
Shield Exemption, Spend More on Infrastructure, Congress Told.

PHOENIX – Tax-exempt bonds and other infrastructure financing tools need to be protected even though they are insufficient to support America's surface transportation needs, stakeholders told a House panel Wednesday.

Witnesses representing issuers and manufacturers made that case to lawmakers during a hearing of the House Committee on Transportation and Infrastructure's subcommittee on highways and transit. The session was called as part of a series of hearings to solicit stakeholder views on 21st century infrastructure. Those witnesses told committee members that state and local spending is important but doesn't substitute for federal spending.

Patrick McKenna, director of the Missouri Department of Transportation, representing the American Association of State Highway and Transportation Officials, told lawmakers that AASHTO supports federal grant programs over expanded financing options. The group denies that merely incentivizing local investment or public-private partnerships, as the Trump administration has proposed, will be enough to deliver on the country's infrastructure needs, he said.

"AASHTO and its members disagree with any notion that federal transportation funding displaces or discourages state and local investment," McKenna said. "Financing instruments such as subsidized loans, tax-exempt municipal and private activity bonds, and infrastructure banks are insufficient to meet most types of infrastructure investment needs."

Ray McCarty, president and chief executive officer of the Associated Industries of Missouri, representing the National Association of Manufacturers, stressed the importance of protecting the tax exemption for munis as lawmakers consider tax reform, rather than letting less traditional financing methods crowd bonds out.

"Tax-exempt municipal bonds should be protected as policymakers consider ways to expand the funding and financing toolbox with public-private partnerships and leveraging opportunities,"

McCarty told lawmakers. When asked to expand on that point by committee member Rep. Bob Gibbs, R-Ohio, McCarty said that scrapping the tax exemption would make bonds less desirable for investors and eliminate that tool from the funding toolbox.

"As tax reform is being considered, we think it's very important that we preserve the ability to deduct the interest from those municipal bonds," McCarty said.

Trump campaigned on a ten-year $1 trillion infrastructure plan, but subsequently proposed only $200 billion of total federal infrastructure spending from fiscal 2018-2027 to support that $1 trillion. Though the administration initially indicated that private investment in infrastructure would be a major driver of the plan, Trump last month told lawmakers that public-private partnerships do not work.

An angry Rep. Peter DeFazio, D-Ore., the senior Democrat on the transportation committee, said Congress was making seemingly no progress on the infrastructure front despite the general agreement that it is a bipartisan issue.

“All we’re doing around here is talking,” DeFazio said.

Rep. Bill Shuster, R-Pa., who chairs the full transportation committee, urged consideration of a variety of funding means, including foreign investment in U.S. infrastructure.

Congressional leaders have indicated that tax reform is the next major agenda they will tackle, and lobbyists have said they generally expect more robust infrastructure discussions to take place after that.

By Kyle Glazier

SOURCEMEDIA | MUNICIPAL | 10/11/17

US Infrastructure: Land of Opportunity.

Investors are poised to rebuild America after President Donald Trump revealed a $1trn infrastructure plan. But progress has been slow, writes Christopher O’Dea

Blackstone’s announcement in May that it was launching a new business to invest up to $100bn (€84bn) in US infrastructure brought into sharp focus a major question for institutional investors: how to deploy more capital into the massive US infrastructure sector.

President Donald Trump has called for private investors to inject $1trn in capital to refurbish, rebuild and replace all manner of infrastructure. But aside from the initial proposal to use $200bn in federal funds as seed money to attract the rest, details about the plan have been sketchy. The infrastructure initiative remains stuck, a distant third behind the stalled efforts at healthcare and tax reform, and increasingly hamstrung by the administration’s own missteps.

Continue reading.

BY CHRISTOPHER O’DEA

SEPTEMBER/OCTOBER 2017 (MAGAZINE)

IPE REAL ASSETS

Campaign to Block Promotion of PPPs Launched.

Public-private partnerships are too expensive, high risk and “encourage corruption and bad decision-making”, civil society organisations said as they launched a campaign to stop their promotion.

These partnerships are a threat to public finances because they are more costly in the long run than conventional public funding, according to a cross-NGO campaign launched at the World Bank-IMF annual meeting in Washington DC today.

The campaign aims to reverse the promotion of public-private partnerships (PPPs) and is calling on western governments, the World Bank and development banks to stop pushing them over traditional public borrowing to finance infrastructure and services.

Promotion of PPPs is increasing and being “pushed onto countries in the global south as the answer to development finance shortfalls”, said Maria Jose Romero, policy and advocacy manager at the European Network on Debt and Development (Eurodad), a member of the campaign.

She said: “This dangerous trend means the very countries which are already most vulnerable to debt and most in need of development aid are saddled with expensive, high risk, undemocratic and unaccountable projects.

“PPPs also encourage corruption and bad decision-making because contracts are often negotiated in secret and covered by commercial confidentiality.”

The 146 organisations from 45 countries behind the campaign manifesto said the experience of PPPs “has been overwhelmingly negative” and did not deliver enough results in the public interest.

A statement from Eurodad added that PPPs expose governments to financial risk because of the cost and “can have disproportionally negative impact on women and children” as well as undermining democracy and human and environmental rights.

The campaign highlighted examples of failed PPPs including a hospital in Lesotho, which cost three times more than the one it replaced and took up a quarter of the country’s health budget. It also flagged up a PPP road linking Brazil and Peru, the cost of which rose from $800m to $2.3bn because of a corruptly secured renegotiation processes.

Last year, the World Bank also highlighted PPP problems. Its report found that most countries are not up to standard in at least one of the analysed areas – preparation, procurement, unsolicited proposals and contract management.

Public Finance International

By: Simone Rensch

11 Oct 17

Citizens Will Hopefully Get Involved in This Issue.

The president’s proposed $1 trillion national infrastructure plan has become something of an anomaly. Once a highly touted campaign promise, the long-awaited plan has been void of any specifics and last spring was reduced to a set of ambiguous “principles.” However, both pre-campaign and post-inauguration, Trump’s proposal relied heavily on capital investment by the private sector.

Just a week ago, the president started walking back his often-stated commitment to use $200 billion in federal funding to leverage another $800 billion in private capital and other non-federal funds for an infrastructure plan. Word from the Beltway this week is that a new “outline or principles” for an infrastructure plan will be forthcoming from the Trump administration, possibly in the next week or so.

In the meantime, a group of House Democrats this week announced their own "principles" regarding how to rebuild the nation's infrastructure. Their plan relies on revenues created through repatriation, dedicating funds realized from taxing corporate earnings overseas that are returned to the United States, and a congressional commitment to long-term, adequate funding of the Highway Trust Fund. And, unlike Trump's sudden lack of interest in P3s, this new proposal encourages more public-private collaborations.

The American Society of Civil Engineers says that the U.S. is currently facing a $4.6 trillion deficit in infrastructure spending for critical needs. Infrastructure projects in dire need of repair include roads, bridges, airports, water resources, wastewater treatment plants, ports and energy-related projects. Absent a federal commitment to increased funding or support for private capital investment, state and local officials will be seeking funding sources that will likely fall on citizens and taxpayers. Some funding may come from increased state gas taxes, local fees and passage of infrastructure-related bond issues.

At a time when many communities need billions for infrastructure repair because of damages caused by some of the nation's costliest disasters – hurricanes Harvey, Irma and Maria – if ever it seemed reasonable to find ways to support collaborative efforts and private investment, it might be now. But, perhaps Congress can find other ways to allocate funding.

U.S. Reps. Tom Reed and Bill Pascrell recently filed legislation to expand funding options to help pay for storm damage in Texas, the Florida coasts and Puerto Rico. H.R. 3679 would create federal Disaster Recovery Bonds, a permanent federal tax-exempt bond that allows state and local governments to finance public infrastructure projects resulting from a disaster. The bonds would provide immediate funding once a presidential disaster is declared. State and local officials would be granted authority to issue private activity bonds that could be used to leverage private investment in many of these projects. Private investment was called "a vital component to cash-strapped governments during disaster recovery" by Toby Rittner, president and CEO of the Council of Development Finance Agencies.

Government officials are beginning to realize the lower risk, potential cost savings and increased efficiencies of entering into public-private partnerships (P3s). One of the nation's bellwethers of change regarding collaboration between the public and private sectors is the Pennsylvania Department of Transportation's (PennDOT) Rapid Bridge Replacement project. Arguably one of the nation's most successful infrastructure P3s, the state's transportation agency partnered with a consortium of private-sector firms to replace 558 aging bridges in the state. The program, which began in mid-2015, completed its 200th bridge replacement in January. An additional 200 bridges are expected to be replaced this year, and 100 more in 2018.

So successful is this program that PennDOT this week announced it is accepting unsolicited proposals from the private sector for other infrastructure needs. The agency is seeking proposals to address innovative solutions for delivery of roads, bridges, aviation and ports or proposals that will address how to more efficiently manage current PennDOT transportation-related services and programs.

Regardless of what type of funding mechanism is used, disaster recovery and infrastructure rebuilding must occur. Every citizen and taxpayer should carefully monitor how Congress proposes to resolve the country's crumbling infrastructure. And, citizens who really care about preserving the country's greatest assets will hopefully urge members of Congress to hurry and find consensus on this important issue.

by Mary Scott Nabers

Oct 6th 2017

Trump's Apparent About-Face on Partnerships Injects 'Huge Question Mark' Into Infrastructure Plan.

It’s too soon to know if President Trump’s seemingly off-the-cuff skepticism toward public-private partnerships represents a policy shift, but key constituents of the infrastructure initiative say the comments inject uncertainty into a slow-moving process that has yet to result in the White House offering a concrete plan.

The infrastructure industry and public officials are trying to figure out how to interpret President Trump’s recent move to back off what had been a major pillar of his $1 trillion infrastructure investment plan.

Trump said he doesn’t favor using public-private partnerships to finance infrastructure projects because they don’t always work, he told Democrats on the House Ways and Means Committee during a Sept. 26 meeting.

In the spring, the White House released a six-page outline of its infrastructure priorities that encouraged public-private partnerships as part of an incentive program in which the federal government offers up to $200 billion to state and local governments that enter into the agreements and other private sector deals.

It’s too soon to know if Trump’s seemingly off-the-cuff skepticism toward public-private partnerships represents a policy shift, but key constituents of the infrastructure initiative say the comments inject uncertainty into a slow-moving process that has yet to result in the White House offering a concrete plan.

“It’s very dismaying,” said Robert Poole, director of transportation policy at the Reason Foundation, a free-market research group. “You saw during the first six months of this year, everyone involved with public-private partnerships, including the construction and finance industries, were all saying, the U.S. will be the big next frontier for these deals. That now has a huge question mark on it,” Poole told the Washington Examiner.

A public-private partnership acts as it sounds, with private investors helping fund construction and repair of roads, bridges, and airports in exchange for a share of future revenue. It is not quite privatization, in which a government sells a public asset to a private company.

Lawmakers who participated in the meeting with Trump say he cited the experience of Vice President Mike Pence, who was Indiana’s governor when a private group helped the state operate a major toll road and the developers went bankrupt.

The U.S. market for public-private partnerships is barely formed, but supporters say the deals can be quicker and more efficient and entail less taxpayer risk if structured properly.

But such deals are also financially complex, which public officials can struggle to understand, leading to agreements that don’t work.

“They are not the answer to the infrastructure needs in this country, but can be a part of some of these projects,” said Aubrey Lane, Virginia’s secretary of transportation, who has briefed Trump administration officials on infrastructure. “I didn’t believe the first hype from the administration that public-private partnerships would be all the answer, and I don’t believe this new hype they aren’t good at all,” Lane told the Washington Examiner.

Virginia is an outlier in the U.S. with its deep experience with public-private partnerships, which are known as PPPs or P3s in transportation circles.

Since 2007, the state has closed five public-private partnership deals worth more than $9 billion collectively, with more than $2.5 billion coming from private equity, less than $1 billion in public funds, and the remaining from privately backed debt.

The Trump administration had seemed to like such projects before the president’s recent comments.

Trump chose an expert on public-private partnerships as his top White House official focused on infrastructure.

D.J. Gribbin, Trump’s special assistant for infrastructure policy, previously worked on public-private partnerships for Macquarie Capital and Koch Industries.

Gribbin spoke at the P3 Hub Americas conference, a major industry gathering promoting public-private partnerships, on Sept. 26, the same day Trump met with House Democrats.

“It’s so frustrating someone would make off-the-cuff comments like that about P3s,” Poole said of Trump. “I can’t imagine that he was coordinating with his staff. The whole reason Gribbin was hired was to do P3s. That has been his specialty for the last 20 years both in government and out of it. It’s very strange.”

The White House did not respond to emailed questions from the Washington Examiner about Trump’s comments and whether they represent a policy change.

Experts interpreting Trump’s comments have different perspectives on their significance.

Supporters of a more robust federal investment in America’s infrastructure say Trump’s comments don’t necessarily reflect a flip-flop on public-private partnerships, but rather an appreciation for the different funding solutions needed to tackle the issue.

“It just shows the totality of the problem we are trying to address,” said Ed Mortimer, executive director of transportation infrastructure at the U.S. Chamber of Commerce. “The private sector has to have a role. It’s also a recognition there has to be a significant federal investment in infrastructure.”

He said his engagement with the Trump administration has not changed in recent weeks.

“We have not sensed any reticence from the administration to move forward, and we will continue to push them to move forward on this,” Mortimer said. “It’s too important to economic growth. We cannot continue to to fall behind the rest of the world.”

Democratic lawmakers, meanwhile, cheered Trump’s comments, viewing them as proof he is willing to extend his recent embrace of bipartisanship to infrastructure, and ready to rely on significant direct federal funding to pay for projects.

"I was actually very encouraged to hear that," said Rep. Peter DeFazio of Oregon, the top Democrat on the House Transportation and Infrastructure Committee. "I guess he is a businessman and can see through that concept as a false promise. Hopefully, he sees infrastructure as capital expenditures as opposed to operating costs and is willing to get innovative on how we are going to finance it."

But conservatives have long opposed major funding initiated by the federal government, and deficit hawks likely will recoil even more in light of the tax cuts recently proposed by Republicans.

"The president is clearly frustrated with Republicans in Congress," said Michael Sargent, an infrastructure policy expert at the Heritage Foundation. "Doesn't this open the door to working with Democrats on infrastructure? That is something I am wary of. If we are moving away from public-private partnerships, if you want to spend $1 trillion you will need more offsets to raise that money, or tack it onto the debt. Either way, that's a very large bill that will have to come from somewhere."

Infrastructure spending boosters realize they will need conservative support for any plan to become law.

"It's just not going to happen to have an infrastructure bill out of the Republican House and Senate that doesn't have some private financing," Marcia Hale, president of Building America's Future, told the Washington Examiner.

Layne, Virginia's transportation secretary, would just like some clarity, as he prepares to fulfill the infrastructure needs of his state.

"I am glad to hear all the infrastructure talk, but I don't want it to be all talk and expectations and find out nothing is going to happen," he said. "I still don't know where we are nine months into the administration. I don't know what their plan is. I don't see specifics I can act on as the person in charge of the construction program for the state with the nation's third-largest road network."

The Washington Examiner

by Josh Siegel | Oct 9, 2017, 12:01 AM

Political Stalemate Buoys Municipal Bonds.

Relatively scant issuance this year also helps the market for city and state debt

Inaction in Washington has been a boon for municipal-bond investors this year.

In the two months after the 2016 election, investors took $27 billion out of muni-bond funds. The fear was that President Donald Trump's agenda for taxes, infrastructure and health care would drive up interest rates, and thus make outstanding bonds less attractive.

Washington has made scant policy changes, and those concerns have since abated. In addition, the GOP tax framework leaves the tax-deductibility of municipal bonds intact. In short, little has changed, and investors are again doing what they had done in previous decades: buying munis.

"So far this year has been very good for returns for munis, and somewhat unexpectedly," said Jim Colby, senior municipal portfolio manager at VanEck.

Also driving up prices: Cities and states have so far issued much less debt than last year, leaving investors hungry for municipal bonds.

Though prices have drifted downward slightly over the past month alongside Treasurys, the S&P Municipal Bond Index is back to its pre-election level, 4.4% higher than at the beginning of January.

In trading this month, a New York state general-obligation bond carried a yield of 1.2%, compared with 2.1% in December. Yields fall as prices rise.

About $28 billion flowed into municipal-bond mutual funds and exchange-traded funds from January through September, according to the Investment Company Institute.

These investors are largely shrugging off two potentially disruptive events: multiple ratings downgrades in Hartford, Conn., where the mayor in July hired restructuring advisers; and what amounts to the largest-ever municipal bankruptcy, in Puerto Rico.

"Munis had a pretty good year," said J.R. Rieger, managing director of fixed-income index product management at S&P Dow Jones Indices LLC. "That's kind of a surprise to me given all the headline headwinds that the muni market is facing."

Increasing demand also came from foreign buyers. More than $3 billion flowed into municipal bonds from outside the U.S. in the second quarter, bringing the total amount of munis held by foreign investors to a record $98.6 billion, according to Federal Reserve data. With global interest rates still low, munis appeal to foreign institutional investors seeking safe long-dated securities, even though they don't benefit from federal and state tax exemptions.

Despite high demand in both the U.S. and abroad, munis are in fairly short supply. Municipalities this year have issued $276 billion in new bonds as of last week, down 18% from this time last year, according to Thomson Reuters. The state of Massachusetts has sold about $1.7 billion in general-obligation bonds this year, half the amount it had issued by this time last year, according to Municipal Securities Rulemaking Board data.

