clients last week, the company said it has shifted its recommendation on the tax-backed bonds to "underweight."

"Some of these bonds that look like they provide value may be downgraded," said Stockwell. "We could see AA or AAA rated bonds go to single A or triple B. In some cases, you could have a BBB dedicated tax bond go to a non-investment grade category."

The reassessment is coming after some recent cases made it clear that the securities aren't necessarily immune from the impact of a government's fiscal strains. Puerto Rico sales-tax bondholders haven't received payments amid the island's bankruptcy, belying the perceived safety that kept the securities investment grade after the territory's rating was dropped to junk. A trustee is holding the revenue pledged to bondholders while creditors face off in court.

In 2015, S&P Global Ratings downgraded Illinois' Metropolitan Pier & Exposition Authority's sales-tax bonds to BBB+ from AAA after the Illinois legislature failed to appropriate the revenue needed to cover monthly debt payments amid a stalemate over the budget. The state eventually allocated the funds.

"You have these bondholder protections and you thought it was going to work, and then it didn't," Stockwell said.

S&P is currently considering whether to change its method for rating "priority lien" bonds to tie them more closely to a municipality's full faith and credit. The rating company currently grades about 1,300 of those securities.

Less Safety

Moody's Investors Service already discounts the safety of the securities. It generally caps the ratings of dedicated-tax bonds at the same level as an issuer's general-obligation bonds. The ratings can be higher only when the pledged revenue stream is legally separated from the issuer's general finances, such as through a constitutional amendment to pledge certain revenue to the debt.

Fitch lowered its rating on the Illinois sales-tax bonds to A- as a result of changing its state dedicated tax rating criteria in April. The securities have a first claim on the state's share of the 6.25

percent sales tax. But because the revenue flows to the general fund after paying debt service, Fitch applied its new criteria, which takes into account the state's BBB rating.

Fitch changed its rating criteria on state tax bonds because there's more uncertainty about how they would be treated during a time of severe financial pressure, given that states can't file for bankruptcy the way cities can, said Eric Kim, an analyst for the company. By contrast, Chapter 9 precedents provide a framework for how the debt would be treated if a municipality goes broke, he said.

Local dedicated tax bonds are generally capped at the issuer rating by Fitch, although there are instances in which the securities could have a higher rating.

Fitch is evaluating whether to downgrade Pennsylvania Turnpike Commission bonds backed by registration fees and revenue debt issued by transit agencies in the Philadelphia and Pittsburgh metropolitan areas. The local transit agencies get some revenue from a state transportation fund, which in turn relies on state sales-tax money.

"For certain types of state dedicated-tax bonds, while the legal structure may permit a rating above the credit quality of the state issuer default rating, we think in most cases there will continue to be some linkage to the state because of the potential for impairment of bondholders," said Kim.

Bloomberg

By Martin Z Braun

June 20, 2018, 5:28 AM PDT Updated on June 20, 2018, 11:10 AM PDT

— With assistance by Michelle Kaske

[Selling Government Assets Would be a Responsible Move in Infrastructure Deal.]

It's common in Washington to enact a law and pay for it by simply putting on the country's metaphorical "credit card." So with the conversation about revitalizing America's infrastructure heating up, will we pump trillions more into the deficit? With the national debt already at a staggering $21 trillion, taxpayers have good reasons to be cautious. However, a new plan is gaining traction among Democrats and Republicans that would fund infrastructure projects while cutting into the national debt.

The National Taxpayers Union recently released guiding principles that lawmakers should follow when crafting a legislative package. Among the principles that need to be prioritized are using competitive bidding processes, implementing regulatory reform, and that revenue-raisers should be user-funded. For infrastructure policy, private capital should always be put ahead of public funding.

Each party has already laid their plan on the table and they'll need to a build a bridge to connect the space between them. President Trump supports a plan that prioritizes private capital, relies heavily on state and local spending, and possibly increases the national gas tax. The Democratic plan crafted by Sen. Chuck Schumer (D-N.Y.) would eliminate roughly two-thirds of the already successful Tax Cuts and Jobs Act, effectively raising taxes on families and businesses. These two approaches are radically different, but bipartisanship might be the road forward.

A new initiative introduced by Republican Rep. Mike Kelly, Democratic Rep. William Lacy Clay of the Congressional Black Caucus, and Rep. Ted Budd of the House Freedom Caucus shows promise for a new and debt-friendly way forward on infrastructure policy. The Generating American Infrastructure and Income Now (GAIIN) Act would sell off some government assets and use the generated revenue in two unique ways: half would be sent to the Treasury Department to pay down existing debt and the other half would be used to fund projects in the 100 poorest communities around the U.S. While selling government assets isn't new (it was proposed by President Reagan to pay for tax reform and mentioned by President Trump last year), taxpayers should appreciate lawmakers looking for creative ways to generate revenue without levying a tax increase.

Here's how such a plan would work: The government would package certain assets, like buildings or debt, and auction them off to institutions that are willing to pay the highest price. Sale of government assets can have a substantial societal benefit if the private market can maximize their potential. For investment firms, this proposal could actually be a much sounder investment than investing in public-private partnerships because the market does not like uncertainty. Private investors could be willing to pay a higher price for an existing asset that could immediately be monetized rather than fund a construction project that could take years to design, approve, and construct with no certainty that it will be successful.

In most recent data from FY17, the government held about [$3.5 trillion in assets], not counting any mineral or natural resource assets. These government assets include net loans, net property, plant, and equipment. According to a recent [report], the government owns over 45,000 underutilized buildings which carry operating costs close to $2 billion annually.

Politicians love enacting infrastructure laws because they result in construction projects that generate jobs and economic activity. By allocating money into the poorest communities, the work would create jobs for people in areas that lack sufficient job opportunities. Creating jobs in low-income communities could spark new commerce, investment and development in urban areas like Detroit, Michigan and Camden, New Jersey, as well as in rural areas in the South and struggling former mining towns in West Virginia and Pennsylvania.

Taxpayers should be receptive to this plan because it accomplishes three main things: First, it avoids having to raise the gas tax by a significant amount. Increasing this tax would disproportionately harm lower-income Americans and a gasoline tax increase of 25 cents could wipe away 60 percent of the last year's tax cut benefit for consumers. Second, this plan would not require new government spending. This means Washington can put the credit card away (for the time-being) and pay the bill up front. Finally, using some of the revenue to pay down the debt will put America's finances in a better position than they would otherwise be.

Selling public assets can be a fiscally responsible solution especially in the context of a comprehensive infrastructure package. Lawmakers should use all the tools at their disposal to ensure there is a balance between taxpayer interests and an infrastructure system that promotes economic growth and efficiency.

THE HILL

BY THOMAS AIELLO, OPINION CONTRIBUTOR

06/19/18

Thomas Aiello is a policy and government affairs analyst with the National Taxpayers Union, a nonprofit dedicated to lower and fairer taxes at all levels of government.

U.S. Muni Bond Trading Stable Despite Dealer Drop - Study

CHICAGO, June 19 (Reuters) – U.S. municipal bond market trading has been relatively stable over the last 11 years despite a drop in the number of dealers and the amount of the debt kept in dealers' inventories, the Municipal Securities Rulemaking Board (MSRB) said on Tuesday.

The self-regulator of the $3.8 trillion market where states, cities, schools, hospitals and other issuers sell debt said its first-ever report analyzing changes and trends in dealers' customer trading activity found dealer participation became less-concentrated, but still "robust."

The number of registered municipal securities dealers fell to 1,346 last year from 1,967 in 2009, while muni bonds held by dealers dropped by about 67 percent since 2006, according to the report.

"Our analysis shows that most dealers that have exited the market provided little liquidity and participated in very few trades – typically fewer than 10 trades in a year," said MSRB Director of Research Marcelo Vieira in a statement.

Meanwhile, the number of dealers executing more than 10,000 trades annually increased to 69 in 2017 from 56 in 2006.

The report also found that the top five dealers' market share has decreased, falling to 34.6 percent of all customer trades in 2017 from 42.2 percent in 2006.

At around 50,000 issuers, the fragmented muni market has fives times more debt issuers than the corporate bond market and 33 times more individual securities at around 1 million, according to the MSRB. There were nearly 39,000 muni bond trades daily on average from 2006 to 2017, with an average total trading value of about $14 billion a day.

About 45 percent of all muni trades during that time period were dealer sales to customers, with dealer purchases from customers accounting for 22 percent.

Reporting by Karen Pierog in Chicago Editing by Matthew Lewis

How the Koch Brothers Are Killing Public Transit Projects Around the Country.

NASHVILLE, Tenn. — A team of political activists huddled at a Hardee's one rainy Saturday, wolfing down a breakfast of biscuits and gravy. Then they descended on Antioch, a quiet Nashville suburb, armed with iPads full of voter data and a fiery script.

The group, the local chapter for Americans for Prosperity, which is financed by the oil billionaires Charles G. and David H. Koch to advance conservative causes, fanned out and began strategically knocking on doors. Their targets: voters most likely to oppose a local plan to build light-rail trains, a traffic-easing tunnel and new bus routes.

"Do you agree that raising the sales tax to the highest rate in the nation must be stopped?" Samuel Nienow, one of the organizers, asked a startled man who answered the door at his ranch-style home in March. "Can we count on you to vote 'no' on the transit plan?"

In cities and counties across the country — including Little Rock, Ark.; Phoenix, Ariz.; southeast Michigan; central Utah; and here in Tennessee — the Koch brothers are fueling a fight against public transit, an offshoot of their longstanding national crusade for lower taxes and smaller government.

Continue reading.

The New York Times

By Hiroko Tabuchi

June 19, 2018

GASB Establishes New Guidance for Interest Cost Incurred Before the End of a Construction Period.

Norwalk, CT, June 22, 2018 — The Governmental Accounting Standards Board (GASB) today released guidance establishing accounting requirements for interest cost incurred before the end of a construction period.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes guidance designed to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. It also simplifies accounting for interest cost incurred before the end of a construction period.

For financial statements prepared using the economic resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred. Such interest cost should not be capitalized as part of the historical cost of a capital asset.

For financial statements prepared using the current financial resources measurement focus, interest incurred before the end of a construction period should continue to be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The full text of Statement 89 is available on the GASB website, www.gasb.org.

Fitch: Path to Impactful U.S. Public Pension Reforms Paved by Court Decisions.

Fitch Ratings-New York-21 June 2018: The legal backdrop for U.S. state and local pensions has played a key role in reforms adopted by some states in 2018, although pensions in general still face an uphill climb to improve their funding levels, according to Fitch Ratings.

Worries over the long-term sustainability of pension obligations and the rising budgetary burden of annual contributions remain front and center for states in 2018. Many states' legislatures passed, and governors signed, reforms in 2018 legislative action to date, with some of the most interesting emerging in Colorado, Minnesota and Illinois. For these states, past state court decisions validating or rejecting earlier reform efforts, particularly on cost-of-living adjustments (COLAs), delineated how far their 2018 reform packages could go. However, as seen with other states like Ohio, the presence of legal flexibility and the identified need for further reform is not always enough to sway legislatures to act.

Colorado and Minnesota both adopted comprehensive reforms in 2018 covering their major statewide plans following long roads to building consensus. In Colorado, SB 18-200 temporarily freezes COLAs for current retirees, delays COLAs for new retirees, caps all future COLAs at 1.5% annually instead of the previous 2%, modifies age and salary requirements for future employees, and expands eligibility for its defined contribution plan, among other changes. It also raises employee and employer contributions and requires an annual lump sum, $225 million state contribution for 30 years.

Similarly, Minnesota H.F. 3053/S.F. 2620 adjusts COLAs downward for current and future retirees depending on the plan. For most, future COLAs are held between 1% and 1.5% annually, with COLAs for future retirees delayed until normal retirement age. The reform package also lowers the state plans' funding discount rates to 7.5% (from as high as 8.5% before the reform), modifies actuarial assumptions and raises age and salary requirements. The Minnesota bill also raises employee and employer contributions, with most of the higher contributions borne by employers.

The Colorado and Minnesota bills were not the first rounds of reform adopted by the two states since the great recession exposed their pensions' funding weaknesses. Insofar as both bills reduce COLA provisions for existing retirees, they capitalize on court rulings (Justus vs. State of Colorado, in 2014 and Swanson v. Minnesota, in 2011) that validated past statutory changes lowering promised benefits.