The drop-off comes as cities and states are doing far fewer refinancing deals this year; many governments typically refinance before a new presidential administration, to head off potential uncertainty, said Matt Fabian, a partner at Municipal Market Analytics.

One of the few hiccups to the rebound in prices this year was in September. Since last month, bond prices have fallen slightly alongside Treasurys after the Federal Reserve signaled it remained on course to steadily raise interest rates.

But that dip barely dented the upward trend in muni prices since January. Some bondholders were relieved after a Trump infrastructure plan that could have diverted the assets of large infrastructure investors away from muni bonds didn't materialize. Given that failure, the inability to repeal the Affordable Care Act and other setbacks for the Trump administration, investors became increasingly confident big changes weren't coming from Washington this year.

"As the year has worn on, there has been this understanding that these things, if they happen, they're not going to happen any time soon, and they may not happen at all," said Gary Gildersleeve, partner and portfolio manager at Evercore Wealth Management.

The Wall Street Journal

By Heather Gillers

Oct. 12, 2017 9:00 a.m. ET

Write to Heather Gillers at heather.gillers@wsj.com

Little-Known Wisconsin Finance Authority Draws Scrutiny for Debt Deals Worth Billions.

MADISON – With the aid of a few local governments, a prominent lobbyist and politicians of both parties, a Wisconsin group has carved out a niche doing billions of dollars in tax-free debt deals, becoming a national player that's virtually unknown in its nominal home state.

But that may be changing for this entity with a Madison address but no direct employees in Wisconsin and relatively little business here.

One deal done by the Public Finance Authority of Wisconsin has angered lawmakers in Kansas and another has received some unwanted attention from federal tax officials and investment regulators.

The once-obscure group is also getting more scrutiny in Wisconsin. State lawmakers are now asking why the Finance Authority should have powers such as the ability to issue bonds for projects that are outside Wisconsin and even potentially outside the country.

"I'm skeptical of the public benefit," said Rep. Scott Allen (R-Waukesha), who voted against the state budget in large part because of Finance Authority provisions. "It doesn't make sense to have a local public agency created by Wisconsin taxpayers and the Wisconsin Legislature that doesn't provide public benefit to the people of Wisconsin."

"As more people learn about this, I've got a feeling I'm not going to be the only one scratching (my) head," he said.

Authorized in 2010 by lawmakers and then created by five local governments, the Finance Authority helps clients around the country borrow money from investors using tax-exempt bonds. The group generates some revenue for local governments in Wisconsin and government associations, but critics question whether it's providing more benefit to out-of-state developers than to the public.

Though the Wisconsin group has a board of largely former local elected officials and a local law firm, much of the Public Finance Authority's work is done by a California bond firm, GPM Municipal Advisors, and a law firm based in San Francisco.

The Finance Authority has done 238 bond deals around the country totaling $8.3 billion for projects ranging from a conference center and parking garage to charter schools and a massive shopping mall and entertainment complex in New Jersey. One project was in the U.S. Pacific island territory of Guam.

Only $168 million of the deals — or about 2% — have been in Wisconsin. Many of the bond offerings were sold to sophisticated investors and did not receive a credit rating from an independent agency that would assess how risky they were.

The Finance Authority pays fees to the five local governments and to several sponsoring groups like the Wisconsin Counties Association. Mark O'Connell, the executive director of the counties association, said the Finance Authority brings benefits to the state with no risks.

“Wouldn’t we want this entity to engage in business everywhere? There’s no risk to the state of Wisconsin. There’s no taxpayer dollars put into it or at risk,” O’Connell said in an interview.

Part of the controversy around the Finance Authority focuses on whether one of its bond deals produces the kind of public benefit needed to qualify for tax-free status from the U.S. government.

In July, the federal Internal Revenue Service told the Finance Authority of its proposed conclusion that the bonds for a Dallas luxury tower development shouldn’t be exempt from federal taxes.

That matters because the investors who had bought the bonds had done so expecting that the interest they would be paid on them would be free from federal income taxes. The Finance Authority’s outside attorney, the San Francisco firm of Orrick, Herrington & Sutcliffe, concluded the bonds should be tax free.

O’Connell insists that the Finance Authority has no legal risk from a potential investor lawsuit and that the group will be successful in challenging the IRS finding.

“The PFA will not do a project unless there’s a public benefit attached to it,” said Andrew Phillips, an attorney with von Briesen & Roper in Milwaukee who serves as general counsel to the Finance Authority and the counties association.

In the meantime, the U.S. Securities and Exchange Commission has also asked the Finance Authority to turn over documents related to the Dallas deal. It’s not clear why the investment regulators are looking at this particular deal, but in the past the SEC has charged participants in bond deals with fraud for misleading investors about whether the bond are tax free.

In a statement, O’Connell said the SEC inquiry may have arisen out of a dispute between partners in the tower’s development company and that there’s “nothing to suggest that the investigation involves PFA in any fashion.”

But Mark Scott, an attorney in the field, said it was unusual that the IRS had taken note of the bonds so quickly after they were issued last year. Scott, the head of the IRS tax-exempt bond office from 2000 to 2005, said auditing can take years to reach such a finding unless the IRS is tipped off or has a local employee who raises a concern.

Typically, Scott said, “it would have been years after the issue, not months.”

Scott said he wasn’t as sure as O’Connell that the Finance Authority has no potential liability from the deal.

“They’re probably right but there’s no guarantees,” he said.

Another Finance Authority deal sparked controversy in 2016 when the University of Kansas borrowed nearly $330 million through the authority for a science building, dormitory and student union. If the university had used a Kansas agency to borrow the money, it would have needed the approval of that state’s legislature, the Wichita Eagle has reported.

The Public Finance Authority started out without controversy.

A group in California had been doing similar deals in that state but had been unable to get lawmakers there to sign off on the group doing such projects in other states, O’Connell said. Staff from the National Counties Association reached out to their counterparts in Wisconsin to see if they’d be willing to seek legislation to do that here, he said.

In 2010, the Wisconsin Legislature, then controlled by Democrats, passed a measure unanimously that allowed the creation of the authority and Democratic Gov. Jim Doyle signed it into law.

The legislation allowed a group of Wisconsin communities to form a government entity that can issue bonds on behalf of certain other borrowers around the country, who then hold the responsibility of paying off the loans.

Five communities then formed the Finance Authority — the City of Lancaster and the counties of Adams, Bayfield, Marathon and Waupaca.

As part of the 2011 state budget, Gov. Scott Walker and GOP lawmakers then gave the Finance Authority the power to refinance projects, purchase bonds and delegate some of its powers to its officers or board members.

In the 2013 budget, lawmakers went along with a Walker plan allowing the authority to issue bonds for projects outside the country if the borrowing entity was incorporated in the United States.

GOP legislators approved additional powers for the Finance Authority in both the 2015 and 2017 budgets, but Walker vetoed them.

The Finance Authority's lobbyist is Eric J. Petersen, whose clients include insurers, road builders, a title loan company, a tobacco maker and a trade group for liquor wholesalers.

"He has a high profile and a record of getting things done," O'Connell said of Petersen.

The Finance Authority is sponsored by the National Association of Counties, National League of Cities, Wisconsin Counties Association and League of Wisconsin Municipalities. The League of Wisconsin Municipalities received $74,500 from the Finance Authority in 2016 and O'Connell said the other three groups or their affiliates got about the same amount each.

Since 2010, the five communities that formed the authority have received about $26,000 each — or $130,000 in total — to carry out certain duties on behalf of the Finance Authority.

Jason Stein and Patrick Marley, Milwaukee Published 3:05 p.m. CT Oct. 13, 2017 |

MSRB Adds Bloomberg BVAL to Municipal Market Yield Curves on EMMA.

Washington, DC – The Municipal Securities Rulemaking Board (MSRB) today expanded the availability of municipal market yield curves and indices on its Electronic Municipal Market Access (EMMA®) website. The addition of Bloomberg's BVAL Municipal AAA Curve to EMMA today gives investors another tool intended to help monitor the level and direction of municipal bond interest rates, and compare relative yields of specific municipal securities.

"The MSRB's vision is for EMMA to evolve into a comprehensive transparency platform that brings together data, documents and tools that support fair and efficient transactions and facilitate decision-making in the municipal market," said MSRB Executive Director Lynnette Kelly. "We are excited to provide free access on EMMA to municipal market yield curves and indices for investors who in the past may not have been able to take advantage of these powerful benchmarking and analytical tools."

Bloomberg's BVAL municipal curve uses real-time trades and contributed sources to reflect market movement as it happens. Bloomberg's BVAL service prices 2.5 million fixed income securities, including nearly 1 million municipal bonds which are priced three times a day.

"Bloomberg is proud to work with the MSRB to bring more transparency to the municipal bond market by offering the BVAL Municipal AAA curve on the EMMA site," said Varun Pawar, global head of Bloomberg's evaluated pricing service. "BVAL is the primary pricing source for the Bloomberg Barclays indices, which are widely used by institutional fund managers to measure investment performance. Retail investors now have access to yield curve data that correlates to these muni market benchmarks."

Bloomberg's BVAL Municipal AAA Curve is available on EMMA's [Tools and Resources page](), as are a daily yield curve from the Associated Press (AP) and historical index data for five different indices from Standard & Poor's (S&P), which were made available in July 2017. [Access yield curves and indices on EMMA.]()

Market indicators, including the AP and Bloomberg yield curves and S&P indices available on EMMA, are useful tools for evaluating bond prices and yields, measuring market direction and performance, and determining pricing on new bond issues. [Read about understanding yield curves and indices in the MSRB Education Center.]() The MSRB may add more yield curves and other tools over time as part of its ongoing effort to enhance the availability of market-wide data, in addition to information about individual bonds. Earlier this month, the MSRB began the [daily release of previously unavailable market statistics]() on EMMA. The MSRB also has provided access on EMMA to two interactive calendars that display upcoming bond offerings and upcoming economic reports and events.

The MSRB's EMMA website is the official source of data and disclosure documents on more than one million outstanding municipal securities. The MSRB operates the EMMA website in support of its mission to protect investors, state and local governments, and the public interest by promoting a fair and efficient municipal market.

Date: October 5, 2017

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A Slide in Capital Spending by States and Local Governments.

Moody's cautions that putting off infrastructure investments could lead to a "form of 'soft' debt that will compete with pension liabilities and other governmental mandates for funding."

Capital spending by state and local governments around the U.S. has been on the decline, with jurisdictions pushing off infrastructure costs into future years.

That's according to a report the credit ratings agency Moody's Investors Service issued this week. The ratings agency looks at U.S. Bureau of Economic Analysis figures and says the information suggests an "ongoing buildup of deferred infrastructure maintenance."

This comes as costs tied to areas like public employee pensions and education continue to put pressure on many state and local budgets.

Moody's notes that state and local capital investment, unadjusted for inflation, hit a peak in 2009 as a percentage of gross domestic product at about 2.6 percent. Since then, it has steadily declined, hitting a low in the first quarter of this year of about 1.7 percent.

If states and localities had maintained 2009 capital investment levels, they would have invested an additional amount of roughly $685 billion in the past seven years, or about 27 percent more than the $2.5 trillion spent during that time, according to Moody's

"Over time," the report says, "we expect that the deferral of such fixed investment will lead to poor asset quality…and require even greater investment in the future—a form of 'soft' debt that will compete with pension liabilities and other governmental mandates for funding."

As Route Fifty reported earlier this year there are unanswered questions about how to best measure the financial costs of deferred infrastructure maintenance among state and local governments and what it means in terms of risk for investors and taxpayers.

The Trump administration has promised an ambitious infrastructure spending package.

But details are still forthcoming. And some state and local officials are skeptical about how far it will go toward addressing what many see as a sweeping need for greater infrastructure investment.

Route Fifty

by Bill Lucia

October 6, 2017

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

Community Development Lenders Go Where Amazon Goes When It Needs Cash.

There are $92 trillion in bond markets around the world. Corporations have ready access to those dollars. For example, when Amazon needed $16 billion to acquire Whole Foods, it borrowed it through the bond market.

Now, nonprofit lenders in the U.S. with a mission to make capital meet the needs of poor communities have a foothold into that world.

"When I was in the capital markets I always said, how come we aren't investing enough here domestically," says Lisa Jones, who works at the U.S. Treasury's Community Development Financial Institution (CDFI) Fund, which supports those lenders — community development financial institutions, or CDFIs — nationwide. "We can make investments all over the world, and we can assess the risk. Why can't we assess the risk here in some of our underserved and low-income communities?"

Continue reading.

NEXT CITY

BY OSCAR PERRY ABELLO | OCTOBER 5, 2017

Municipal Market Update.

Read the Update.

Stern Brothers & Co. | Oct. 5

Dreyfus Bet on Tobacco Bonds Pays Off With Top Muni Fund Returns.

- **Fund avoided Puerto Rico, FirstEnergy Solutions bonds**
- **Nuveen, Goldman Sachs high yield funds rounded out top three**

Dreyfus Corp.'s $170 million high-yield municipal-bond fund is beating bigger and better-known competitors by riding a rebound in tobacco bonds while avoiding pitfalls such as Puerto Rico debt.

The fund returned 10.2 percent through the first three quarters of the year. High-yield tax-exempt funds managed by Nuveen Asset Management and Goldman Sachs Asset Management ranked second and third, respectively.

Dreyfus's fund held almost 11 percent of its portfolio in tobacco bonds at the end of July and benefited from a 18.5 percent run-up in the debt in the year's first half. Tobacco bonds rebounded after money managers dumped the securities — among the most liquid high-yield municipal bonds — to meet redemptions during the bond-market rout that erupted after President Donald Trump's victory.

Refinancings by New York City and California and moderate smoking declines have also boosted performance.

"After it became clear Trump wasn't going to his enact his agenda, there was a strong tobacco rally and we were well positioned for that," said Dan Barton who co-manages the Dreyfus fund with Jeffrey Burger in Boston. "A lot of funds are looking for yield-ier alternatives to Puerto Rico."

High-yield munis returned 7.7 percent through the third quarter, three percentage points more than investment grade municipal bonds, according to Bloomberg Barclays Indexes.
The sector has benefited from an imbalance in supply and demand.

Two-thirds of the $10.5 billion investors added to the municipal market this year flowed into high-yield funds, according to Lipper U.S. Fund Flows data. Meanwhile, just $2.5 billion unrated or speculative grade municipal bonds has been issued through the third quarter, a 50 percent decline from the same period last year, according to data compiled by Bloomberg.

"You just buy anything under the sun because you have to utilize your cash," said Mikhail Foux, head of municipal strategy in New York at Barclays Plc.

In a year full of retail bankruptcies, the deal was postponed so the underwriter, Goldman Sachs Group Inc., could drum up more buyers. Since American Dream's $1.1 billion bonds were sold in June, prices on the longest-maturity securities have risen to 116 cents on the dollar from 103 cents.

It's "one of the last really exciting and last really cheap deals priced in the high yield area with size and liquidity in the last couple of months," said John Miller, Nuveen's co-head of fixed income.

Nuveen's $15.6 billion high yield fund owned $370 million American Dream bonds as of August 31. The fund returned 9.3 percent through the third quarter. Miller invested about 7.5 percent of the fund's assets in tobacco debt.

Nuveen also reaped a windfall from its bet on its hometown school district. Chicago school bonds rallied after Illinois Governor Bruce Rauner signed a measure that boosts funding to the district by an additional $1.1 billion over the next five years. Chicago Board of Education bonds with a 7 percent coupon maturing in 2044 have returned 27 percent this year, Miller said. Nuveen owns $263 million of the securities.

The performance of the American Dream bonds took Dreyfus, which doesn't own any, by surprise. Not so, tobacco debt, whose cash flows can be modeled assuming varying degrees of cigarette consumption declines, Barton said.

Under a 1998 national settlement, the major tobacco companies agreed to make annual payments to the states in perpetuity to resolve their liability for health-care costs attributed to smoking. Some states and cities borrowed against the payments, which are based on cigarette shipments.

Altria Group Inc., estimated that domestic cigarette industry shipment volume decreased by about 3.5 percent in the first half of 2017. Moody's Investors Service projects 80 percent of the securities won't make scheduled payments based on historical declines of 3 percent to 4 percent in U.S. smoking.

A U.S. Food and Drug Administration proposal in July to cut the amount of nicotine in cigarettes to non-addictive levels cut tobacco bond returns 0.4 percentage point in the third-quarter, a potential buying opportunity, Barton said. Tobacco companies are expected to vigorously oppose the proposal.

"Near-term, we don't see a ban of nicotine in cigarettes," Barton said.

There's also value in certain zero-coupon tobacco bonds trading at discounts of more than 50 percent to accreted value that may be refinanced, said Ben Barber, who manages Goldman Sachs Asset Management's $5.2 billion high-yield muni fund. The fund returned 8.2 percent through the third quarter and had 8.8 percent of assets in tobacco debt at the end of August.

Nuveen stumbled on its investment in FirstEnergy Solutions, the power-generation unit of FirstEnergy Corp. The Akron-based owner of coal-fired and nuclear plants aims to exit the generation business and restructure FES's debt. Nuveen owns about $300 million of secured and unsecured FirstEnergy Solutions bonds with a market value of $193 million.

Dreyfus doesn't hold FirstEnergy debt or bonds issued by Puerto Rico or the U.S. Virgin Islands.