In both of those decisions, less generous COLA provisions in the states' reforms were challenged and ultimately upheld, with courts viewing COLAs as being outside the contractual (in Colorado) or contract-like (in Minnesota) protections afforded to their core pension benefits. Reducing or eliminating COLAs, including for retirees and current employees, is one of the few pension reforms that can materially lower the accrued liability immediately. The net effect for both Colorado (not rated by Fitch) and Minnesota (IDR AAA/Stable) was to give them more tools for managing their accrued pension burdens without having to rely solely on raising employer contributions, shifting more of the contribution burden to employees, or waiting for newer, lower benefit tiers to achieve savings. The benefit for both states is also likely to be felt by local governments, schools and other public entities participating as employers in the state-administered plans.

Illinois also adopted pension measures in 2018, although the context of these actions is different and the trade-off of savings vs. costs remains uncertain. As part of its fiscal 2019 budget, Illinois among other pension changes established two buyout programs that sunset in fiscal 2021, targeting budget savings by lowering accrued liabilities associated with employees hired before 2011. The first offers retiring state, university and teacher plan members an upfront payment equal to 70% of the difference between their promised 3% COLA and a reduced 1.5% COLA; the second provides a 60% lump sum to vested, inactive members of the same plans in exchange for all future benefits. Assuming that approximately 20%-25% of eligible members participate in the buyouts, lower accrued liabilities could lower state contributions approximately $400 million, a figure that will be partly offset by debt service on state GO bonds to be issued to fund the buyouts. Notably, the timing of rollout will be lengthy and the precise fiscal impact will only be known upon conclusion of the program and could vary significantly from the initial estimates.

Like Colorado and Minnesota, Illinois' more limited 2018 actions were informed by past court precedent. A 2015 state Supreme Court ruling (In re: Pension Reform Litigation) rejected a 2014 pension reform law (Public Act 98-599) that lowered benefits for employees hired before 2011 as violating the explicit contractual protection of retirement benefits embedded in Illinois' 1970 constitution. The high hurdle imposed by this constitutional provision has left Illinois with few and costly options for reducing accrued benefits.

Fitch notes that the contractual constraints faces by Illinois (IDR BBB/Negative) would have been less likely to emerge as a fiscal problem had the state not consistently avoided making full actuarial contributions for its pensions. The state has yet to rectify this longstanding problem, which Fitch considers a form of deficit financing.

Reform efforts stalled in some other states in 2018, regardless of the degree to which their legal environment supports changes to accrued benefits. This speaks to the political challenge of making changes to pensions.

In Ohio (IDR AA+/Stable), a bill (HB 413) that would lower COLAs in the Ohio Public Employees Retirement System (OPERS) from 3% to the annual change in CPI capped at 2.5%, among other adjustments, never received a vote in committee after several hearings and has been shelved, according to press reports. The bill would have improved the plan's funded status while making it likelier that the statutorily fixed contributions OPERS receives would be sufficient to support funding progress under more adverse future circumstances.

Ohio's pension plans have generally benefited from strong contribution practices and the willingness of both the legislature and pension boards to revisit decisions on benefits, assumptions and funding practices. Like a handful of other states, Ohio protects accrued benefits as property rights, rather than as contracts, and thus has greater discretion in theory to adopt reforms affecting accrued benefits of current members and retirees.

As examples of this leeway, 2012 reforms narrowed age and service requirements for OPERS benefits, including for some current employees, and COLA changes have been a part of reforms for several other Ohio statewide systems in recent years. However, even with a demonstrated record of trimming existing benefits, Fitch views more significant benefit rollbacks in Ohio beyond the recent examples as being politically unpalatable, leaving participating Ohio governments obligated to covering the unfunded liability over time.

Even with recent reform efforts like the aforementioned legislated changes, Fitch believes funding improvement for many major pensions may not materialize any time soon. Funding discount rates upon which accrued liabilities and actuarial contributions are based for virtually all major plans remain above the 6% level that Fitch views as reasonable. Although the average funding discount rate for major plans has fallen steadily since 2009, when it was 8%, Fitch calculates it at about 7.4% as of fiscal 2017. Demographic pressures likewise mean more retirees than ever are drawing benefits from funds, making improved funded ratios harder to achieve. Finally, the current economic expansion, even with recent gains, has been weaker than past expansions, and arguably is closer to its end than its beginning. This means pensions may soon be absorbing another round of recessionary weakness that further raises contribution pressure, without having fully recovered from the last downturn.

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New Jersey Mega Mall Yields Big Win to Bondholders Chasing Risk.

- **Las Vegas-inspired amusement mall is about 60 percent complete**
- **High-yield muni bonds are outperforming investment grade**

A year ago, about $1.1 billion of tax-exempt bonds were sold to finish the American Dream complex in New Jersey’s Meadowlands, a project that’s a bet the so-called death of the shopping mall can be countered with attractions like an ice skating rink, roller coasters and a six-acre indoor waterpark.

Most of the work won’t be done until next March. But the development is already delivering big profits to investors.

As bond buyers pour money into riskier debt in pursuit of higher yields, some unrated securities sold for the Triple Five Group project have returned 18 percent over the past year, a gain rarely seen in the municipal market. It joins other speculative securities, including those issued by Chicago’s school system, that rallied as defaults remain scarce and the economy continues its second-longest expansion in history.

“Nothing negative has happened so far, it’s just benefited from market dynamics,” said Daniel Solender, head of municipal investments at Lord Abbett & Co., which owns some of the bonds.

In the 12 months to June 21, municipal high-yield debt returned 6.6 percent, compared to 0.92 percent for investment grade state and local government bonds, according to Bloomberg Barclays Indexes. Investors have added $5.7 billion to high-yield municipal bond funds over the past year, more than half of all the money that’s flowed into to state and local government debt funds, according to Lipper US Fund Flows data.

The American Dream sale, the largest offering of unrated municipal bonds last year, will help complete a project that has been in the works for nearly two decades. It was conceived in 2002, and initial work began in 2004 across the highway from what is now MetLife Stadium. Construction was abandoned after previous developers ran short of funding.

Triple Five, which took it over, sold $800 million in municipal bonds backed by payments in lieu of property taxes and about $270 million in sales-tax backed debt. If Edmonton, Alberta-based Triple Five doesn’t pay property taxes, the trustee can foreclose on the property. The holders don’t have any recourse if the project doesn’t generate enough sales-tax money to cover the bonds backed by that revenue.