Performance is about "as much what you don't own as what you do," said Barton.

Bloomberg Markets

By Martin Z Braun

October 3, 2017, 10:21 AM PDT

Don't Think You Own Muni Bonds? Check Your Robo Adviser Account.

- **Betterment and Wealthfront are top holders of iShares muni ETF**
- **Republican proposal could unleash tax-deductible debt demand**

Financial planners have long advised individual investors to carve out some portfolio space for municipal bonds. Most likely, though, only those wealthy enough to hire an investment manager actually went out and bought any.

Well, check your portfolio. Because you just might be the proud owner of at least a slice of a muni bond, especially if you use a robo-adviser — the increasingly popular form of electronic financial guidance for individual investors.

Betterment and Wealthfront Inc., two of the most popular robo-advisers, are also two of the biggest holders of the iShares National Muni Bond ETF, ticker symbol MUB, the largest municipal bond exchange-traded fund with nearly $9 billion in assets. Based on their June 30 filings with the Securities and Exchange Commission, Betterment owned about $500 million of the fund and Wealthfront held about $430 million. That makes them the second- and fourth-largest holders, respectively.

Munis appeal to the wealthy because their interest income is shielded from federal and, in most cases, state income taxes. Their importance to investors could grow if the full Republican tax plan is enacted into law, particularly the proposal that would end deductions for state and local taxes. The change could unleash demand within the tax-deductible muni bond market, particularly from investors in high-tax states like New York and New Jersey.

Bloomberg

By Brandon Kochkodin

October 4, 2017, 9:12 AM PDT

Bloomberg Brief Weekly Video - 10/05

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

Watch video.

Bloomberg

October 5th, 2017

Munis For Dotards.

My friend John Mauldin is doing a great job beating the drum about the coming pension crisis (actually it has already arrived). The shortfalls in public and private pensions are staggering. Ben Bernanke and his colleagues at the Federal Reserve either didn't consider the effects of prolonged low interest rates on pension funds when they implemented their destructive policies a decade ago or didn't care or figured they had bigger problems to deal with, but the bill is coming due and cannot be paid.

The only question is how long states, cities and counties as well as the federal government can keep lying to people. According to a new report from the Pew Charitable Trusts, the shortfall in state pension and retiree healthcare benefits is now $1.1 trillion and $645 billion, respectively, based on 2015 data (the numbers are larger today). And remember, this comes nearly a decade into an epic bull market in stocks that lifted the value of the funds set aside to pay these benefits; imagine what will happen when the bull market ends (which, despite reports on CNBC to the contrary, will actually happen!).

New accounting rules require states and cities to book these obligations beginning in 2018, which will significantly weaken their financial statements and likely their credit ratings if the rating agencies are paying attention (something that is always questionable). According to Pew, states had only $48 billion in assets set aside in 2015 compared with $693 of retiree healthcare liabilities (though they do retain their taxing authority, though it is reaching its limit in many states). If you do the math, that's a mere 6.9% of the assets needed to pay these liabilities, which is both alarming and pathetic.

Municipal bond managers may have some serious explaining to do to their clients if this moribund but important market sells off as the true state of municipal finance is revealed. The municipal bond market is notoriously illiquid and opaque. It may turn out that Meredith Whitney wasn't wrong, just early in her warning a few years ago that munis aren't as safe as they seem.

Any asset class that offers virtually no upside and significant downside needs to be looked at with a jaundiced eye. Munis are one such asset class. Based on my three decades in the credit markets, it is clear that you don't need to be a rocket scientist to manage municipal bonds. Anyone paying someone more than a couple of basis points to manage munis is paying too much.

States and municipalities count on the limited capabilities and knowledge of municipal bond managers and buyers to fund themselves (and the municipal bond underwriting business is rife with corruption. But apparently even that low bar is too much for some muni managers who are wetting themselves in excitement over an upcoming bond offering by the hopelessly corrupt and insolvent state of Illinois, whose unpaid bills to vendors ballooned to a new all-time high of more than $16 billion (yes, that "billion" with a "b").

These managers are cheering an upcoming $6 billion Illinois General Obligation bond deal because a recent stop-gap two-year budget deal that kicked the can down the road to nowhere led to a short-term rally in Illinois municipal bonds. We all know about short memories in the financial markets, but the memories of municipal bond managers give fruit flies a run for their money.

These dotards should stretch their little minds and try to remember how hot and bothered they got when the similarly corrupt and insolvent territory of Puerto Rico sold 8% bonds due in 2035 at a discount (93 cents on the dollar) a few years ago. I warned readers away from those bonds at the time; hopefully you listened–they were trading at 51.75 cents on the dollar on September 27.

Just as Puerto Rico had no prospect of repaying those bonds (and defaulted on them and the rest of its $75 billion of debt), Illinois has no ability to repay this upcoming certificate of stupidity. Now, as Puerto Rico wrestles with the aftermath of Hurricane Maria, the island's bondholders are looking at even deeper losses as the board overseeing PROMESA (the acronym for the Puerto Rico Oversight, Management and Economic Stability Act that should be called NOPROMESA) decides if it can shift up to $1 billion of funds from bondholders to emergency rebuilding measures. What politician is going to vote against that?

Nonetheless, some of the most highly regarded names in the business (by the financial media, certainly not by me) are telling investors to run out and buy Illinois' debt (or more likely rationalizing why they intend to buy it for their clients). If you are a client of one of these firms, it is not too late for you to instruct them not to put this garbage in your account or to pull your money. Nuveen Investments' co-head of fixed income John Miller claims that the state has "turnaround potential." So does Zimbabwe.

Guy Davidson, director of municipal investments at AllianceBernstein, claims that the state has "stopped the bleeding. It's not like we think they have solved their problems. We just think they've stabilized their problems." Tell that to the vendors waiting for $16 billion of their bills to be paid (which will soon be $17 billion, then $18 billion–you get the picture). And Dennis Derby, a portfolio manager at Wells Fargo Asset Management, tells us that Illinois is "not under the gun as much as far as ratings go." That's because the gun is pointed at bondholders' heads and all of the chambers are loaded. Not to put too fine a point on it, but these comments should freak out anyone whose money is managed by these gentlemen and their firms.

Clearly the best and the brightest are not managing municipal bond portfolios and if any of these bright lights are managing yours and buy this new Illinois bond, you are in big trouble. Illinois' will be far from the last bankrupt municipality to sell worthless paper in the coming months and years and anyone incapable of avoiding this one is bound to throw more of your money down the rat hole if you give them a chance.

Forbes

by Michael Lewitt

Oct 5, 2017

When Underfunded Pensions Become Debt.

With concerns about the sustainability of states' underfunded pensions growing, and with "$70 billion in US municipal bonds across our asset management business" analysts at JP Morgan have set out to try and determine the riskiest states to invest in.

The findings of this analysis were published in a report last week, which ranked the 20 most risky cities and eight most risky counties by credit profile. On average, while a few states have very large debts relative to their revenues, many are in decent shape.

However, in general, US cities and counties have substantially more debt relative to their revenues than US states. While most have several years to undertake remediation measures, some "very difficult choices will be required in order for them to meet all of their future obligations."

What's of more concern to investors is the fact that, according to JP Morgan, when rare municipal bankruptcies do occur, bondholders have "usually received lower recoveries than pensioners."

When underfunded pensions become debt

JP Morgan's analysts point out in the report that cities' debt is not just limited to interest-paying bonds. Debt also includes unfunded obligations related to "pensions and retiree healthcare along with bonds, leases and other obligations supported by each municipality's general account."

Interestingly, when all of these factors are added in, bonds and leases only represent around one-third of the total debt of US cities and counties.

Continue reading.

ValueWalk

by Rupert Hargreaves

October 9, 2017

On Infrastructure, Now What? Trump's Sudden Turn Away from Public-Private Model Brings Uncertainty.

Advocates for increased spending on the nation's roads, bridges, tunnels and other infrastructure programs are considering ways to move forward after President Trump unexpectedly rejected using private money to pay for the federal program.

Trump's policy shift is significant for an administration that spent the last nine months advocating private investment as the linchpin to generating $1 trillion in infrastructure spending.

Trump told members of the House Ways and Means Committee last week that he no longer favored private investment — also known as P3s — and was focused more on using money directly from the treasury to pay for the program, according to Rep. Brian Higgins, who was in the private meeting. "He said that they were more trouble than they were worth," recounted Higgins, a Democrat from New York.

A White House official confirmed Trump's reversal, saying private financing is "certainly not the silver bullet for all our nation's infrastructure problems." The administration wouldn't make anybody available to explain the change or the timing.

The uncertainty around Trump's infrastructure plan is frustrating private investors and fund managers who were hoping for opportunities to deploy a record amount of money raised for building projects in North America — $68 billion so far this year, according to one analysis. White House officials have been advocating the use of private investment, believing that private money could get projects done faster than traditional government financing.

Public-private partnerships allow states and local governments to enter into a contract with a private investor to either renovate an existing project or build a new one. In exchange, the private entity could collect user fees like tolls or collect regular payments from the government.

Another idea pushed by the White House — called asset recycling — would have provided federal incentives to government entities that were willing to sell existing projects to private investors and then use the proceeds of the sale to build new projects.

White House officials have been pitching both ideas to transportation officials, state and city leaders and construction firms over the past few months. State and city leaders have been reluctant to embrace any ideas because of scarcity of details from the administration.

Higgins said Trump's comments came in response to his question about whether Trump would be willing to cut the tax on corporate profits kept overseas and then use the additional tax dollars to pay for infrastructure. The congressman said Trump replied that he wasn't interested in using those funds for infrastructure, adding that he needed direct federal investment for infrastructure because P3s "don't work." He said Trump pointed to Vice President Mike Pence — the former governor of Indiana — and said P3s weren't successful in that state.

"The revelation that he was rejecting public-private partnerships toward a direct federal expenditure was very, very clear," Higgins said. "It was something that he offered, not something that was implied. It was very explicit."

Higgins said he does not support public-private partnerships. He'd rather see federal borrowing or increasing the federal gas tax to help pay for the nation's infrastructure needs.
Nine months into his presidency, Trump's apparent abandonment of the model has created yet another level of uncertainty for groups pushing to build new projects across the U.S. and for the investors who have lined up tens of billions of dollars. The American Society of Civil Engineers says there's a national need to fix the nation's infrastructure. The group has given the system, including the nation's roads, bridges, tunnels and sewer lines, a grade of a D+.

Most states, however, aren't changing their approach to infrastructure planning in response to Trump's recent comments.

Colorado officials are even thinking further ahead because it's one of few states that has already tapped private financing for road and bridge projects.

"What we need are funding solutions, not financing solutions," said Shailen Bhatt, executive director of the Colorado Department of Transportation. He wants to increase federal funding for road and bridge projects because Colorado is facing a $1 billion a year shortfall to maintain and build new transportation projects.

He said Trump's initial plans for private funding would have helped Colorado accelerate one or two bigger projects in his state but "it doesn't solve our transportation funding need."

One obvious mechanism for the federal government to raise money to spend on infrastructure is the gas tax, which was last increased in 1993 to 18.4 cents per gallon.

Trump's budget calls for $200 billion in federal funding with the hopes of creating $1 trillion of total infrastructure spending. The president and several members of his cabinet point out that private investors — via public pension funds, sovereign wealth funds and private equity — have billions lined up to finance projects.

But an APM Reports analysis of more than 500 projects submitted last winter to the White House shows that only a small percentage are being considered for private investment. The analysis also found the bulk of the projects considered for private financing are located in urban areas.

The appetite for the private financing of public works projects has received significant pushback in recent years. The Texas Legislature defeated a measure that would have allowed for an expansion to private financing for road projects after receiving citizen pushback over an increase in toll roads. A privately financed road project in southwest Indiana is also facing significant delays. And rural lawmakers have worried that projects in their areas will attract less interest from the private sector because there isn't the population to pay for the projects through user fees like tolls.

Trump advocated for increased private investment during the 2016 presidential campaign. He's also hired infrastructure investment consultant D.J. Gribbin to lead the program. Gribbin worked at two firms that pushed private investment, Macquarie Group and HDR.

Todd Herberghs, executive director of the National Council for Public-Private Partnerships, said the administration has not released a specific plan so it isn't certain whether Trump has completely ruled out private financing or will use it in a more limited role.

Herberghs said he'll continue to remind the Trump Administration and Congress that privatization should be another option. "The current way of doing things isn't working as well as it potentially could," he said. "As an industry, we just want public entities — whether they be federal, state or local — to use (private investment) as an option."

Critics of privatization also say they aren't convinced Trump has completely ruled out including investors.

Donald Cohen, executive director of the union-backed organization In the Public Interest, said he thinks Trump will reconsider after realizing Republican party leaders don't support a gas tax hike or increased borrowing. "It's pretty challenging to do what they say they want to do, meaning $1 trillion of infrastructure spending without using private capital, if they can't get the Congress to actually spend real money," he said.

Construction firms and investment advisers are also waiting to see whether Trump's plan has any movement.

Tom Carr from data analysis firm Preqin — which estimated the $68 billion raised this year — points to the Blackstone Group as an example of a firm eager to invest money from a $40 billion fund it has built.

Stocks in the building sector skyrocketed after Election Day but trended down after Trump and Congress put the issue on the back burner of the legislative agenda.

Kathrin Heitmann, a senior analyst for Moody's Investors Service, says Trump's recent statements as to his overall plans remain unclear.

In July, Moody's said it was unlikely that an infrastructure plan would be passed into law this year and that funds wouldn't be released until 2020. Heitmann's report also found that there's been little political support for private investment on the state and local level. She said without knowing how much money the Trump Administration plans to commit and where the other funding would come from, she's not changing her outlook.

"Not having an infrastructure bill from the federal administration creates uncertainty for investors," she said. "And uncertainty is never good for the private investor."

By Tom Scheck, APM Reports

October 05, 2017 | 5:42 PM

Four Considerations for Infrastructure Policy.

Statement before the New Democrat Coalition 21st Century Infrastructure Task Force

Tracy Gordon, a senior fellow at the Urban Institute and the Urban-Brookings Tax Policy Center, spoke before the New Democrat Coalition 21st Century Task Force on October 4, 2017. She shared four things that Congress may want to keep in mind when considering changes to infrastructure policy.

Continue reading.

The Urban Institute

Tracy Gordon

October 4, 2017

How to Make Private Investment in Infrastructure Really Work.

PPPs hold big promise for projects in urban America—if Congress eliminates regulations and perverse incentives.

During the 2016 presidential campaign, Donald Trump—like his opponent Hillary Clinton—spoke glowingly about infrastructure spending, alluding to Franklin Roosevelt's Works Progress Administration and Dwight Eisenhower's Interstate Highway System as examples of how spending on roads, bridges and airports helped unite the country. For 2017, the American Society of Civil Engineers has given America's infrastructure an overall grade of D+, estimating it would cost more than $4 trillion to upgrade properly. But President Trump's $1 trillion dollar, 10-year infrastructure plan has so far moved along at a halting pace.

This tortoise-like profress may offer an opportunity to think more strategically about the means and ends of infrastructure—and increase the chances of final passage down the road. The odds are still good that Congress will act, since infrastructure spending is the closest thing to a free lunch in American politics.

If done right, the sky is the limit for U.S. infrastructure. Smart grid technologies, buried electrical lines and well-designed mechanical back-ups could advance both grid resiliency from future hurricanes and the growing threat from cyber-terrorism. New highway construction should help the country transition to electric vehicles and driver automation in the coming decades. Upgraded air traffic control systems could increase the nation's air capacity by 50 percent, while shortening flights and saving passengers money.

Continue reading.

CITY LAB

by WILLIAM MURRAY

Trump's Apparent About-Face on Partnerships Injects 'Huge Question Mark' into Infrastructure Plan.

The infrastructure industry and public officials are trying to figure out how to interpret President Trump’s recent move to back off what had been a major pillar of his $1 trillion infrastructure investment plan.

Trump said he doesn’t favor using public-private partnerships to finance infrastructure projects because they don’t always work, he told Democrats on the House Ways and Means Committee during a Sept. 26 meeting.

In the spring, the White House released a six-page outline of its infrastructure priorities that encouraged public-private partnerships as part of an incentive program in which the federal government offers up to $200 billion to state and local governments that enter into the agreements and other private sector deals.

It’s too soon to know if Trump’s seemingly off-the-cuff skepticism toward public-private partnerships represents a policy shift, but key constituents of the infrastructure initiative say the comments inject uncertainty into a slow-moving process that has yet to result in the White House offering a concrete plan.

“It’s very dismaying,” said Robert Poole, director of transportation policy at the Reason Foundation, a free-market research group. “You saw during the first six months of this year, everyone involved with public-private partnerships, including the construction and finance industries, were all saying, the U.S. will be the big next frontier for these deals. That now has a huge question mark on it,” Poole told the Washington Examiner.

A public-private partnership acts as it sounds, with private investors helping fund construction and repair of roads, bridges, and airports in exchange for a share of future revenue. It is not quite privatization, in which a government sells a public asset to a private company.

Lawmakers who participated in the meeting with Trump say he cited the experience of Vice President Mike Pence, who was Indiana’s governor when a private group helped the state operate a major toll road and the developers went bankrupt.

The U.S. market for public-private partnerships is barely formed, but supporters say the deals can be quicker and more efficient and entail less taxpayer risk if structured properly.