Investors don't seem worried. Bonds maturing in 2050 were issued at about 102.8 cents on the dollar and are now trading at 115 cents, pushing the yield down to about 5.05 percent from 6.63 percent. Much of the gain on the American Dream bonds came in the first few months after the debt was issued, according to Robert Amodeo, head of municipals at Western Asset Management.

"When it came to market it was such a speculative deal," Solender said. "To sell a whole deal at that size it took an attractive yield to get everyone interested."

Construction of the $2.8 billion Las Vegas-inspired mega complex, which will also include an indoor ski slope, Ferris wheel, aquarium, performing-arts theater and 500 stores is about 60 percent complete.

At the site, construction workers are laying steel for an indoor water park and pouring concrete at the ice skating rink. The Saks Fifth Avenue tenant space is ready to turn over to the department store and roller coaster sections are being put in place, according to project status reports.

More than three-quarters of American Dream's 2.3 million square feet was leased as of November 2017, according to a May 30 project status report. All of the retail anchor space and stores of more than 50,000 square feet are leased.

Triple Five is building an even bigger mall in Miami, also called American Dream. The 6.2-millio--square-foot retail and entertainment complex will cost an estimated $4 billion and will be built without public subsides, unlike the New Jersey project. Triple Five also owns the Mall of America in Bloomington, Minnesota.

Bloomberg Business

By Martin Z Braun

June 22, 2018, 7:05 AM PDT

A Glimpse Into the Future of P3s.

The real money isn't in roads and bridges. It's in people and services.

These are dark days for public-private partnerships. President Trump's P3-focused infrastructure finance plan was dismissed by Congress as a dead-on-arrival proposal. Earlier this year, more than 80 organizations and trade unions signed a letter imploring the World Bank to stop supporting infrastructure P3s. One of the biggest in recent history, the Indiana Toll Road, fell into bankruptcy last year after a long and difficult ride.

Does this mean P3s are a passing fad? Far from it. Most trends suggest the U.S. transportation P3 sector is just getting off the ground. As long as the private sector has ideas to help deliver infrastructure faster, safer and cheaper, state and local politicians will be happy to listen.

But all this focus on P3s for infrastructure misses a fundamental truth: The real money is not in roads and bridges. It's in people and services. Today the "Big 3" — education, Medicaid and corrections — account for more than two-thirds of total state spending, according to the National Association of State Budget Officers. By contrast, state spending on capital projects is barely 10 percent. The story is similar in cities and counties, where public safety and social services are crowding out all other spending.

This begs a natural question: Can P3s improve outcomes and drive cost savings in core state and local services? Fortunately, there are a few early examples where the answer is yes.

Consider Propel, a tech startup based in Brooklyn. It has developed a mobile app called Fresh EBT that serves food stamp recipients. The free app allows recipients to track their spending, develop a grocery budget and find sales at local participating grocery stores. In turn, Propel makes money by selling ad space on its app. Early results show Fresh EBT customers stretch their benefits further and eat healthier. Either way, it's an intriguing new form of P3 with big implications for local public health directors, among others.

The ultimate measure of success is scalability. Food stamps reach 45 million people and account for $70 billion in annual federal and state spending. That's why it is no surprise that some of Silicon Valley's top venture capitalists have lined up to invest millions in Propel.

Another example is Honor, an app that serves the $250 billion home care industry. Millions of elderly Americans need some combination of non-medical in-home services like preventive health care, transportation and nutrition monitoring. Honor offers a wide range of these types of services on demand. Home care providers pay Honor to make their services available on the app. Better access to home care can help keep millions of seniors out of expensive, residential assisted-living units. That's an enticing value proposition for state Medicaid directors.

To be clear, these Silicon Valley-style P3s raise several concerns. Smartphones are a great way to reach low-income Americans, but they can't reach everyone. Like any app, these innovations raise questions about data privacy and security, especially around banking records and other sensitive information. And some worry these tools oversimplify the complex social safety net, and that could encourage damaging cuts in social workers and other wraparound services. If these P3s are to be successful, these are just a few of the challenges they'll need to work through.

This latest wave of P3s leverages private-sector innovation to change how underserved populations interact with the social safety net. Perhaps more important, small changes at the margins, such as making these programs work more efficiently and effectively, could mean billions in state and local savings. The possibilities are endless. Where is the app to improve on-demand access to paratransit services? Or to help recent parolees find a job? Or to help better manage government fleet vehicle maintenance? Those may not be the most exciting apps, but they're the P3s we need now more than ever.

GOVERNING.COM

By Justin Marlowe | Columnist

Endowed Professor of Public Finance and Civic Engagement at the Daniel J. Evans School of Public Policy & Governance at the University of Washington

JUNE 2018

[Bond Market `Very Forgiving' of Alabama County's Record Collapse.]

- **Despite the fading stigma, no city bankruptcies since 2015**

- **‘We were told our children would be destined to poverty’**

For localities worried about facing big bond-market penalties if they go bankrupt, consider Jefferson County, Alabama.

The county of 659,000 people — once the largest municipality to ever seek bankruptcy protection — has sold debt several times since emerging from court protection in 2013. Carrying an investment-grade rating of AA- in May, the county completed a refinancing of its general-obligation debt by paying yields of 2.86 percent on bonds due in 2026, just about half a percentage point above top-rated debt.

“We were told our children would be destined to poverty, you were going to be the hole in the donut, you will never recuperate,” County Commissioner David Carrington said in an interview. He said the county’s bond deals have even seen strong demand from investors. “The markets are very forgiving if you have results.”

Municipal-bond market analysts — and even investor Warren Buffett — have long worried that the fading stigma of bankruptcy could embolden more local governments to petition the court to cut their debts.

But despite a few municipal bankruptcies in the wake of the last recession, there’s been little sign that more will follow suit. No city or town has filed for bankruptcy protection since Hillview, Kentucky, did in 2015 as a result of an adverse ruling in a contract dispute that it couldn’t afford to pay. Rather than let its capital go bankrupt, debt-strapped Connecticut agreed to pay off some of Hartford’s debts instead.

While Jefferson County has gotten market access and its investment-grade rating back, the process was far from painless. Contending at the same time with revenue lost when a court struck down a key tax, it fired 1,300 employees, put off roadwork and shuttered inpatient services at its hospital that cared for the poor. To exit bankruptcy, officials agreed to raise sewer rates 8 percent annually through October 2018, followed by yearly jumps of 3.5 percent until 2053. Creditors including JPMorgan Chase & Co. forgave $1.4 billion of debt.

“You have to get to that point where there is no other alternative,” Carrington said.

He said he’s been called by other elected officials who are considering bankruptcy and has told them there is a “huge” financial burden. He said it cost the county about $1 million per month during the approximately two years it took to get through the bankruptcy process. “Do you have the political will as a governing body to make the decisions you’re going to have to make?” he said.

Detroit, which followed Jefferson County with a bankruptcy filing in 2013, exited state financial oversight this year but still hasn’t returned to the bond market on its own. Mammoth Lakes, California, which sought bankruptcy protection in 2012 after a fight with a real estate developer, sold $24 million in investment-grade bonds in October that priced at a top yield of 4.47 percent in 2035, more than 1.8 percentage points above top-rated debt. In the years since the bankruptcy, the town has cut expenses and grown its revenues, S&P Global Ratings said.

Local bankruptcy have been deterred because of the barriers to filing and the improving economy, said Henry Kevane, managing partner at law firm Pachulski Stang Ziehl & Jones LLP who specializes in such cases. Some states, including Illinois, don’t allow municipalities to file for Chapter 9 and others require permission from the governor.

Still, municipalities face financial pressure points, he said. State and local governments’ unfunded pension liabilities stand at around $1.8 trillion, according to Federal Reserve data, which will require them to boost their payments into the retirement funds.

“Municipalities still have colossal post-employment obligations that aren’t going anywhere,” Kevane said. “I still see that becoming a real problem.”

Bloomberg Business

By Amanda Albright

June 20, 2018, 10:30 AM PDT

— With assistance by Martin Z Braun

S&P Extra Credit: Hot Topic Publication Review.

In this week’s Extra Credit Lisa Schroeer covers some of the issues that could impact ratings down the line. Sarah Sullivant updates us on Priority Lien criteria, Randy Layman discusses Georgia’s local government de-annexation issues and Tim Little talks sports betting revenues and states.

Listen to Audio

Jun. 18, 2018

Municipal Bonds Weekly Market Report: Fed Raised Rates by 0.25%

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

- Treasury yields mostly drop while municipal yields mostly see increases this week.
- Muni bond funds see inflows for second week in a row.
- Be sure to review our previous week’s report to track the changing market conditions.

Continue reading.

municipalbonds.com

by Brian Mathews

Jun 19, 2018

Why Boring Municipal Bonds are Exciting for Investors.

As interest rates have risen in recent months and bond prices have fallen, fixed income investors have found few safe places to hide.

But there is one corner of the bond market that can provide at least relative safety, and yet – strangely – many bond investors appear to be avoiding it. I'm referring to municipal bonds, debt issued by a governmental unit other than Uncle Sam.

I can almost see your eyes glaze over. Please, not another boring discussion of "munis," as these bonds are known. Why can't we focus on exciting investment topics such as the next iPhone or Amazon takeover target?

But sometimes you can be handsomely rewarded for focusing on the boring. You very well may be leaving money on the table if you are skipping munis in favor of taxable bonds. If not leaving money on the table is boring, I'll take boring any day.

How much you're leaving on the table is not immediately obvious, however, and that's one reason why munis don't receive the attention they deserve. You must go through several tax-rate calculations that, though quite straightforward, keep munis off the radar screens of investors who focus only on munis' stated – rather than implicit – yields.

Indeed, many investors are not even sure which tax bracket they're in, Jack Bowers told me. Bowers is editor of the "Fidelity Monitor & Insight" advisory newsletter, which is one of the few newsletters that my performance monitoring has shown to have beaten a simple stock index fund over the last 30 years.

You definitely should go to the trouble of finding out your tax bracket, however, since muni bonds' interest is exempt from federal income tax. Their interest is also exempt from state taxes if you live in the state where the munis were issued. On an after-tax basis, therefore, a municipal bond's yield can be much higher than that of comparable taxable bonds, even when the munis' yields are lower on a pretax basis.

Now is just such a time. Currently, for example, AAA-rated municipal bonds with 10 years left until maturity yield 2.49 percent, significantly lower than the 2.88 percent yield on the 10-year Treasury. But that muni yield becomes superior after you take taxes into account. An individual in the highest federal tax bracket – 37 percent – would keep only 1.81 percent of that Treasury's before-tax yield of 2.88 percent. The muni's yield is more than a half-percentage point higher, which can add up to a sizeable chunk of change over time.

Even if you're not in the highest tax bracket, munis still come out well ahead on an after-tax basis. If your federal tax rate is 24 percent – which kicks in for individuals with adjusted gross income above $82,501 – the 10-year Treasury's after-tax yield is 2.19 percent, still well below that of the 10-year muni.

To be sure, Bowers added, munis are somewhat riskier than U.S. Treasuries. So it's to be expected that they should yield more on an after-tax basis. Still, even after taking their higher risk into account, Bowers believes munis are a better deal than taxable bonds for income-oriented investors.

One of the easiest ways to invest in munis is via an exchange-traded fund that owns a number of such bonds. The diversification across many different munis reduces your risk, and muni ETFs can be sold a lot more quickly and with less headache than an individual muni bond.

Two of the largest muni ETFs that own bonds with an average maturity in the five- to 10-year range are the iShares National AMT-Free Muni Bond ETF, with an expense ratio of just 0.07 percent, and the Vanguard Tax-Exempt Bond Index ETF, with a 0.09 percent expense ratio. Their current yields are 2.39 percent and 2.52 percent, respectively.

MSN Money

by Mark Hulbert

Mark Hulbert, founder of the Hulbert Financial Digest, has been tracking investment advisers' performances for four decades. For more information, email him at mark@hulbertratings.com or go to www.hulbertratings.com.

Atlanta's Ransomware Isn't an 'Isolated Incident'

COMMENTARY | Symantec's Tim Hankins outlines the continued prevalence of ransomware attacks, and what it means for governments as they consider their level of cybersecurity.