But such deals are also financially complex, which public officials can struggle to understand, leading to agreements that don’t work.

“They are not the answer to the infrastructure needs in this country, but can be a part of some of these projects,” said Aubrey Lane, Virginia’s secretary of transportation, who has briefed Trump administration officials on infrastructure. “I didn’t believe the first hype from the administration that public-private partnerships would be all the answer, and I don’t believe this new hype they aren’t good at all,” Lane told the Washington Examiner.

Virginia is an outlier in the U.S. with its deep experience with public-private partnerships, which are known as PPPs or P3s in transportation circles.

Since 2007, the state has closed five public-private partnership deals worth more than $9 billion collectively, with more than $2.5 billion coming from private equity, less than $1 billion in public funds, and the remaining from privately backed debt.

The Trump administration had seemed to like such projects before the president's recent comments.

Trump chose an expert on public-private partnerships as his top White House official focused on infrastructure.

D.J. Gribbin, Trump's special assistant for infrastructure policy, previously worked on public-private partnerships for Macquarie Capital and Koch Industries.

Gribbin spoke at the P3 Hub Americas conference, a major industry gathering promoting public-private partnerships, on Sept. 26, the same day Trump met with House Democrats.

"It's so frustrating someone would make off-the-cuff comments like that about P3s," Poole said of Trump. "I can't imagine that he was coordinating with his staff. The whole reason Gribbin was hired was to do P3s. That has been his specialty for the last 20 years both in government and out of it. It's very strange."

The White House did not respond to emailed questions from the Washington Examiner about Trump's comments and whether they represent a policy change.

Experts interpreting Trump's comments have different perspectives on their significance.

Supporters of a more robust federal investment in America's infrastructure say Trump's comments don't necessarily reflect a flip-flop on public-private partnerships, but rather an appreciation for the different funding solutions needed to tackle the issue.

"It just shows the totality of the problem we are trying to address," said Ed Mortimer, executive director of transportation infrastructure at the U.S. Chamber of Commerce. "The private sector has to have a role. It's also a recognition there has to be a significant federal investment in infrastructure."

He said his engagement with the Trump administration has not changed in recent weeks.

"We have not sensed any reticence from the administration to move forward, and we will continue to push them to move forward on this," Mortimer said. "It's too important to economic growth. We cannot continue to to fall behind the rest of the world."

Democratic lawmakers, meanwhile, cheered Trump's comments, viewing them as proof he is willing to extend his recent embrace of bipartisanship to infrastructure, and ready to rely on significant direct federal funding to pay for projects.

"I was actually very encouraged to hear that," said Rep. Peter DeFazio of Oregon, the top Democrat on the House Transportation and Infrastructure Committee. "I guess he is a businessman and can see through that concept as a false promise. Hopefully, he sees infrastructure as capital expenditures as opposed to operating costs and is willing to get innovative on how we are going to finance it."

But conservatives have long opposed major funding initiated by the federal government, and deficit hawks likely will recoil even more in light of the tax cuts recently proposed by Republicans.

“The president is clearly frustrated with Republicans in Congress,” said Michael Sargent, an infrastructure policy expert at the Heritage Foundation. “Doesn’t this open the door to working with Democrats on infrastructure? That is something I am wary of. If we are moving away from public-private partnerships, if you want to spend $1 trillion you will need more offsets to raise that money, or tack it onto the debt. Either way, that’s a very large bill that will have to come from somewhere.”

Infrastructure spending boosters realize they will need conservative support for any plan to become law.

“It’s just not going to happen to have an infrastructure bill out of the Republican House and Senate that doesn’t have some private financing,” Marcia Hale, president of Building America’s Future, told the Washington Examiner.

Layne, Virginia’s transportation secretary, would just like some clarity, as he prepares to fulfill the infrastructure needs of his state.

“I am glad to hear all the infrastructure talk, but I don’t want it to be all talk and expectations and find out nothing is going to happen,” he said. “I still don’t know where we are nine months into the administration. I don’t know what their plan is. I don’t see specifics I can act on as the person in charge of the construction program for the state with the nation’s third-largest road network.”

Washington Examiner

by Josh Siegel | Oct 9, 2017, 12:01 AM

World’s First Green Exchange Lists $74 Billion in Its First Year.

The Luxembourg Green Exchange, the world’s first bourse for securities related to climate change, listed 63 billion euros ($74 billion) of bonds after one year.

“This far outstripped what we expected,” Jane Wilkinson, head of sustainable finance at the Luxembourg Stock Exchange, said in a phone interview. “It clearly outstrips the growth we’ve seen in Luxembourg on the regular market, which was stable.’’

The Luxembourg Green Exchange, also known as the LGX, was set up as a place where investors could be certain that what they were buying was really a green bond. The industry is unregulated to date, although issuers can voluntarily follow frameworks such as the Green Bond Principles or the Climate Bond Initiative. The LGX obliges its issuers to provide full documentation, both before and after issuance.

The 63 billion euros makes up about 1 percent of the Luxembourg Stock Exchange, in terms of value of listed assets, according to Wilkinson. The global green bond market reached $95 billion last year. After a record-breaking 2017 first half, Bloomberg New Energy Finance raised its 2017 forecast for issuance to $130 billion from $123 billion. Wilkinson said the figure could be as much as $140 billion.

The LGX receives as many as two to three questions and requests daily from parties such as treasury departments and law firms that are interested in issuing green bonds, according to Wilkinson.

“There’s definitely an increased interest by potential issuers,’’ Wilkinson said. “New players that are waking up and thinking this could be an interesting market for us and starting to do their homework.’’

There is rising interest in China, U.S. municipalities and Latin American financial institutions, she said. Corporate issuers are also getting more involved.

“It’s still a bit of a nascent market, if you’re a big company I feel like they should lead the way,’’ Wilkinson said. “I understand that they don’t need to list because they have enough interest, but that kind of issuer can use their influence.’’

Some large companies in the clean energy industry haven’t labeled their bonds as green, even if they could, such as Tesla Inc.’s recent $1.8 billion offering. This may be because of the additional reporting that’s generally expected from investors to prove that the funds raised are only being used for environmentally-focused projects, Wilkinson said.

Bloomberg Markets

By Anna Hirtenstein

September 27, 2017, 2:00 AM PDT

[Foreign Cash Fleeing Low Yields Flows Into U.S. Muni Bonds.]

- **Overseas holdings of state, local bonds hits new record high**
- **Even low payouts look good against Japanese, German bonds**

The era of record low interest rates around the world has unleashed an unprecedented tide of overseas cash for U.S. municipal-bond fund managers like Gregory Gizzi, who hopscotched around Asia this month courting would-be investors.

“We’ve been witnessing a big increase of interest,” said Gizzi, a senior portfolio manager with Macquarie Investment Management, which holds $8.9 billion of municipal debt.

It’s showing no signs of pulling back. Foreign investors increased their holdings of debt issued by states, cities and local agencies by $3.1 billion during the second quarter to $98.6 billion, an all-time high and more than triple what it was a little over a decade ago, according to Federal Reserve data. They’ve added to their holdings every quarter for the past five years.

The globalization of the municipal market, still largely a low-yielding haven for risk-averse Americans seeking tax-exempt income, has helped increase demand for the securities. With the pace of borrowing slowing this year and money still flowing in, state and local bond yields are lower now than they were in January. Even after the market’s recent slide on increased speculation the Federal Reserve will raise interest rates in December, municipal debt has returned 4.8 percent this year, more than twice as much as Treasuries, according to Bloomberg Barclays indexes.

On Thursday afternoon in New York, 10-year benchmark bonds were yielding 1.98 percent, according to Bloomberg indexes, about seven basis points higher than where they stood at the beginning of the week. Even with the rise in yields, that’s still about four times what similar German bonds are paying. In Japan, yields barely exceed zero.

The allure for overseas buyers is even larger when it comes to taxable municipal debt, which carry higher yields than corporate debt. A 10-year Illinois bond with payments that are subject to the U.S. income tax yields about 1.3 percentage point more than those issued by Ford Motor Co.

State and local bonds are also carry far less risk than other securities: The 10-year default rate for municipal bonds is only 0.07 percent compared with 10.3 percent for corporate bonds issued in the U.S. and abroad, according to Moody's Investors Service.

"These taxable munis are the cheapest thing around if you're an international investor right now," said Kyle Gerberding, director of trading at Atlanta-based Asset Preservation Advisors, which has more than $3 billion invested in tax-exempt and taxable municipal bonds.

Mizuho Securities' U.S. strategist, Tetsuo "Harry" Ishihara, says he still receives calls from Japanese clients interested in investing after he published research about the sector last year. Ishihara said the municipal market, once obscure in Japan, has gained enough traction that many firms now market them to customers.

"The good thing about Japanese investors is once they like you, they are very loyal," he said in a telephone interview.

"When they know their money is going to bridges and schools, they love that," he said. "It's very deeply indebted in their training from day one. You have a social role."

Bloomberg

By Rebecca Spalding and Carrie Hong

September 28, 2017, 9:19 AM PDT September 28, 2017, 1:38 PM PDT

Bloomberg Brief Weekly Video - 09/28

Taylor Riggs, a contributor to Bloomberg Briefs, talks with Amanda Albright about this week's municipal market news.

Watch video.

Bloomberg

September 28, 2017

More Questions Surface About Shadowy Public Finance Authority.

[Madison, Wis…] In 2016, the University of Kansas bypassed the state Legislature in securing nearly $327 million in bonds for a slate of building projects.

Instead of seeking approval from lawmakers, the university appealed to the Wisconsin-based Public Finance Authority, the shadowy, quasi-public agency described as the "bonding house of last resort."

The PFA came under fire this month, in the closing days of Wisconsin's extended budget-writing process, when lawmakers slipped in a provision that would have expanded the authority's powers. Under the measure, the PFA would have been granted the ability to take private property through eminent domain.

Continue reading.

MacIver News Service | September 28, 2017

By M.D. Kittle

What Trump Finally Got Right About Infrastructure.

While I don't have Maggie Haberman's fly on the wall access to internal White House process, I will say that President Trump's decision to jettison his tax credit/private investment based infrastructure plan is sound and its stated rational is based upon a well-informed analysis. Simply stated, the plan wasn't going to work and the President said just that.

Trump's original plan, both pre- and post election, was to encourage private investment in infrastructure via a tax credit. More recently, a few more details appeared including pushing the burden of project development down to the states and providing (mandating?) tolling or other revenue generators so as to allow repayment of private investment. While this proposal filled in a few more blanks (tax credits, tolling, states), the basic idea–that a modest amount of public investment combined with modern infrastructure investment models would leverage a much larger amount of private capital to create new bridges, roads, rails and waterworks—is a myth that has been told for year before the 2016 election and by leaders of both major political parties.

In almost every State of the Union message President Obama promoted the concept of leveraging private investment to build infrastructure. Vice President Biden was a major proponent of the concept of an infrastructure bank, a tool that supports private investment in infrastructure.

The problem is not that private investment in infrastructure can't work. In fact it works quite well. Rather, the issue is not how the capital is raised but how it's repaid. So while choosing a financing mode for a bridge may be a more impactful decision that picking a paint color, it doesn't get the bridge built free of cost. The real question is the funding method, whether the money raised will be repaid with taxes or tolls, so by the general public or the using public. Once you have a viable funding plan, you can choose the most efficient financing mechanism.

And if you want to get some projects actually up and running soon, it make little sense to take on the entire government civil works and financial establishment which revolves around the issuance of state and local bonds and bid-based construction and procurement. While many quality projects have been undertaken in the United States using what is known as the "PPP" model, a term of art for a private investment based civil infrastructure procurement, these are outliers, so-called "pilot" projects. The vast majority of state and local government undertakings are done the old-fashioned way.

Indeed, the old-fashioned way enjoys a long-standing federal tax benefit in the tax-exemption of interest paid on municipal bonds, lowering the cost of funds. While Trump's tax credit for private investment may have reduced the comparative value of that benefit, it wouldn't have solved the problem of thousands of financial and procurement officers who would need to be completely retrained to be able to effectively manage an entirely different process and structure. Government is slow to change.

So while private investment and development was never a bad idea, it is an idea whose time has not yet fully arrived in the United States and, moreover, it is an idea which can provide efficiencies of project delivery and performance but will not obviate the need for major direct or indirect public investment.

So will there be a new massive infrastructure program? I doubt it. Congress will not spend the money, particularly after doing tax cuts which will certainly increase the deficit. But I am not alarmed. The most important decision about infrastructure is what to build, not how to pay for it, and while I am momentarily impressed by the White House decision making around the infra funding issue, I have no confidence that a White House that refuses to accept climate science will make the right infrastructure spending choices. Better to wait.

Joel Moser is Founder and CEO of Aquamarine Investment Partners, an Adjunct Professor at Columbia University (International and Public Affairs) and a member of the Council on Foreign Relations.

Forbes

by Joel Moser

Sep 27, 2017

S&P: U.S. Transportation Infrastructure Providers Weather Hurricanes With Ratings Largely Unaffected.

BOSTON (S&P Global Ratings) Oct. 2, 2017–S&P Global Ratings today said it has completed its initial review of U.S. public finance transportation infrastructure issuers affected by Hurricanes Harvey, Irma, and Maria.

Continue Reading

The Week in Public Finance: Trump's Tax Reform Proposal, the Foxconn Deal and More.

A roundup of money (and other) news governments can use.

GOVERNING.COM

BY LIZ FARMER | SEPTEMBER 29, 2017

What Are Cities Spending Big On? Increasingly, It's Debt.

Many have gotten themselves into a fiscal squeeze paying bills they ran up decades ago. View data for dozens of cities.

When citizens think about where local taxpayer money goes, they often assume it pays for things like public safety, snow removal and trash collection — routine operating expenses that come with running any big city. And that's mostly true. But what they rarely realize is that legacy costs also eat up large portions of the typical city's budget. Debt accumulated over many years, contributions to employee retirement systems and the expense of fixing long-neglected infrastructure all take a significant toll.

Merritt Research Services provided *Governing* with data on current debt service, pension costs and other post-employment benefit (OPEB) expenses for cities with populations exceeding 500,000. These three cost drivers collectively averaged nearly a quarter of total governmental fund expenditures in recent years. What's worrisome is that legacy costs are rising, taking up ever-larger shares of budgets. For the large cities reviewed, the three line items accounted for a median of 22.4 percent of fiscal 2016 governmental fund spending, up from 19.8 percent in fiscal 2011. In some big cities, the increase has been much greater. Consider Jacksonville, Fla. Debt, pensions and OPEB made up less than 20 percent of expenditures there in 2008. Since then they have climbed to about 32 percent in recent budgets.

Continue reading.

GOVERNING.COM

BY MIKE MACIAG | SEPTEMBER 2017

Hartford Bond Insurers Hire Long-Time Public Finance Turnaround Pro.

NEW YORK, Sept 28 (Reuters) – Bond insurers for the city of Hartford, Connecticut's cash-strapped capital city, have hired a financial advisor with decades of experience working with the state's most distressed municipalities.

Assured Guaranty Ltd and Build America Mutual Assurance Company (BAM), which together insure at least $414 million of the city's roughly $530 million of debt, hired Robert Lamb, who founded Lamont Financial Services Corp in 1987, Lamb confirmed to Reuters on Thursday.

In those cities, Lamb said he created a credit "that we could use to fund a deficit, and use that as a baseline for turning the city around."

Governor Dannel Malloy has proposed a fiscal oversight board for Hartford, where city officials have said they will seek approval for a bankruptcy filing if they do not get enough state aid.

But the state itself is mired in a budget impasse that could delay or slash monetary aid to municipalities. That threat grew on Thursday with Malloy's veto of a Republican-backed budget, putting the state closer to severe automatic spending cuts on Oct. 1.

Earlier this week, Assured Guaranty and BAM offered to help relieve Hartford's mounting annual debt service payments by refinancing existing bonds.

Currently, the city is to pay about $48 million in fiscal 2019, but the costs are on course to rise significantly in several following years.

The proposed refinancing could create breathing room for the city by leveling out debt payments to $40 million annually for the next 15 years under a new state law.

Such a "scoop and toss" refinancing would also extend the full term of the bonds from 20 years to 30 years.

By Hilary Russ

As Hartford Mulls Bankruptcy, Bond Insurer Offers to Help Postpone Payments.

Assured Guaranty says Connecticut's capital could delay payment on as much as $300 million in debt

Hartford's biggest bond insurer said it had offered to help the city postpone payments on as much as $300 million in outstanding debt, in a move designed to help prevent a bankruptcy filing for Connecticut's capital.

The insurer, Assured Guaranty, made the announcement before a Monday conference call between Hartford and its bondholders.

During the call Hartford Mayor Luke Bronin said postponement of the city's debt would be inadequate without other fixes such as more revenue from the state, according to a statement released by the city after the call.

"I appreciate Assured's willingness to have constructive discussions," the mayor said, according to the statement, but "this administration is not interested in pushing off this challenge for another mayor or another generation to fix."

Under Assured Guaranty's proposal, debt payments due in the next 15 years would instead be spread out over the next 30 years without bankruptcy or default. The city would issue new longer-dated bonds and use the proceeds to make the near-term debt payments.

Assured Guaranty and another insurer, Build America Mutual, would insure the new bonds, said an Assured Guaranty spokesman.

Assured Guaranty backs 57% of Hartford's roughly $550 million in outstanding general obligation debt and would be on the hook for any shortfall in payments should the city enter bankruptcy. Build America Mutual backs $103 million in Hartford debt. About $163 million in Hartford bonds are held by U.S. mutual funds.

Hartford is in the middle of a fiscal emergency because of a weak tax base and a budget deficit of nearly $50 million. It also has one of the lowest credit ratings in the nation. Making matters worse, Connecticut lawmakers have been unable to reach agreement on a state budget more than two months into the fiscal year, leaving Hartford short of state funding.

City officials have warned that the city would likely file for bankruptcy this fall unless the state provides more help. Mayor Luke Bronin has said the city cannot afford to make its bond payments on time and will need to restructure its debt even if Hartford does receive state assistance.

The offer from Assured Guaranty would provide Hartford with short-term budgetary relief but wouldn't reduce the city's total liabilities. In fact, it would add to them because delaying when the debt comes due would increase interest costs.

The city's debt payments are scheduled to jump from $6.6 million to $56 million in the next four years, according to city financial disclosures. Assured Guaranty's plan would lower those payments by pushing some of the debt out as far as 2047.

It is common for states to issue bonds as a way of refunding old debt, both to take advantage of low interest rates and to put off debt payments. But Hartford, which is rated deep in junk status and has hired restructuring advisers, would likely be unable to complete such a deal without insurance.

"Once you hire restructuring advisers, investors steer clear," said Matt Fabian, partner at Municipal Market Analytics, a municipal bond research firm.

Of cities rated by Moody's Investors Service , only Stockton, Calif., which emerged from bankruptcy protection two years ago, and Atlantic City, N.J., which narrowly avoided it, have lower ratings than Hartford.

Assured Guaranty's proposal takes advantage of state legislation passed in July that for the next five years allows cities to refinance debt with 30-year bonds instead of restricting them to 20-year bonds.

Hartford could receive more than $40 million in aid under one version of Connecticut's fiscal 2018 budget, which state lawmakers are still debating. But that alone wouldn't be enough to keep Hartford out of bankruptcy, the city said in a notice about Monday's conference call.

Assured Guaranty's proposal wouldn't help Hartford solve all its problems. A continued delay in the budget could strain the city's ability to make payment on a $20 million short-term loan due on Oct. 31.

The insurer's proposal could be "a part of the solution," said the Assured Guaranty spokesman. "It's not the solution in itself."

The Wall Street Journal

By Heather Gillers

Updated Sept. 25, 2017 3:17 p.m. ET

Write to Heather Gillers at heather.gillers@wsj.com

Bloomberg Brief Weekly Video - 09/21

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

Watch video

Bloomberg

When All Else Fails, Sue Wall Street.

There's a lot of blame to go around, but banks have deep pockets and a history of municipal-debt settlements.

Disagreements about money often have a clear solution: Everyone sues each other. That's the American way.

And so it goes for Puerto Rico, the fiscally crippled island that incurred $74 billion of debt over a period when its population and economy were shrinking. Investors have brought many suits against the commonwealth, which now appears to be setting the stage for its own lawsuit against big Wall Street banks.

After all, going after large banks has turned into standard operating procedure for big municipal insolvencies. Just think of Orange County, California, which worked out $800 million in settlements from Merrill Lynch & Co. and others after going bankrupt in the 1990s.

Continue reading.

Bloomberg BusinessWeek

By Lisa Abramowicz

September 20, 2017

MBTA Plans to Issue First Tax-Exempt Sustainability Bond.

The Massachusetts Bay Transportation Authority plans to issue tax-exempt sustainability bonds Tuesday as part of a $574 million competitive sale.

Officials from the MBTA, which operates mass transit in Greater Boston and whose board authorized the sale on Sept. 11, say it's the first sale in the U.S. for such a bond.

Proceeds of sustainability bonds exclusively fund projects with environmental and/or social benefits. The MBTA has adopted a framework to assure conformance with International Capital Market Association standards for determining project eligibility, tracking bond proceeds and reporting on project impact.

This framework also calls for tracking bond proceeds and reporting on project impact. The MBTA consulted academic leaders, impact investors and sustainability leaders at Fortune 500 companies.

The issuance "represents an exciting market precedent," June Matte, a managing director at financial advisor Public Financial Management, said on an investor call.

Moody's Investors Service and S&P Global Ratings rate the bonds Aa3 and AA, respectively.

According to MBTA treasurer Paul Brandley, the sale will include $233.6 million of subordinated sales tax bonds split into two subseries, which fund capital projects for fiscal 2018 and 2019 and replenish commercial paper capacity. Series A-1 of that component will feature $101 million of sustainable bonds and $132.5 million will be sold in the traditional A-2 offering.

Additionally, $281.7 million of subordinated sales tax bond anticipation notes, along with $82 million of commercial paper, will fund $382 million in interim financing for a $492 million positive train control project.

Positive train control is a GPS-based remote system designed to prevent train crashes. The MBTA faces a federally mandated interim deadline of Dec. 31, 2018, and final deadline two years thereafter, to install it.

In 2021, said Brandley, the MBTA expects to take out the BANs and commercial paper with loan proceeds from the federal Transportation Infrastructure Finance and Innovation Act and Railroad Rehabilitation & Improvement Financing programs.

"TIFIA and RRIF loan agreements should be finalized in the coming weeks," said Brandley.
Climate resilience projects include a $50 million undertaking in Boston's Charlestown neighborhood to protect a critical bus facility from worsening storms and to minimize runoff, and the continuing $99 million work on the 118-year-old Government Center station in front of City Hall, which in 2016 became accessible to disabled people.

In addition, the MBTA is modernizing its bus fleet, earmarking $332 million for fuel-efficient hybrid vehicles. Its first hybrids entered in 2010 on the "trackless trolley" Silver Line.

The MBTA, the country's fifth-largest mass transit system, has a $1.6 billion annual operating budget and a five-year capital investment plan of $7.4 billion. About 60% of its capital program funds state-of-good-repair projects such as signaling and tracks, with the balance split between expansion and modernization.

The authority carries about $5 billion in debt, with more than three-quarters of it through its sales-tax credit.

For the past two years the MBTA has operated under a fiscal oversight board that Gov. Charlie Baker and state lawmakers approved after a record 110 inches of snow hit Greater Boston in the winter of 2014-15. The storm paralyzed parts of the transit system and exposed operational flaws.

Former General Electric Co. (GE) executive Luis Ramirez took over last week as the MBTA's general manager, while Michael Abramo was promoted to chief administrator last July. In addition, the state control board was extended to 2020.

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo PC is bond counsel for the sale.

The Bond Buyer

By Paul Burton

09/20/17

National IDB Issuance Falls in 2016.

Read the Volume Cap Report.

CDFA | Sep. 21 | Bond Finance | CDFA Original Research

Total National PAB Issuance Returns to Pre-Recession Levels.

Read the Volume Cap Report.

CDFA | Sep. 21 | Bond Finance | CDFA Original Research

The Week in Public Finance: Latest Repeal and Replace Proposal Still Damaging for States, Pennsylvania's Downgrade and More.

A roundup of money (and other) news governments can use.

GOVERNING.COM

BY LIZ FARMER | SEPTEMBER 22, 2017

S&P: An Overview Of U.S. Federal Disaster Funding.

When disaster strikes, the cost of clean-up can be enormous, creating an unexpected expense for governments and individuals. In the U.S., there are several sources of federal aid grants to help with rebuilding, but for many, the process of accessing these funds is a mystery.

Continue Reading

Sep. 19, 2017

S&P: Cyberattacks Pose A Real, If Varying, Credit Risk Across U.S. Public Finance Sectors.

The recent cyberattack on the personal credit scoring company Equifax has exposed personally identifiable information of over 140 million people in the U.S. and more in Canada and the U.K. Although this breach might not be directly connected to U.S. public finance (USPF) organizations, the broad media coverage has further elevated the public's cyber risk literacy.

Continue Reading

Sep. 20, 2017

As Flood Risks Intensify, Stormwater Utilities Offer a More Resilient Solution.

The 2017 hurricane season is not yet complete, but Houston's damage from Hurricane Harvey and Florida's fallout from Hurricane Irma have already left a severe economic and environmental toll. Yet as disaster turns to recovery in each state, the storms serve as national reminders of resilience challenges facing the country's most flood-prone areas and the need to help them. Federal recovery efforts are not only receiving more scrutiny, but state and local strategies are also gaining more attention, including adaptive measures and investments in resilient infrastructure.

Flood risks are not just limited to severe storms, though. The ways in which planners, engineers, and other leaders manage and design cities every day plays a huge part too. Houston's urban sprawl over the past few decades, for instance, exposed its most vulnerable households to greater dangers. Meanwhile, aging infrastructure systems designed to handle excess flows of water–and even daily rainfall–failed to protect the environment or mitigate flood risks.

Continue reading.

The Brookings Institute

by Joseph Kane and Ranjitha Shivaram

Thursday, September 21, 2017

CDFA Announces Winners of 2017 Excellence in Development Finance Awards.

The CDFA Excellence in Development Finance Awards recognize outstanding development finance programs, agencies, leaders, projects, and success stories. These awards honor excellence in the use of financing tools for economic development, as well as the individuals who champion these efforts. These awards honor creative use of development finance tools such as bonds, TIF, tax credits, and access to capital. The awards also honor the cutting edge use of development finance tools to support innovation and development. These awards honor individuals and agencies alike to build a distinguished and recognized development finance industry.

CDFA Distinguished Development Finance State Agency Award
New Jersey Economic Development Authority

The CDFA Distinguished Development Finance Agency Award (State Agency) is presented to an outstanding state development finance agency. This year's honor is bestowed to New Jersey Economic Development Authority. As an independent and self-supporting state entity, the New Jersey Economic Development Authority works every day to broaden and expand the state's economic base. They have succeeded in creating public-private partnerships to provide access to capital in the New Jersey business community. In addition to supporting entrepreneurial development through training programs, they also provide access to funds for both small and mid-size businesses as well as non-profits for development. Particular projects that really emphasize the EDA's work include the Strand Theater in Lakewood and the Technology Centre of New Jersey in North Brunswick Township, to name a couple.

CDFA Distinguished Development Finance Local Agency Award
Redevelopment Authority of the City of Milwaukee

The CDFA Distinguished Development Finance Local Agency Award is presented to an outstanding local development finance agency. This year's honor is bestowed to the Redevelopment Authority of the City of Milwaukee. Since 1958, the Redevelopment Authority of the City of Milwaukee, an independent corporation in Wisconsin, has succeeded in being a leader in the field of economic development. Over the years they have issued over $500 million in bonds in an effort to eliminate blighting conditions that inhibit neighborhood reinvestment, promote business expansion and job creation, and facilitate new business and housing development. The Redevelopment Authority has participated directly in many projects and have promoted and attracted development in both stable and marginal markets and have created model solutions for complex challenges in real estate and environmental development. .

CDFA Excellence in Development Finance Program Award
Development Finance Authority of Summit County

The CDFA Excellence in Development Finance Program Award is presented to a development finance agency that has implemented an innovative new or particularly successful program. This year's honor is bestowed to Development Finance Authority of Summit County for their Akron Community Revitalization Loan Fund. The Akron Community Revitalization Loan Fund is a part of the Development Fund of the Western Reserve (DFWR) and is connected to the Development Finance Authority of Summit County. This program has succeeded in providing financing opportunities for business development projects within the distressed and urban areas of Akron, Ohio and was started when the DFWR dedicated $6.75 million to the program. With the high poverty and unemployment rates in the area, this program is helping to provide loans that are between $500,000 and $2 million. The loans have less strict credit requirements, interest rates ranging from 2.5% to 2.75% and more flexibility. From the time that the program began doing business in July, the program now has six projects that are being processed to receive loans.

CDFA Excellence in Development Finance Project Award
Allentown Neighborhood Improvement Zone Development Authority

The CDFA Excellence in Development Finance Project Award is presented to a development finance agency that has implemented a specific project that has used finance to be transformative. This year's honor is bestowed to Allentown Neighborhood Improvement Zone Development Authority for the City Center Allentown Project. In July of this year, the Allentown Neighborhood Improvement Zone Development Authority (ANIZDA) in Pennsylvania issued $210 million in tax revenue bonds to refinance a portion of the debt incurred by City Center Investment Corporation in developing the tremendously successful City Center Allentown project. City Center Investment Corporation had completed approximately $400 million in mixed-use real estate development in the Neighborhood Improvement Zone at that point. Completed and leased projects included 650,000 square feet of class A office space, nearly 100,000 square feet of retail and restaurant space, 237 market rate apartments, and a 170 room luxury hotel. Refinancing a portion of short-term bank loans with long term tax exempt bond financing issued through ANIZDA allowed the developer to continue building new projects within the Neighborhood Improvement Zone. Today, Allentown's resurgence continues as construction is underway on additional City Center Investment Corporation projects including a 142,000 square foot class A office tower, 140 market rate apartments, and co-working space in a vibrant, walkable downtown. The Neighborhood Improvement Zone is a special taxing district created by state law in 2011 that is overseen and managed by ANIZDA.

CDFA Excellence in Development Finance Innovation Award
Greater Cincinnati Redevelopment Authority

The CDFA Excellence in Development Finance Project Award is presented to a development finance agency that has implemented a specific project that has used finance to be transformative. This year's honor is bestowed to Greater Cincinnati Redevelopment Authority for their commercial development loan program. The Greater Cincinnati Redevelopment Authority is an economic development agency in Cincinnati, OH that has found success in initiating projects that promote job creation and improve property value. In 2017, the Kresge Foundation invested $5 million in the Greater Cincinnati Redevelopment Authority to assist in establishing a commercial development loan program that has since begun assisting neighborhood revitalization and transformation through mixed-use and mixed-income projects. This investment has facilitated Cincinnati's ability to make loans to development projects in targeted redevelopment areas. This has allowed the Greater Cincinnati Redevelopment Authority to help break down barriers for entrepreneurs who are setting up local operations. This first of its kind impact investment in a development finance agency will drive urban revitalization and serve disinvested communities, which serves as a model for future engagements between philanthropy and development finance agencies.

The **CDFA Excellence in Development Finance Awards** will be formally presented at the 2017 CDFA National Development Finance Summit, in Atlanta, GA on November 16. In addition to the awards above, CDFA will honor two individuals as recipients of the CDFA Lifetime Achievement Award for their leadership, service, and impact to the industry.

Don't miss your chance to register and get engaged at the **2017 CDFA National Development Finance Summit** in **Atlanta, Georgia**, **November 15-17, 2017**.

Register

Disaster Bonds Proposed for Relief from Hurricanes Irma, Harvey.

WASHINGTON — In the wake of extensive damage caused by Hurricanes Harvey and Irma, the Council of Development Finance Agencies wants Congress to create a new permanent category of federally tax-exempt bonds for disaster rebuilding.

The group is proposing that up to $20 billion in this special category of so-called disaster recovery bonds be made available for annual issuance for future disaster relief. The bonds should not be subject to state volume caps, it said.

"We're sort of in the beginning of coalition building,'' said Tim Fisher, legislative and federal affairs officer for CDFA. He's reached out to the Municipal Bonds for America coalition as well as other state and local groups.

Fisher said his group does not want to slow up any special assistance that Congress might enact for rebuilding in Texas, Florida, Puerto Rico, and the U.S. Virgin Islands.
Instead, the proposal could be addressed as a part of tax reform.

"I don't know where we stand on tax reform in terms of tax-exempt bonds, but this might be something that the administration, with its big infrastructure push, might be intrigued by,'' Fisher said. "Forward thinking or proactive Republican members might be interested in pushing something like this during tax reform.''

The proposal calls for replicating several temporary programs Congress has created in the wake of other recent natural disasters and the terrorist attack of Sept. 11, 2001.

Following the destruction of the World Trade Center by terrorists, Congress also authorized the issuance of $8 billion in tax-exempt Liberty Bonds for use in Manhattan.

And after Hurricane Katrina flooded and devastated New Orleans and other parts of the Gulf Coast in 2005, Congress enacted the Gulf Zone Opportunity Act of 2005. That legislation authorized $14.9 billion in tax-exempt private activity bonds for Louisiana, Alabama and Mississippi. It also provided an additional $7.9 billion in advance refunding bonds.

In addition, Congress has authorized Hurricane Ike Bonds and Midwestern Disaster Area Bonds for disaster rebuilding in recent years.

"Both the Gulf Opportunity Zone Act of 2005 and the Heartland Disaster Tax Relief Act of 2008 allowed affected states to issue tax-exempt bonds to finance qualified activities involving residential rental projects, nonresidential real property, and public utility property located in the disaster area and below market rate mortgages for low- and moderate-income home buyers,'' the nonpartisan Congressional Research Service said in a report.

"There was not, however, a comparable package of tax benefits provided following tropical storm Irene in 2011 or Hurricane Sandy in 2012,'' CRS said. "Some general disaster provisions were available for all disasters declared in 2008 and 2009."

Congressional lawmakers from the Northeast are continuing in their effort to create disaster recovery bonds for rebuilding in the wake of Superstorm Sandy in 2012.

A bill introduced earlier this month by two members of the House Ways and Means Committee proposes $10 billion in qualified disaster recovery bonds for disasters between 2012 and 2015.

"Last Congress we had 41 bipartisan cosponsors in the House and 12 members on in the Senate, Timothy Carroll, a spokesman for Rep. Bill Pascrell, D-N.J., said in an email.

Pascrell is an original cosponsor of the bill, the National Disaster Tax Relief Act of 2017 (H.R. 3679) with Rep. Tom Reed, R-N.Y.