For nearly a week, a ransomware attack crippled the City of Atlanta, sending government operations back 30 years in the process. Residents could no longer pay bills online, police officers filled out reports by hand, and all unscheduled court cases were postponed until further notice.

That, of course, was just the technology side of the equation.

"I just want to make the point that this is much bigger than a ransomware attack," Atlanta Mayor Keisha Bottoms said six days after the attack as the city began to get back online. "This is really an attack on our government, which means it's an attack on all of us."

Sadly, this is not an isolated incident.

In this year's Symantec Internet Security Threat Report (ISTR) the number of ransomware attacks remained near the all-time high set in 2016. While the number of attacks is important, the more notable revelation was how ransomware attacks continue to evolve. There were 28 new ransomware families detected last year, and the number of overall ransomware variants increased by 46 percent. The ISTR showed that while ransomware, overall, has slowed its growth, it still remains a dangerous threat that can cause tremendous damage.

The number of ransomware attacks has grown at a considerable rate in recent years. We've seen a significant uptick of ransomware attacks impacting healthcare organizations, and state and local government is trending right along. In April 2018, the Riverside, Ohio police and fire departments became victims of ransomware. City manager, Mark Carpenter, implied that a third-party held, or is holding, the city's data hostage in exchange for a ransom, often paid in bitcoin or another cryptocurrency.

Local agencies, especially the police and fire departments, can't accept downtime. After all, lives hang in the balance. With mission critical functions being impacted during a ransomware attack, it's easy to understand the temptation to comply with demands for ransom. However, the FBI and cybersecurity professionals generally agree paying ransoms is a bad idea. First, there is no guarantee that the hackers will release the data once paid. There is no honor amongst thieves, after all. Second, this quick payday incentivizes these hackers to continue what they are doing. Some organizations have even budgeted funds in order to pay off ransomware attacks.

In some ways it is surprising that state and local governments, not to mention healthcare organizations, academic organizations and non-profits, do not find themselves subject to more ransomware attacks. These governments hold a tremendous amount of personal information about citizens and often have significantly higher financial benefits to hackers than individuals or small businesses, and many operate without a robust cybersecurity posture.

For example, the Roseburg Public Schools System in Roseburg, Oregon, suffered an attack this May of its computer system. The FBI, which was brought in to investigate the case, believes the attack occurred through a complex method using remote desktop protocols, rather than through malware attached to an email sent to someone within the district. According to the FBI, these types of attacks are occurring at increasingly frequent rates, targeting schools, businesses and government entities.

Unfortunately, no jurisdiction is out of harm's way. In fact, many states are finding themselves victims of multiple attacks. On March 9, 114 servers within Connecticut's judicial system were impacted by a ransomware attack, the second ransomware attack aimed at the state government. Two weeks earlier, the Connecticut Department of Administrative Services reported that a virus resembling the Wannacry ransomware infected about 160 computers in a dozen state agencies.

Fortunately, in both Connecticut attacks, the virus was detected and mitigated early. And, if state and local organizations follow good cybersecurity practices, they too can find themselves avoiding the often costly effects of a ransomware attack.

So, what should an organization do to prevent ransomware attacks? For many it simply starts with good cybersecurity practices. Some of these are simple steps like ensuring systems are patched and backed up regularly, that "endpoints" are protected, and appropriate email security is in place.

However, more advanced techniques may be necessary in many public sector environments. Being able to combine basic cyber hygiene and advanced capabilities into an integrated cyber defense platform will allow agencies to uncover, prioritize, investigate and remediate ransomware attacks across their endpoints, networks and email platforms.

Having a good cybersecurity architecture in place not only blocks ransomware, but it blocks all accounts. Ransomware has become a popular form of attack because it works. If organizations take the steps to protect their systems, governments can greatly reduce their risk of ransomware and other malicious cyber attacks.

Route Fifty

By Tim Hankins

Tim Hankins is vice president of government, health and education at Symantec, a Fortune 500 company specializing in cybersecurity.

JUNE 22, 2018

Void Means Void - Municipal Contract That Did Not Conform to Statute Is Void and No Claim for Breach or Quasi-Contract or Unjust Enrichment Is Permitted.

Aquatic Renovations Sys. v. Vill. of Walbridge, 2018 Ohio App. Lexis 1581 (April 13, 2018)

On May 2, 2012, Aquatic Renovations Systems, Inc. ("Aquatic") entered into a contract with the

Village of Walbridge ("the Village") for the installation of a new pool liner ("Contract 1"). Prior thereto, the Village council adopted an ordinance which authorized the mayor to enter into Contract 1 ("Ordinance"). On April 12, 2013, the mayor signed a new contract for the balance of the work ("Contract 2"). A few days after Aquatic completed its work, the pool liner began to lift. The Village then refused to pay Aquatic for the completed and approved work.

Aquatic sued the Village for non-payment, alleging the Village breached Contract 2. Aquatic also alleged that the Village was liable under a theory of quantum meruit and unjust enrichment. The trial court granted the Village's motion for summary judgment, holding that Contract 2 was not valid because it did not comply with the Ohio Revised Statute which required the mayor, the clerk, and the Village administrator to authorize all Village Contracts. Thus, because Contract 2 was unenforceable, Aquatic could not recover under a breach of contract, quantum meruit or unjust enrichment theory.

On appeal, Aquatic argued that Contract 2 was a binding contract. The Village argued that Contract 2 was invalid because under the Ohio Revised Code section 731.14, Village contracts must be signed by the mayor and the clerk, and under Ohio Revised Code 731.141, if the Village has an administrator, Village contracts must be signed by the Village administrator and the clerk. In response, Aquatic argued that the Village failed to raise the "legislative authority" argument in its Answer and therefore it was waived. Additionally, Aquatic argued that even if the Village administrator did not sign the Contract 2, it was ratified by the Village and it was made in good faith under which Aquatic incurred considerable expenses.