In an issue brief released earlier this month, CRS said, "The National Disaster Tax Relief Act (H.R. 3679) proposes a number of temporary tax relief measures for disasters that occurred in 2012, 2013, 2014, or 2015. The bill also proposes additional permanent disaster relief provisions that could be triggered with a federal disaster declaration.''

The Bond Buyer

By Brian Tumulty

09/20/17

NABL: Disaster Recovery Bonds Proposed.

he Council of Development Finance Agencies (CDFA) has recommended that Congress create a permanent category of tax-exempt private activity bonds, to be known as Disaster Recovery Bonds, which would support state and local government recovery efforts. The bonds would be similar to Gulf Opportunity Zone Bonds, Midwest Disaster Area Bonds, and Liberty Bonds.

In addition, earlier this month, Representatives Tom Reed (R-NY) and Bill Pascrell (D-NJ) introduced the National Disaster Tax Relief Act of 2017 (H.R. 3679), which would provide tax relief, including bond provisions, for major disasters between 2012 and 2015 and would also provide additional permanent disaster relief provisions, again including bond provisions, that would be triggered by a federal disaster declaration.

The CDFA press release is available here.

H.R. 3679 is available here.

TIFIA and P3 - Infra Without Undue Fiscal Leverage

Kroll Bond Rating Agency (KBRA) has released a macro-market research report titled, "TIFIA and P3 – Infra Without Undue Fiscal Leverage." The key points made in the report are:

- In the wake of Hurricanes Harvey and Irma, the vulnerability of critical infrastructure assets is once again the focus of policymakers across the U.S. and beyond.
- Slow growth in resources available to support necessary infrastructure has resulted in a significant underinvestment in critical infrastructure.
- TIFIA, or Transportation Infrastructure Finance and Innovation Act, is a Federal credit program that has been particularly successful in helping leverage existing resources and accelerating the delivery of infrastructure projects.
- KBRA has been increasingly active in these public and project finance transactions. Infrastructure challenges concern KBRA's sovereign group, given the importance to macro and fiscal policy developments.

Please click on the link below to access the report:

TIFIA and P3 – Infra Without Undue Fiscal Leverage

If you have any difficulties accessing the report, please contact info@kbra.com or visit www.kbra.com.

EPA Approves Expedited Loan Funding for Harvey-Related Water Projects.

AUSTIN – The Environmental Protection Agency this week approved a request from Texas officials to expedite funding to help local governments restore water and wastewater systems damaged by Hurricane Harvey.

The Texas Water Development Board, which administers an EPA low-interest loan program for the state, asked the federal agency in a Sept. 1 letter for the flexibility to quicken loan distribution procedures. In the letter, the board said loan money could serve as a bridge to meet immediate recovery needs for damaged water systems while local governments wait for other federal aid.

"We're trying to be another party getting funds to communities when they need them," said Jessica Zuba, the deputy executive administrator of water supply and infrastructure at the TWDB. "In the past, there's been a feeling that federal funding can take quite a bit of time lag. We wanted to … use our capacity and funds and bridge some of that time."

Zuba said the board is reaching out to several cities where Harvey's flooding impacted water infrastructure — such as Pearland, south of Houston, and Rose City, outside Beaumont — to talk about recovery funding needs.

Harvey's flooding had a sweeping impact on water systems across Texas. At least five public drinking systems throughout the state were destroyed by flooding, and 14 systems remain inoperable, according to the Texas Commission on Environmental Quality. At least 31 waste water facilities are inoperable.

The Texas Water Development Board has about half a billion dollars in loan capacity through the Clean Water State Revolving Fund. This fund has historically provided low-interest loans to cities, districts and other water authorities to finance wastewater infrastructure. But its scope was expanded last year to include more stormwater projects, potentially meaning a large portion of it could be distributed for post-Harvey infrastructure proposals.

"There's a need right now for the interim financing to get communities back online and back serving their customers, and there's also: 'How do we prepare for the next disaster?'" Zuba said.

The fund's large loan capacity could be used for long-term stormwater resiliency projects, Zuba said. This could appeal to cities looking to finance the initial phases of large-scale infrastructure projects and then later rely on federal funding from agencies such as FEMA to continue construction.

Since last August, the TWDB has approved three non-Harvey-related stormwater projects, totaling about $35.5 million. The city of Houston has a $47 million loan application pending to finance stormwater control infrastructure including extensions for flood reduction along Brays Bayou. The city filed this application before Hurricane Harvey hit, and the board expects to review it in October. The TWDB anticipates more applications from Harris County, which includes Houston, as the country's storm recovery plans solidify.

The TWDB has sought assurance from the EPA that its loan financing would not make water projects ineligible for future federal grants as rebuilding from Harvey continues.

Gov. Greg Abbott also got behind the board's request to get infrastructure funding to communities as quickly as possible. He sent his own letter to EPA chief Scott Pruitt, asking for streamlined loan options.

Zuba said it is hard to speculate how many loans applications the TWDB might receive but that volume is expected to increase and cooperation with the federal government is making the process easier.

"The flexibility that the EPA is willing to work with us is a great achievement," she said.

The Texas Tribune

by Katie Riordan

September 15, 2017

Expanding Community Development Financial Institutions.

Abstract

Community development financial institutions (CDFIs) provide capital to strengthen communities that are experiencing economic distress or are underserved by mainstream lenders. We find that CDFIs lent more than $34.3 billion between 2011 and 2015, roughly $6.8 billion a year. Sixty-four percent of CDFI lending went to census tracts with one or more indicators of being underserved or distressed. But CDFI activity was not distributed equally across the country, even among economically comparable places. To expand its reach into underserved communities where it has yet to establish a strong presence, the CDFI industry needs further supports.

Download PDF

The Urban Institute

by Brett Theodos & Eric Hangen

September 19, 2017

Recent Hurricanes Strain U.S. Towns' Aging Sewer Systems.

Harvey and Irma caused untreated sewage to be released into streets, rivers and homes of affected towns and counties

In the days after Hurricane Irma slammed Brunswick, Ga, most businesses and restaurants were shut down. The problem wasn't just flooding or hurricane damage, it was also untreated sewage mixing with floodwater, seeping out of manholes and overwhelming an aging system of pipes and pumps.

Residents were asked not to take showers, wash dishes or flush toilets for four days, and schools were closed for more than a week. Crews, facing extensive power outages, worked to bring the sewage system back online in order to restore service.

Downtown sandwich shop Wrap Happy had no damage or flooding, but lost days of business because the water and sewer restrictions made it difficult for evacuees to return home and kept life from getting back to normal.

"It shut down our customer base," said Taneka Beasley, whose family owns Wrap Happy. "We took a really big hit financially."

The Brunswick-Glynn Joint Water & Sewer Commission, which serves about 30,000 residential and commercial sewer customers and treats about 8 million gallons of wastewater a day, said on its website that the area saw widespread sewer overflows but the wastewater "contained very dilute and minimal human waste."

Hurricanes Harvey and Irma killed dozens of people, destroyed thousands of homes, and caused flooding that has lasted weeks in some cases. They also exposed the failings of aging sewer systems that were unable to cope with the heavy rainfall and flooding. As a result, many released untreated sewage into streets, rivers and homes of affected towns and counties.

Local governments in Florida have filed more than 250 notices of pollution with state regulators in the days since Irma made landfall in southwest Florida. In Texas, two wastewater treatment facilities in Harris County were destroyed by Harvey, and eight others remain nonoperational in five counties including Harris three weeks after the record-setting rainfall.

It is impossible to design sewage treatment facilities that can handle every storm, experts said, and recent hurricanes have delivered unprecedented rainfall and flooding in some areas.

But the recent storms magnified a problem that occurs regularly across the country albeit on a smaller scale: sewage spills from overburdened and underfunded wastewater treatment systems.

“We’re still in a place where there’s not enough funding to really take care of this underground infrastructure,” said Rebecca Shelton, an Atlanta-based member of the American Society of Civil Engineers specializing in wastewater treatment.

Sewage spills can contaminate drinking water, kill fish and close beaches to swimmers. The Environmental Protection Agency, which regulates water quality under the federal Clean Water Act of 1972, said that while sewage spills have significantly decreased over the last 40 years, 23,000 to 75,000 sewer overflows still occur in the U.S. every year.

The EPA works with states to provide low-cost loans to municipal treatment plants for capital and environmental projects, and last year awarded $7.6 billion in funding. But the brunt of operation and infrastructure costs for the nation’s sewer systems are paid by customers.

Most American wastewater treatment facilities are operated by local governments as public utilities that charge rates based on usage, said Matt Fabian, partner at the research firm Municipal Market Analytics. Costs have increased in recent years as sewage systems grapple with meeting new federal environmental regulations and more consistent or extreme weather events as well as regular maintenance costs, he said.

Municipal bond sales for water and sewer projects have increased sharply in recent years, topping $37 billion last year compared with $22 billion in 2013, Mr. Fabian said.

“I wouldn’t say that governments are ignoring the water and sewer problem,” he said. “It is a major issue if you ask any mayor. But there’s so many competing priorities.”

Residential sewer bills, which consistently outpace water costs, soared from about $22 a month in 2004 to more than $42 in 2016, according to surveys by the American Water Works Association, a nonprofit organization of water supply professionals.

“One of the real pressures that governments are facing is that water and sewer rates are not progressive. They’re the same regardless of what your income is,” Mr. Fabian said.

In Georgia’s southeastern Glynn County, residents complained of untreated sewage seeping out of manholes and mixing with floodwater. Evacuee Elle Hammarlund Woodcock stayed several days longer than she planned at her daughter’s house in Enterprise, Ala., to avoid coming in contact with untreated sewage. The ground level of her home flooded and she said she was worried about what the waters may have contained. “I’m wiping everything down,” she said, “with bleach.”

Some components of the Glynn County sewer system date back to the 1940s, such as clay sewer pipes that are more vulnerable to leaks that let in groundwater and overwhelm treatment plants, said Todd Kline, director of engineering for the Joint Water & Sewer Commission.

Irma brought rainfalls of up to 10 inches of rain to parts of Georgia. Brunswick received 6 inches of rain, according to the National Oceanic and Atmospheric Administration, and average rainfall in Glynn County was more than 9.4 inches, according to National Weather Service estimates.

“Every drop of water that gets into the pipes—be it groundwater or storm water—you’re pumping that and you’re treating that unnecessarily,” Mr. Kline said. “Every drop of water takes up capacity.”

Extensive power outages are also a contributing factor to sewage overflows during storms, because pumping stations lose power and are unable to transport wastewater to the treatment plant.

Glynn County Commission Chairman Bill Brunson said sewer infrastructure faltered for a combination of reasons. Heavy rainfall from Irma as well as earlier storms strained a system already overburdened by fast and dense residential development, And maintenance of the system had been neglected for decades, Mr. Brunson said.

“Politicians don’t typically spend money on infrastructure,” he said. “It’s just easy to ignore.”

THE WALL STREET JOURNAL

By Kate King and Valerie Bauerlein

Sept. 20, 2017 5:30 a.m. ET

Write to Kate King at Kate.King@wsj.com and Valerie Bauerlein at valerie.bauerlein@wsj.com

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States Need $645 Billion to Pay Full Health-Care Costs.

New accounting guidelines urge local governments to put their full health costs on their balance sheets

When Aurora, Ill., closed its books last December, about $150 million disappeared from the city’s bottom line.

The Chicago suburb of 200,000 people hadn’t become poorer. Instead, for the first time it recorded on its balance sheet the full cost of health care promised to public employees once they retire.

States and cities around the country will soon book similar losses because of new, widely followed accounting guidelines that apply to most governments starting in fiscal 2018—a shift that could potentially lead to cuts to retiree heath benefits.

The new Governmental Accounting Standards Board principles urge officials to record all health-care liabilities on their balance sheets instead of pushing a portion of the debt to footnotes.

The adjustments will show that U.S. states as a group have promised hundreds of billions more in retiree health benefits than they have saved up. The shortfall amounts to at least $645 billion, according to a new report from the nonprofit Pew Charitable Trusts based on 2015 data. That is in addition to the $1.1 trillion that states need to pay for promised pension benefits, according to Pew.

The new level of transparency around retiree health expenses for public workers could lower municipal-bond prices and force new decisions to reduce or scrap retiree health benefits as a way of coping with ballooning future costs, some analysts and researchers said. “I think the market has understated the concern," said Richard Ciccarone, president and chief executive of Merritt Research Services LLC, a research firm that tracks municipal bonds.

Rising retiree health-care costs are compounding government pressures when many state and local officials are struggling to manage their ballooning pension liabilities and balance their budgets. Waves of baby boomers are already wrapping up their working lives, and expenses are expected to rise in coming years.

"By not dealing with it, we could be setting ourselves up for a very unwelcome surprise," said New York State Comptroller Thomas DiNapoli.

The change will lower bottom lines by tens of billions for some state governments. In New York, the state's health-care liabilities as reported on its balance sheet will jump to $72 billion once the new accounting rules are in place, up from $17 billion. That new total would be 10 times the state's pension liabilities, Mr. DiNapoli's office said.

Mr. DiNapoli said New York has been upfront with bond-rating firms about its retiree health liabilities, but he hopes the new numbers will provide a wake-up call for policy makers. For the last decade, he has helped draft legislation annually that would establish a fund to set money aside for retiree health costs, but he said those bills have stalled.

"If you can put money towards a school or a senior center today, that has a lot more appeal," Mr. DiNapoli said.

Most states have almost no money saved up for future retiree health-care costs and treat the benefits as an operating expense. States had just $48 billion in assets set aside as of 2015, compared with $693 billion in liabilities, according to Pew.

One state that has been setting aside more is Michigan, where retiree health-care liabilities have dropped by roughly $20 billion since 2012 partly because of added state payments. The state also stopped offering retiree health care to new employees, instead contributing an additional 2% of salary to their defined-contribution plans to limit the state's exposure to rising health costs.

"It's transferring the risk for those inflationary items from the state to the employees," said Kerrie Vanden Bosch, director of Michigan's Office of Retirement Services.

Even so, states' retiree health obligations are still much smaller than future pension promises, which are already reported this way. Even if states were to start setting aside money for future costs, annual state spending on retiree health care would still be just 3.4% of expenditures, compared with 1.4% today, according to a study by the National Association of State Retirement Administrators and the Center for State and Local Government Excellence.

States that want to bring their liabilities down will likely face fewer legal hurdles to benefit cuts than they have with public pensions, which enjoy ironclad legal protections in many states. Courts have often upheld employers' rights to increase health-care costs and reduce coverage unless the benefits are laid out in explicit detail in a collective-bargaining agreement or protected by a state constitution, said University of Minnesota Law School Professor Amy Monahan.

"It's going to be really hard to prevent those changes," Ms. Monahan said.

Among more than 80 state and local governments surveyed last year by Segal Consulting, 57% said they were somewhat or very likely to reduce benefits in response to the new accounting standards. The guidelines aren't mandatory, though they are widely followed and ignoring them can complicate audits.

The American Federation of State, County and Municipal Employees, which represents public-sector workers, opposed the new Governmental Accounting Standards Board guidelines. It said in a comment letter that “implementing new standards during a fragile recovery may lead to hasty and unwarranted decisions about retiree health benefits.”

“If you’re going to tell people that you’re going to give the best years of your life as a firefighter or cop, you have to figure out a way to bridge those people to Medicare,” said Steven Kreisberg, director of research and collective bargaining for the union. “These are manageable expenses, if you want to manage them.”

THE WALL STREET JOURNAL

By Heather Gillers

Sept. 20, 2017 5:30 a.m. ET

Write to Heather Gillers at heather.gillers@wsj.com

U.S. Muni Bond Market Edges Up to $3.837 trln in Q2 - Fed

NEW YORK, Sept 21 (Reuters) – The U.S. municipal bond market edged up to $3.837 trillion in the second quarter of 2017 after shrinking slightly during the previous quarter, according to a quarterly report from the Federal Reserve released on Thursday.

U.S. banks’ muni bond buying continued to dwindle. Financial institutions added just $10.2 billion in the second quarter, compared to $27.3 billion in the first quarter and $52.9 billion in the fourth quarter of 2016.

Foreign holdings of munis rose to $98.6 billion, an all-time high, after having fallen the previous quarter for the first time in five years.

Households, or retail investors, held $1.627 billion, down slightly from $1.646 billion in the previous quarter, the data showed.

Property and casualty insurance companies added $5.8 billion of munis in the second quarter after having shed $8.4 billion in the first quarter. Life insurance companies picked up $4.2 billion of the bonds.

U.S. mutual funds bought $48.5 billion of munis while exchange traded funds added $5.8 billion.

(Reporting by Hilary Russ; Editing by Chizu Nomiyama)

CUSIP Request Volume Suggest Growth in New Corporate and Muni Bond Issuance.

NEW YORK, Sept. 13, 2017 /PRNewswire/ — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for August 2017. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity, found increases in the pre-trade market for municipal and corporate bond issues in August. This increased demand for new CUSIP IDs for corporate and municipal bonds is suggestive of a possible increase in new security issuance volume over the coming weeks.

CUSIP identifier requests for the broad category of U.S. and Canadian corporate offerings, which includes both equity and debt, totaled 4,197 in August, down 2% from July, driven primarily by declines in requests for new corporate equity identifiers. By contrast, requests for corporate debt identifiers increased 43% during the month of August, logging the second-highest monthly count for new corporate debt CUSIP requests so far in 2017. So far this year, demand for new CUSIPs for both corporate debt and equity offerings are up 25% over the same period in 2016.