The Court of Appeals rejected Aquatic's arguments. First, the Court found that because the Village denied that the existence of Contract 2, the "legislative authority" argument need not be raised in the Village's Answer. Because it was undisputed that at all relevant times the Village had an administrator and that Contract 2 was not signed by the administrator or the clerk, Contract 2 did not comply with the Statute. The Court also found that the Ordinance, allowing the mayor to enter into the Contract 1, did not conflict with the Statute and that both the Ordinance and the Statute operated concurrently. Second, the Court found that the Aquatic's ratification argument failed because Aquatic cited to no legal authority to support it. Third, the Court found that Aquatic's good faith argument also failed because Aquatic did not establish that the Contract 2 was awarded by the appropriate agents of the Village, as mandated by the Statute. Thus, the Court of Appeals affirmed the trial court's holding that Contract 2 was invalid and unenforceable. Additionally, because, under Ohio law, a municipality may not be liable on the basis of a quasi-contract, the Court affirmed the trial court's ruling that Aquatic's quantum meruit and unjust enrichment claims also failed.

To view the full text of the court's decision, courtesy of Lexis®, click here.

Pepper Hamilton LLP

USA June 21 2018

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

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

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

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

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

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

Order 13807, which President Donald Trump issued August 15, 2017, to “enhance and modernize” the environmental review and permitting process for infrastructure.

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

Morgan Lewis & Bockius LLP

Kirstin E. Gibbs, Camarin E.B. Madigan, J. Daniel Skees, Ronald J. Tenpas and Arjun Prasad Ramadevanahalli

USA June 20 2018

Wells Fargo Struggles to Get Off the Municipal-Bond Blacklist.

The bank’s sales scandal continues to weigh on underwriting gigs for cities, states

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Wall Street Journal

By Heather Gillers and Emily Glazer

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

— Gretchen Morgenson contributed to this article.

Rise in Single-Rated Municipal Bonds Spurs Investor Concerns.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other analysts said the impact will vary for different investors.

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

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

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

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

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

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

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

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

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

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

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

“The lack of transparency was compounded as the sole rating agency has a policy that the issuer was too small for them to assign an outlook,” Donaldson said. “That is when only one rating is a real issue for us.”

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

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

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

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

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

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

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

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

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

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

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

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

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

Institutions may see less impact, the analyst predicted.

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

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

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

"Fewer constraints on borrowing reduces fiscal discipline and may encourage ill-advised borrowings for deficits, pensions, OPEBs, and riskier economic development projects versus budget balancing by raising revenues or reducing expenditures."

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

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

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

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

By Christine Albano

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

These States Spend the Most Public Funds Per Person.

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

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

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

Continue reading.

Culture Cheat Sheet

Eric Schaal

June 14, 2018

Know This Fact Before You Buy A Muni Bond.

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

Pulaski Community School District in Wisconsin came to market with a new issue. The bonds offered were 3% due March 1, 2022, CUSIP: 745763KU5, rated Aa3 by Moody's with an extended settlement date of July 2, 2018.

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

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

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

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

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

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

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

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

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

Forbes

by Marilyn Cohen

June 12, 2018

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

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

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

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

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

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

Continue reading.

efficientgov.com

by Andrea Fox

June 15, 2018

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

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

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

Trends highlighted in the 2018 peer review include:

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

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

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

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

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

The full report, "2018 U.S. Public Power Peer Review," is available at www.fitchratings.com.

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Fitch U.S. Public Power Criteria Revision.

Fitch Ratings finalized its new criteria for U.S. public power systems, the changes of which are detailed in a new report and companion piece. These revisions will facilitate a more forward-looking, predictable approach to ratings and better highlight differences among credits in the same category.

Anticipated Rating Impact Limited
Fitch expects criteria-driven rating changes to affect less than 10% of the portfolio, with a roughly equal mix of upgrades and downgrades. Rating changes will most likely reflect the criteria's heightened emphasis on leverage through the cycle, with upgrades reflecting relatively low leverage, and downgrades resulting from the recognition of higher leverage and elevated operating risk

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

New Through-the-Cycle Tools
Fitch is incorporating forward-looking tools into the rating process. Revenue sensitivity and scenario analysis tools work together to consider both the expected 'base case' financial performance within a typical business cycle and the 'rating case' potential financial performance given a moderate downturn. Known as FAST, this tool highlights how cycles affect issuers differently, and will be publicly available during the criteria comment period.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A small Wisconsin school district was late because it didn’t know where to send a check. New York’s capital city cited an accounting error when it shortchanged its monthly debt payment. Even Pennsylvania was delinquent. They had plenty of company. Municipalities inadvertently missed or were late to make payments to investors at least 119 times since the beginning of last year, according to public records.

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

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

No Paperwork

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

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

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

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

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

Debt Collector

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

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

One small town learned the hard way not to make the same mistake twice. Maine, New York, missed two payments in the last year. S&P Global Ratings on Thursday put the town of 5,200 on a negative outlook, saying that if it happens again it could face a multi-notch downgrade to its credit score.

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

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

“It’s not going to happen here anymore, not while I’m here,” said Oxford’s Madore. “That’s for sure.”

Bloomberg

By Danielle Moran

June 15, 2018

— With assistance by Amanda Albright

Skittish Muni-Bond Investors Are the Worst at Timing the Market.

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

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

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

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

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

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

"You had the Meredith Whitney '60 Minutes' interview, predicting mass bankruptcies in Muniland or mass defaults, and that scared the hell out of people even though it was a ridiculous prediction," said Kinnel. "Then you had Puerto Rico, which was real. It's just that in the case of Puerto Rico, from a fund perspective, it was not a big deal because most of the good funds had very little or nothing in it to begin with."

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

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

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

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

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

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

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

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

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

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

Bloomberg Markets

By Martin Z Braun

June 15, 2018, 6:18 AM PDT

The Week in Public Finance: For State Budgets, What a Difference 6 Months Make.

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

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

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

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

Continue reading.

GOVERNING.COM

BY LIZ FARMER | JUNE 15, 2018

Will New Federal Rules Slow PACE Financing?

Read the report.

Florida Realtors | Jun. 15

Renewable Energy Tax Credit News Briefs – June 2018

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

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

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

Novogradac Journal of Tax Credits Volume 9 Issue 6

Friday, June 8, 2018

S&P Global Ratings Green Evaluation.

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

Continue Reading

Jun. 14, 2018

How Public Finance Can Make Universal Internet Access a Reality.

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

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

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

Continue reading.

Neighborly

Posted 06/12/2018 by Eva Arevuo

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

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

Here's what the Central Banks did:

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

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

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

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

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

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

Posted 06/15/2018 by Homero Radway

Neighborly Insights

Public Service Over Debt Service: The Implicit Lien Senior To Municipal Bondholder Rights.