Municipal CUSIP requests surged in August. A total of 1,141 municipal bond identifier requests were made during the month, an increase of 38% from July. On a year-over-year basis, municipal request volume was down 24% through the end of August 2017, reflecting ongoing volatility in municipal issuance volumes over the course of this year.

"CUSIP request volume for the month of August has stayed true to form with what we've seen over the course of this year as issuers of new securities ratchet-up their volume one month, slow-down a bit the next month, and repeat ," said Gerard Faulkner, Director of Operations for CUSIP Global Services. "As a whole, volumes are strong this year, but the path we've taken to get here has been volatile."

International debt and equity CUSIP International Numbers (CINS) volume both declined in August. International equity CINS decreased 2% and international debt CINS decreased 3% during the month. On a year-over-year basis, international equity requests were down 11% and international debt requests were up 62%, reflecting continued volatility in international markets.

"Market participants are clearly watching interest rates and the broader geopolitical situation to choose their spots to issue new securities optimally," said Richard Peterson, Senior Director, S&P Global Market Intelligence. "Though the vast majority of asset classes are showing growth in new request volume versus last year, we're not seeing the same unbridled enthusiasm that was a hallmark of new issuance volume in 2016."

To view a copy of the full CUSIP Issuance Trends report, please click here.

New Mexico's Effort to Hedge Against Higher Rates Backfires.

As borrowing costs have fallen, public agencies from school districts to county and state governments have saved millions of dollars by refinancing debt that carries higher interest rates.

For the state of New Mexico, that has meant savings of more than $300 million for the Department of Transportation alone, which has refinanced or closed out a dozen lines of credit and outstanding bonds since 2010.

But lower interest rates have not been good news in every case for the Department of Transportation. Taxpayers also have lost millions of dollars by not being able to restructure some debt approved in 2004 under then-Gov. Bill Richardson to pay for highways, bridges and the New Mexico Rail Runner Express.

Despite interest costs being half of what they were a decade ago, refinancing some $400 million in outstanding bonds at substantially lower rates would involve paying a a huge penalty — $80 million to $100 million — because of a complicated hedging strategy between the state and Wall Street banks.

Of the $1.58 billion authorized under Richardson's programs, which included the train, $440 million were part of these interest-rate swap agreements. The average fixed-rate bonds at the time were paying 4.3 percent, but the state decided to sell bonds with a floating interest rate that could have cost more if rates rose. To protect against that risk, the bonds were swapped and taxpayers ended up paying between 3 percent and 5.072 percent on the amount borrowed.

Now the state pays 2.4 percent to borrow money. At times last year that cost was under 2 percent, a rate the Department of Transportation said it would have jumped at had it been able to refinance.

So, while the swaps protected taxpayers against rate increases, the deals backfired because they made it impossible to refinance the debt or obtain a lower floating rate.

"These swaps were intended to protect the state against higher interest rates, but they actually hurt the state because interest rates went down," said Marc Joffe, a policy analyst with the Reason Foundation and a former director at Moody's Analytics.

Any termination costs on bonds that have swap agreements would be paid to Goldman Sachs, Deutsche Bank, JP Morgan Chase, and UBS AG, according to state financial records.

"If they get out of the swaps today, they would have to pay $87 million," said Michael Zavelle, chief financial strategist for the New Mexico Finance Authority. "And you'd have to refinance $420 million, plus the termination cost."

Zavelle said the bond deal that included swaps shifted the risk for the borrowing from the lender to taxpayers, and it came at a time when those in public financing were doing more deals with these sorts of hedges.

Interest-rate swaps or hedges are not part of state debt packages today, though they are still prominent in the portfolio of The University of New Mexico.

"Our philosophy is, if the only way you can do that project is by taking on extra risk, that's probably something you shouldn't be doing," Zavelle said.

Those in state government now see the issue the same way.

"If we were to issue more debt today, we wouldn't do it that way," said Marcos Trujillo, the bond-financing director with the Department of Transportation.

Tom Church, Cabinet secretary of the department, said Gov. Susana Martinez's administration inherited the swaps from a time when concerns about rising rates made them more common. The other advantage is the swaps brought more predictability to costs and allowed more borrowing up front.

"At the time this was a tool being used around the country," Church said. They provided "a comfort level that you'd never had to pay a lot more in interest."

Zavelle and others tried to calculate what it would cost to refinance the bonds and determined the termination costs would be higher than any interest rate savings, even though borrowing costs are significantly lower.

Church said interest rates have to rise more than 3 percentage points from today's level for refinancing to make sense with the high termination fees.

Most of the initial transportation bonds had an initial interest rate below 4 percent but could have been adjusted. With the swap agreement, the rate the state pays today is more than 5 percent.

Termination costs exist because the banks and lenders that receive interest from the state road fund promise regular money to their investors, often retirees or insurance companies. When rates are low, those banks would not be able to find another borrower to pay them the same amount, upward of 5 percent under the agreement with New Mexico, or they would have to make up the difference.

So the termination fees are built into the swap contract to cover the promised payments until the bonds mature.

At the end of 2016, the interest rate swaps were $119 million underwater, meaning that would have been the loss that would result from terminating the agreements, according to state financial reports.

If interest rates go up, then the termination fees actually go down because it becomes easier for lenders to replace the revenue. At some point when the bulk of interest is paid on the bonds, there will be no termination cost. That is expected to happen in 2024.

"Every year that goes by, the termination value goes down, so there is a benefit in waiting to redo the swaps," Zavelle said.

Joffe said many entities, including the Chicago Public Schools, counties in California and parishes in Louisiana were burned badly by swap deals.

"When it comes to municipal finance, simple is better than complicated. It turns out these things often backfire, and that's what happened here," Joffe said after looking at documents about New Mexico at The New Mexican's request.

Zavelle added: "If they had financed at a fixed rate and paid a bit more, they would have refinanced. Probably overall, they would have been better off with a fixed rate and it would have eliminated all the risks.."

By Bruce Krasnow | The New Mexican

Sep 11, 2017

Fitch: U.S. Toll Road Performance to Remain Strong.

Fitch Ratings-New York-11 September 2017: The ride will remain largely smooth for U.S. toll road performance in the coming months, according to Fitch Ratings in its latest U.S. Toll Roads Peer Review.

Fitch has observed positive operating performance across the sector since the last Peer Review. Favorable growth has led to ratings upgrades on three toll roads (E-470 Public Highway Authority, Rickenbacker Causeway and San Joaquin Hills Transportation Corridor Agency) and Positive Outlook on one other roadway (Central Texas Turnpike System) against zero negative rating actions. The Rating Outlook for Fitch's toll road universe is largely Stable. However, continued positive operating performance could result in Fitch raising the Rating Outlook on several other toll roads to Positive.

Several new toll road projects reached substantial completion this year and show encouraging early signs of ramp-up. 'Major construction works were completed by and large on or ahead of schedule for the vast majority of greenfield toll roads projects throughout the country,' said Director Tanya Langman.

Hurricane Harvey has resulted in Houston area toll roads like Harris County Toll Road, Fort Bend County Toll Road and Grand Parkway either temporarily waiving tolls or closing the roadways outright. 'The extensive flooding brought on by Hurricane Harvey will inevitably result in toll revenue losses and delay construction and passage on Houston-area toll roads for some time, though each roadway has ample financial cushion to absorb a short term interruption in operations,' said Langman. It is important to note, however, that the magnitude of financial impact from demand dislocation and the extent of structural damage may prove to be more extensive than historically seen with toll roads exposed to hurricane damage. Fitch will continue to monitor the aftermath of Hurricane Harvey and will incorporate its findings into its ratings as applicable.

Fitch's toll road universe has also expanded since its last Peer Review with the addition of three new toll roads; Delaware River Joint Toll Bridge Commission, Colorado's C-470 Express Lanes and Riverside County Transportation Commission's I-15 Express Lanes in California. Fitch's peer report provides a snapshot of Fitch's key rating factor assessments as well as selected operating and financial metrics for both large and small network facilities.

Fitch's latest 'Peer Review of U.S. Toll Roads' is available at 'www.fitchratings.com' or by clicking on the above link.

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Additional information is available on www.fitchratings.com

[Bloomberg Brief Weekly Video - 09/14]

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

Watch video.

Bloomberg

September 14, 2017

U.S. Cities Report Least Optimism About Finances Since 2012.

- Survey finds those seeing improvement falls to five-year low
- Results 'point to the potential start of a contraction'

The financial gains for U.S. cities are showing signs of slowing, with the number reporting improvement dropping to a five-year low as revenue growth slows and they face pressure to spend more on infrastructure, according to a National League of Cities' annual survey.

City general-fund revenues are projected to increase by just 0.9 percent this year, compared with 2.6 percent in 2016, as property-tax growth slows and sales and income-tax collections drop, the report said. The share of cities reporting that they're more able to meet their financial obligations than they were a year ago slipped to 69 percent, the least since 2012, when many were still contending with some of the fiscal aftermath of the housing crash and recession.

"This year's results point to the potential start of a contraction in the municipal sector after optimism about growth hit a peak in 2015," according to the report, which is based on results from 261 cities.

The biggest drags on municipal finances stem from the need to rehabilitate aging infrastructure and the cost of employee wages and benefits: Ninety-two percent of officials reported that the cost of infrastructure increased and 93 percent said wages rose.

The projected pullback from the fiscal gains of recent years may not be as significant as suggested by the survey, given that officials frequently take a conservative approach to forecasting by underestimating revenue growth and overestimating projected spending. Over the past two years, municipal revenue increases have outpaced spending growth, giving governments an opportunity to shore up their reserves, the report said.

Growth in property-tax collections, typically the biggest source of municipal revenue, is anticipated to slow to 1.6 percent in 2017 from 4.3 percent the prior year. Meanwhile, the continued growth of Internet commerce is weighing on sales-tax revenue.

Loathe to raise property taxes or restrained by law from doing so, the most common action taken to boost city revenue is to increase fees. Two in five finance officials said their city raised fee levels, while one in four reported increasing the number of fees that are applied to services.

"Cities are stuck between a rock (property tax caps) and a hard place (limited online sales tax authority) often resulting in the increase of fees for services," the report said.

Bloomberg

By Martin Z Braun

September 12, 2017, 2:00 AM PDT

The Week in Public Finance: Troubling Economic Update, Major Online Tax Ruling and More.

A roundup of money (and other) news governments can use.

GOVERNING.COM

BY LIZ FARMER | SEPTEMBER 15, 2017

Commentary: Move America will Leverage Private Investment in Infrastructure, Complement Strong Public Funding.

The poor state of America's infrastructure has been widely discussed and well-documented. The American Society of Civil Engineers has awarded our nation a cumulative grade of D+ in its 2017 Infrastructure Report Card and estimates that the United States is facing a $2 trillion infrastructure funding gap over the next ten years. This is a serious public safety concern. Moreover, it has severe implications for our economy and our ability to compete in the global market.

To tackle this challenge, it is vital that Congress support and provide strong public funding. That starts by ensuring the solvency of our infrastructure trust funds. But, this is a crisis that will require all hands on deck – we must also empower states and local governments to leverage private investment in public infrastructure. Expanding the tools available to states will give local leaders the ability to address their infrastructure needs in whichever way best meets the needs of their community. We recently introduced the Move America Act of 2017, which will do just this.

The Move America Act would unlock billions of dollars of investment for state and local governments to help grow and repair America's aging infrastructure. The bill expands tax-exempt private activity bonds and creates a new infrastructure tax credit, helping finance infrastructure projects through private-public partnerships. This would help stretch taxpayer dollars by lowering overall costs while also giving state and local governments flexibility to construct the infrastructure they most need, such as roads, bridges, transit, ports, rail, airports, water and sewer facilities and broadband.

Right now, arbitrary tax barriers prevent many cities from even contemplating public-private partnerships. Move America eliminates these barriers, opening the door for cities and states to pursue innovative arrangements to get the most value out of scarce funding dollars. The bill achieves this through an expansion of tax-exempt financing for public infrastructure projects, regardless of whether it is financed solely by the government or through a public-private partnership. Each state receives an annual allocation of these Move America Bonds, based on population, and can hold on to any unused bond authority for up to five years. The bonds' interest income is exempt from the alternative minimum tax, providing full parity with other forms of state debt.

For states looking for innovative ways to leverage more private equity, Move America Bonds can be traded in at a 25 percent rate for Move America Credits to attract equity investors. Modeled on the bipartisan Low Income Housing Tax Credit, Move America Credits can lower capital costs, reducing or eliminating the need for additional revenue streams like user charges or tolls. Alternatively, states can elect to use Move America Credits to capitalize state infrastructure banks, infrastructure revolving funds or similar entities, pooling capital to use for low-interest loans or grants to projects.

These tools are available for use regardless of who owns the project, making financing, management and leasing arrangements simpler and more cost-effective. An upfront injection of private capital can speed up construction start times and allow governments to more quickly work through the backlog of infrastructure projects. Risk-transfer to private parties can bring increased efficiency to the design, construction and maintenance process, lowering overall project costs.

Momentum continues to build within Congress to address this critical need in a bipartisan way. While there is no doubt that we face many hurdles in this effort, the Move America Act is a strong example of the common ground we should seek. Our measure will be paid for and leverages $8 billion in federal investment into $226 billion worth of bond authority over the next 10 years or up to $56 billion over 10 years in tax credits, according to the Joint Committee on Taxation.

Infrastructure investment creates jobs and grows the economy. Move America would provide a cost-effective complement to increased public funding. We are working to ensure the Move America Act is part of any infrastructure package advanced by Congress.

The Bond Buyer

By John Hoeven & Ron Wyden

September 11 2017, 11:29am EDT

An Overview Of S&P Global Ratings' Proposed Methodology For Special Assessment Debt.

On Sept. 14, 2017, S&P Global Ratings published a request for comment (RFC) on its proposed methodology for rating special assessment debt.

Continue reading.

S&P Request for Comment: Special Assessment Debt.

The proposed criteria would apply to U.S. ratings on debt issued by municipal governments, state governments, or other U.S. public finance obligors secured by special assessments or special, non-ad valorem taxes levied on property or land (special assessments).

Continue reading.

S&P: Are Electric Cars And Charging Infrastructure Bright Spots For U.S. Regulated Utilities?

Electric cars are an energizing disruptor for U.S. utilities. Everyone knows they are coming. Most observers believe that sales of electric cars will grow at an accelerated pace over the next few years.

Continue reading.

The Rise of Public-Sector Crowdfunding.

Around the country, local governments are soliciting donations for everything from dog parks to public defenders. Is this a practical response to budget cuts or a sign that publicly funded services are in trouble?

Earlier this year, when the new sheriff of Travis County in Texas announced that her officers would not cooperate with federal immigration investigators (part of an ongoing battle over sanctuary city issues), Texas Governor Greg Abbott retaliated by slashing the county's criminal justice funding. The remaining $1.5 million in state grants for 2017 would have helped maintain programs for veterans, sex workers, and parents struggling with substance abuse.

Concerned about the loss of those programs, constituents called state Rep. Eddie Rodriguez for help. To try to make up for the governor's cuts, Rodriguez and a local nonprofit, the Austin Community Foundation, launched the crowdfunding campaign Travis County #StrongerTogether in February. By May, they'd raised more than $150,000, which will cover court program costs from October to mid-November.

Continue reading.

CITY LAB

VIRGINIA PELLEY

SEP 15, 2017

What Amazon's HQ2 Wish List Signals About the Future of Cities.

Amazon's big announcement that it will build a second headquarters has caught the attention of local officials, economic development professionals, and pundits across the U.S. and Canada. And for good reason: "HQ2," as it's being called, would create upwards of 50,000 high-paying jobs and billions of dollars of new investment in whichever city it locates in. The city that lands this historic deal will see its economic and physical landscape transformed, albeit for a hefty price tag in the form of tax breaks.

Thus far, public attention has largely focused on two aspects of Amazon's announcement: Speculation about which of the 50 eligible North American metropolitan areas are most likely to be chosen for HQ2, and how much public subsidy the winning city will offer the world's 4th-largest corporation to seal the deal.

But this announcement carries far more profound implications for regional and local economic developers, Amazon HQ2 hopefuls or not. Amazon's selection criteria, as described in the company's request for proposal, sets out a compelling list of the attributes cities must have if they aspire to be a serious part of the America's growing digital economy.

Continue reading.

Harvard Business Review

by Amy Liu & Mark Muro

September 08, 2017

Some Good News May Be Getting Off the Ground in Washington D.C.

Kroll Bond Rating Agency (KBRA) published a special report today that examines the impact of the U.S. Senate's proposed FY 2018 spending plan on America's airports. The current bill raises the cap on U.S. airports' Passenger Facility Charge (PFC) rate to $8.50 from $4.50 on non-connecting flights. The Senate spending measure also proposes to expand the overall Airport Improvement Program (AIP) grant funding to $3.6 billion from $3.35 billion where it's been stuck since 2012.

The Senate plan would require the thirty largest airports by passenger activity to give up their federal Airport Improvement Program (AIP) entitlement grants if they decide to exercise the right to raise the PFC above $4.50. KBRA estimates that the net effect of giving up the AIP entitlement grant and lifting the local airport PFC could bring more than $6.3 billion of new investment dollars to these airports over the next five years. The FAA will also be able to reallocate the freed up AIP entitlement grant dollars toward other airports' infrastructure needs across the country. So, as written, the Senate spending measure is a win-win for both the largest and for many smaller airports.