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

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

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

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

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

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

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

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

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

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

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

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

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

Posted 06/13/2018 by Barnet Sherman

Neighborly Insights

Seven Thoughts When Considering Troubled Hospital Deals.

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

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

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

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

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

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

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

Bankruptcy as an Option: Depending, of course, on the circumstances, there may be some wisdom in considering the use of a bankruptcy proceeding as a means of facilitating a transaction. Depending upon the nature of the target hospital—non-governmental versus a a governmental entity—the bankruptcy proceeding may be subject to either Chapter 11 or Chapter 9 of the Federal Bankruptcy Code. The determination about which type of bankruptcy proceeding (Chapter 9 or 11) a particular hospital entity qualifies for can be fact intensive and complicated, so it should be conducted by experienced counsel at the earliest opportunity. The distinction can be significant because, as a general rule, Chapter 11 proceedings (non-governmental entity proceedings) are somewhat more predictable and provide more established mechanisms to protect a potential buyer of assets. For example, the common method of selling assets through the bankruptcy process involves the use Section 363 of Chapter 11 of the Code to sell assets free and clear of liens and encumbrances. Chapter 9 does not have an analogous provision, though the few courts to have considered the matter have allowed sales to proceed in Chapter 9 under applicable state law. Under Section 363, the proposed buyer can become a “stalking horse” bidder, whose proposed purchase must be made subject to higher or better bids at a court sponsored auction, though subject to certain types of court approved bid protections. Thus, the stalking horse bidder risks losing the bid despite its work and efforts. Moreover, while a Section 363 sale can allow certain liens, executory contracts and other liabilities to be avoided and/or renegotiated, the Centers for Medicare and Medicaid Services take the position that if the acquirer assumes the Medicare provider agreement of the target (which is a common approach in many of these transactions) the bankruptcy proceedings will not extinguish pre-closing Medicare liabilities or obligations, such as overpayment obligations.

Another significant difference between Chapter 11 and Chapter 9 proceedings is the ability of a debtor under Section 363 to sell assets free and clear of most pension liabilities. Again, no analogous power is found in Chapter 9, though in the Detroit Chapter 9 case, the court did allow some modification of pension benefits, as part of a final plan of reorganization, not as part of an asset sale.

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

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

Foley & Lardner

by William McKenna & Roger Strode

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

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

While homesharing provides a valuable benefit to short-stay travelers, it poses numerous concerns for local municipalities. For example, parking and noise complaints from the neighbors of short term rental properties have poured into municipal meetings. Borough councils and township boards of commissioners, with assistance from their municipal solicitor, are challenged to come up with a system to regulate short term rentals within their communities.

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

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

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

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

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

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

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

Tucker Arensberg, P.C.

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

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

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

Continue reading.

municipalbonds.com

Brian Mathews

Jun 12, 2018

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

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

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

Continue reading.

The Brookings Institute

Philip A. Wallach and Nick Zaiac

Friday, June 8, 2018

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

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

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

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

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

Continue reading.

The Wall Street Journal

By Russell Gold

June 18, 2018

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

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

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

After its worst start in over two decades, the municipal bond market could be poised for a turnaround. The historically favorable summer months are upon us, along with the expectation for higher volumes of coupons and principal payments that investors will want to reinvest. Such heavy seasonal redemptions are certainly not a new trend, and they provide the market with a strong and reliable source of demand. However, that money may be chasing a shrinking pool of bonds if recent supply trends persist. Municipal bond issuance dropped 23% year-over-year and was at a four-year low through April 30. Market observers expect supply to remain light through the summer as Wall Street bankers head out on vacation and few issuers bring new financings to market. JPMorgan (NYSE:JPM) suggests that the combination of robust reinvestment capital and anemic new issuance could result in a negative net supply of -$76 billion between June and August: a change of 44% over last year and 91% over the trailing five-year average.

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

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

Bottom line

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

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

Seeking Alpha

By Catherine Stienstra

June 12, 2018

Think Your State Is Ready for the Next Recession? Better Check This Fund First.

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

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

More than half of states' unemployment insurance trust funds don't have enough money in them to weather the next economic downturn, according to the most recent federal report on the funds. Of the 28 that don't meet the minimum solvency level recommended by the U.S. Department of Labor, a whopping 11 have less than half of the funds needed to meet a downturn.

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

Continue reading.

GOVERNING.COM

BY LIZ FARMER | JUNE 14, 2018

For an Increasing Number of Governments, One Credit Rating Is Plenty.

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

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

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

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

Continue reading.

GOVERNING.COM

BY LIZ FARMER | JUNE 8, 2018

S&P: The Transition To Secured Overnight Financing Rate From LIBOR Could Add Credit Risk For U.S. Public Finance Issuers.

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

Continue Reading

Jun. 7, 2018

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

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

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

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

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

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

(Reporting by Laila Kearney Editing by Bill Berkrot)

SIFMA Research Quarterly, First Quarter 2018

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

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

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

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

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

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

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

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

Download the Report.

About the Report

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

U.S. House Overwhelmingly Approves 2018 Water Resources Development Act; Senate On Tap Next for WRDA.

KEY TAKEAWAYS

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

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

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

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

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

Across the Capitol, the Senate has been working on its own WRDA bill titled, America's Water Infrastructure Act of 2018 (S. 2800). Similar to the House bill, the Senate version does not include HMTF. Additionally, S. 2800 contains several Clean Water Act provisions on the U.S Environmental Protection Agency's (EPA) Integrated Planning policy and Water Infrastructure Finance and Innovation Act. The Senate Environment and Public Works Committee approved the bill on May 22. Senate leaders indicated that the chamber will likely bring up the bill within the next several weeks.

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

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

NACo resources:

NACo letter in support of H.R. 8, click here.

National Association of Counties

By Zach George

Jun. 7, 2018

Banks Reduce Municipal-Bond Holdings for First Time Since 2009.

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

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

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

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

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

Bloomberg

By William Selway

June 7, 2018

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

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

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

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

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

’Deeply Unhappy’

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

“In this case, it looks as if it’s going to protect the actual company,” Johnson said.

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

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

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

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

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

“It’s already proven it’s up for sale,” he said.

Bloomberg

By Amanda Albright

June 7, 2018, 6:46 AM PDT