If the incremental PFC revenues are committed to funding proposed capital projects, KBRA estimates that at least nine large hub airports could have 25 percent or more of their currently projected five-year capital needs covered by the new PFC revenues.

To access the full report, please click on the link below:

Some Good News May Be Getting Off the Ground in Washington D.C.

If you have any difficulties accessing the report, please contact info@kbra.com or visit www.kbra.com

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KBRA Releases Methodology for Rating U.S. Third Party Liquidity Facility-Supported Variable Rate Demand Obligations and Commercial Paper.

Kroll Bond Rating Agency (KBRA) announces the release of the methodology for rating U.S. third party liquidity facility-supported variable rate demand obligations and commercial paper.

The methodology describes the major factors that KBRA considers when assigning a rating to these state and local government-issued obligations. In these instances, an external third party (commercial bank or other financial institution) provides a conditional liquidity facility to support the demand feature (optional or mandatory tender) or CP roll-over.

Please click on the link below to access the full report:

[U.S. Third Party Liquidity Facility-Supported Variable Rate Demand Obligations and Commercial Paper Rating Methodology]

If you have any difficulties accessing the report, please contact info@kbra.com or visit www.kbra.com.

In the Municipal Market, Green Is the New Black: Fidelity White Paper

Liz Hanify, VP & Manager of Municipal Finance, and Christine LaFrance, Associate, explore the use and considerations related to "Green Bonds" in the municipal marketplace.

Read the White Paper.

Neighborly, Court Street Group Launch Commentary Service.

PHOENIX – Neighborly and Court Street Group have formed a joint commentary service focusing on public infrastructure, socially positive investments and municipal bonds.

The San Francisco-headquartered broker-dealer and the Brooklyn-based consulting group announced the new product, Neighborly Insights, Monday after quietly debuting it earlier this month. The new information platform, featuring commentary from the professionals of both companies, is available for free through Neighborly's website. The goal of the new venture is to provide to retail investors the kind of analysis that is traditionally mainly available through subscription services.

"Our mission at Neighborly is to provide a better way for individuals to invest directly in the civic projects they care about," said Jase Wilson, Neighborly's chief executive officer. "Through our new Insights platform, potential investors are now able to easily find valuable information about the municipal bond market, which will lead to a better understanding of the space, as well as better investments and borrowing decisions."

Neighborly Insights will feature weekly market commentary and news on federal legislation and policy, a focus on some specific credits, and news tailored for bond issuers.

"I am excited to distribute our industry-leading commentary on the municipal market, policy out of Washington, D.C. and the technological change that awaits the industry," said Court Street managing partner George Friedlander. "In all of my more than 40 years of experience as a leading strategist in the municipal space, it's refreshing to have the independence and broad reach through Neighborly to give insightful commentary to market participants, small to large. We hope that you find our reports valuable to your business and know that we are ever-evolving to explore new topics that will affect issuers, investors and policymakers alike."

BY SOURCEMEDIA | MUNICIPAL | 09/11/17 07:02 PM EDT

By Kyle Glazier

Munis Adapting to E-Trading, But Slowly.

Municipal bonds still lag behind corporates in electronic trading, two years after a prod from the Municipal Securities Rulemaking Board to take advantage of the technology to meet best price, execution, transparency, and liquidity goals. However, muni pros said the movement is still new and could gain in momentum soon.

"You have a lot of people in this industry who have gotten used to doing things the same way for decades now and it's hard to get some of them to change their mind about how they do business," said Robert Novembre, chief executive officer and president of Clarity Bidrate Alternative Trading System, a division of Arbor Research & Trading LLC which won its first municipal deal last year. That's "the challenge that we face each day, and we do our best to fulfill our mission one step at a time," he said.

Continue reading.

The Bond Buyer

By Aaron Weitzman & Christine Albano

September 05 2017, 10:53am EDT

U.S. Conference of Mayors Adopts Recommended National Energy Infrastructure Actions — "The New Bedford Principles"

Washington, DC—Today as part of a two-day national mayors' summit on smart cities and new energy technologies, sponsored by The United States Conference of Mayors (USCM) and hosted by USCM's Energy Chair New Bedford Mayor Jon Mitchell, mayors developed "The New Bedford Principles," a six-point energy recommendation to be included in the USCM National Infrastructure plan that will be presented to the nation by USCM President New Orleans Mayor Mitch Landrieu later this year.

The six principles include recommendations for tax reform and tax laws as well as infrastructure legislation.

The principles are:

1. Seek an energy-friendly tax reform package that doesn't undermine current progress:
2. Keep tax-exemption on municipal bonds
3. Keep state and local tax deductibility
4. Preserve and extend tax credits and other incentives to support renewable energy
5. Authorize additional tax and other incentives to promote more investment in microgrids,

distributed generation, and storage systems.
6. Direct funding to support the development of local energy assurance plans to advance local resiliency efforts, especially those to combat climatic events.
7. Direct funding to municipal utilities or tax incentives to investor-owned utilities to modernize local grids, including microgrids, to increase resilience to climatic events.
8. Direct funding to support local energy block grants to support city energy independence goals
9. Restore federal challenge grants to incentivize smart grid efforts.

"Conference President New Orleans Mayor Mitch Landrieu called for an infrastructure proposal that includes not just roads, airports, and bridges – but to include water, ports, energy infrastructure," said Tom Cochran, USCM CEO and Executive Director. "Today here in New Bedford to answer the call of our President Mitch Landrieu, we have come forth with six points of energy recommendations to be included in our national infrastructure proposal that we hope to push forward after Congress gets tax reform behind them."

Executive Order Set To Expedite Permitting And Authorization Of Infrastructure Projects: Miles & Stockbridge

During the campaign and thus far in the current administration, the President has prioritized the modernization of the Nation's infrastructure and promised a $1 trillion investment plan to help fund that vision. There is rare bipartisan support in Congress for such a measure, as many agree that our roads, bridges, tunnels, railways, airports, energy, and water systems are in need of repair and replacement.

Although no legislation has been proposed to fund such projects, last week the President signed an Executive Order that may lead to a more efficient and effective permitting and authorization process and is viewed by many in Congress as a step toward the introduction of a long-awaited infrastructure funding package.

Executive Order "Establishing Discipline and Accountability in the Environmental Review and Permitting Process for Infrastructure"

The President's Executive Order streamlines the permitting process for infrastructure projects, such as transportation and water systems, by easing several environmental rules, regulations, and policies. The Executive Order states that it will "ensure that the Federal environmental review and permitting process for infrastructure projects is coordinated, predictable, and transparent." You can read the full Executive Order here, but we highlight the critical provisions below. Executive Order highlights:

Continue reading.

Article by Van P. Hilderbrand Jr and Christopher S. Denny

Last Updated: September 5 2017

Miles & Stockbridge

Trump Administration Hosts Forum on State-Federal Relations.

WASHINGTON — State officials from around the U.S. met here Wednesday with senior members of the Trump administration to discuss intergovernmental affairs.

Officials from 44 states and four territories attended the event—chiefs of staff, deputy chiefs of staff and policy directors among them. There were no governors at the meeting, which the White House dubbed a “forum on state and federal relations.”

Doug Hoelscher, a deputy director of intergovernmental affairs for the Trump administration, served as a point person for the event.

Energy Secretary Rick Perry, Health and Human Services Secretary Tom Price, Office of Management and Budget Director Mick Mulvaney, and Linda McMahon, who leads the Small Business Administration, were on hand and spoke about White House initiatives and priorities.

Anna Davis, director of the Office of Government Relations at the National Governors Association, attended the event.

“They clearly talked about that the federal government does have a role, but really decisions need to be made at the state level to the extent possible,” Davis said as she characterized the comments administration officials made at the forum.

“It was an opportunity for them to discuss how they think they have been successful in that and how they want to engage governors further,” she added.

Some of the specific policy areas brought up at the meeting included hurricane response and infrastructure.

Davis wasn’t aware of any significant new information that was shared yesterday about the Trump administration’s pending infrastructure investment plan, or the timeline for releasing it.

But she did say DJ Gribbin, an assistant to the president who is helping spearhead the administration’s infrastructure efforts, made clear in his remarks “rural infrastructure is different.”

“He was saying how the money that can be saved from having P3s in appropriate urban settings…can be used to help in the rural areas,” Davis said, using an abbreviation for public-private partnerships.

About two weeks ago, state and local leaders visited the nation’s capital to discuss the still-emerging White House infrastructure investment plan with administration officials.

Davis said she did not hear the income tax exemption for interest earned on municipal bonds come up Wednesday. Many state and local leaders are concerned about preserving the exemption as Republican members of Congress and Trump push to overhaul the U.S. tax code.

Staff members from the offices of House Speaker Paul Ryan, Senate Majority Leader Mitch McConnell and U.S. Rep. Rob Bishop also participated in the forum. Bishop, a Utah Republican, is currently leading a House task force on intergovernmental affairs.

White House press staff did not respond Thursday to requests for a list of the forum’s attendees.

The meeting kicked off around noon and lasted until early evening. It was held at the Eisenhower Executive Office Building, which is located just west of the White House.

“The people that were there on both sides,” Davis said, “both Republican and Democratic governors’ staff, I think, appreciated the thought and effort that went into pulling it together.”

ROUTE FIFTY

by Bill Lucia

September 14, 2017

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

GOP Lawmaker Calls For Audit Of Shadowy Wisconsin Bond Agency.

[Madison, Wis…] State Rep. Scott Allen (R-Waukesha) voted against his party’s budget Wednesday for one reason: he couldn’t support a measure that greatly expands the power of the Public Finance Authority – a shadowy, Wisconsin-based agency that he believes has done little to benefit Wisconsin.

Allen tells MacIver News Service that not only is he opposed to giving more authority to the Public Finance Authority, he will issue a memorandum to Assembly Speaker Robin Vos and the Joint Legislative Audit Committee seeking an audit of the PFA.

“I am voting against the budget, an otherwise good budget, because good government is more important than a good budget,” Allen said in an interview Wednesday with MacIver News Service. “This should not be in the budget in my estimation.”

As MacIver News first reported this week, the PFA is involved in some questionable investments around the country.

Allen’s biggest concern, however, is that the Finance Authority, a political subdivision of Wisconsin, has done so little for the Badger State. Just 1.9 percent of the total bond debt issued by the PFA has been for Wisconsin projects, Allen said.

“I had representatives of the PFA in my office this morning and I asked them what is the public purpose of the PFA, and with a little hemming and hawing I got, ‘Well, economic development.’ Okay, great, let’s examine the record.”

The bond broker was ostensibly formed by four Wisconsin counties and the city of Lancaster. The Legislature in 2009 unanimously passed the law that created the PFA. It launched the following year. Its purpose: finding investors for tax-exempt and taxable “conduit bonds” for so-called “public benefit projects.”

What is the public benefit of a Wisconsin organization that has done very little development in Wisconsin? It would seem very little, Allen said. Out of the scores of projects that the Finance Authority has issued bonds for, only two were located within the jurisdictions of the founding Wisconsin local governments, according to the lawmaker.

The PFA has been busy elsewhere. Earlier this year, it issued more than $1 billion in bonds for a 2.9

million square-foot shopping mall in East Rutherford, N.J., known as American Dream Meadowlands. The commerce monstrosity is to include an indoor ski slope and water and amusement rides in the mix of high-end retail.

Last month, Bloomberg reported that Goodwill Industries of Southern Nevada, which runs 50 donation centers and retail stores in Las Vegas, filed for bankruptcy 20 months after issuing $22 million of municipal bonds. The nonprofit issued the debt through the Public Finance Authority, which specializes in serving as a conduit for risky debt.

The PFA is one of more than a dozen third-party bond issuers doing business in the U.S.

"The authority, however, is uniquely lax in its filing requirements and has shown a tendency to issue bonds for projects outside its state when conduits there will not," Debtwire reported.

Despite its critics, the majority of PFA-connected bonds are performing, according to Debtwire's breakdown of Bloomberg data. In 2016, the issuer posted a record year of $1.79 billion in bonds issued.

Allen said he's not going to scrutinize every PFA investment, but he is bothered that the broker has done so much business outside the state that effectively created it.

"If the Wisconsin Legislature is going to act to create or expand the powers of a financing authority whose purpose or mission is economic development, the economic development ought to be occurring in Wisconsin," the lawmaker said. "Or there ought to be tangible benefits to the citizens and taxpayers of the state of Wisconsin or we shouldn't be doing it."

There are tangible benefits to PFA's founders and sponsors, the National Association of Counties, the League of Cities, the Wisconsin Counties Association, and the League of Wisconsin Municipalities.

Allen said PFA officials provided him a document showing the founding members and the sponsoring organizations help promote the authority's economic development efforts. For those services, they receive compensation. PFA officials would not disclose how much compensation.

Mark D. O'Connell, executive director of the Wisconsin Counties Association, did not return calls from MacIver News seeking comment. Jerry Deschane, executive director for the League of Wisconsin Municipalities, referred all questions to O'Connell.

"There's more to this than I have had time to investigate. That's why I'm calling for the audit because I think it deserves investigation. It deserves scrutiny before we consider expanding its powers," Allen said.

One of the powers sought in the legislation is the force of eminent domain – the ability of governments to take private property for public use in return for "just compensation" to the owner. Specifically, the provision would authorize "eminent domain to a commission created by contract under current law governing intergovernmental cooperation among Wisconsin entities that are acting under the provision of PFA statute." That would be the commission that oversees the PFA.

PFA directors have pledged to legislators that the Finance Authority would never actually use the power. Eminent domain is just a tool among a handful of IRS requirements needed to unlock PFA access to new market tax credits and receive tax-free financing status.

"They are giving this quasi-public, shadowy organization the power of eminent domain?" said Eric

Bott, state director of the Wisconsin chapter of Americans for Prosperity. The libertarian organization has voiced its opposition to the Finance Authority legislation, asking Gov. Scott Walker to veto it, if it survives legislative debate.

Allen said the IRS is challenging the PFA's local government status, "and appropriately so." They need to have either the power to tax, policing power or the power of eminent domain authority. There's no specific language in the state statute that requires that, hence the move to change the law, Allen said.

"I don't know whether they have had the authority or whether they are trying to clean up the language to represent their authority," the legislator said. "Either way, it should not be in the budget and we should not be expanding their authority until we do a careful review of their processes and their mission and purpose."

Proponents of the modifications to Wisconsin's PFA statute say they provide greater transparency. The provisions do so by requiring quarterly bond activity reports to the state Department of Administration and the Legislative Audit Bureau. And the commission that oversees the Finance Authority would be considered an "authority" as defined under Wisconsin's open records law, which means it would be subject to the law. It also would be subject to Wisconsin's open meetings law.

In 2011, a year after its creation, the PFA branched out nationwide.

"The (PFA) partners with private borrowers and local governments to provide tax-exempt financing for public benefit projects that create temporary and permanent jobs, affordable housing, community infrastructure and improve the overall quality of life in local communities," according to the organization's website.

Traditional fees associated with securing tax-exempt financing are too often cost prohibitive, particularly for small projects. By "standardizing and streamlining the entire process," PFA claims it can save local governments and nonprofits money. More important, PFA asserts its Wisconsin Small Bond Program can move from application to approval and issuance in "as little as six weeks."

"The (PFA) is out there to create an alternative at a time when communities are really struggling to generate economic activity," Liz Stephens, Finance Authority program manager, told the Bond Buyer investor newspaper in 2011. "Access to capital is really difficult, and the PFA is there to provide another tool and resource to help local governments."

In a press release explaining his no vote on the budget, Allen described the PFA legislation as the "ugly" in the two-year state spending plan.

"What is ugly about this budget is that rather than curbing the authority of this so-called political subdivision the budget, in a non-fiscal item, greatly expands the authority and works to remedy PFA's problems with the Internal Revenue Service," the lawmaker said. "The obscure provision of the budget has been largely undetected by the public or by legislators. It has gained no attention, no debate, and no public scrutiny. It is yet another example of the need for budget transparency."

MacIver News Service

By M.D. Kittle

September 13, 2017

AFP-WI to Lawmakers: Wisconsin Should Not Empower Shadowy Public Finance Authority.

Stealth Motion Gives WI Public Finance Authority Eminent Domain Authority, Expanded Powers to Engage in Foreign Economic Development

MADISON, WI – Americans for Prosperity-Wisconsin today urged lawmakers in the strongest possible terms to reject an 11th hour proposal to give sweeping new powers to the Wisconsin Public Finance Authority (PFA), an obscure, quasi-governmental agency that issues high risk bonds for government and non-profit construction projects. The motion was inserted into the budget after closed door meetings with no public discussion. Unanswered questions abound about the implications of giving the PFA vast new powers including eminent domain and an expanded ability to issue bonds for economic development projects in foreign countries.

Americans for Prosperity-Wisconsin State Director Eric Bott made the following statement:

"There's something rotten in Madison today. This kind of legislative chicanery would make Tony Soprano proud but should outrage taxpayers. Our base of 130,000 grassroots activists is deeply troubled by the vast, unchecked, and undemocratic powers given to the PFA in this budget. They are also disturbed by the sneaky procedural tricks used to slip this motion into the budget with no public debate and countless unanswered questions. Our activists will be working around the clock for the next 48 hours to urge lawmakers stop this motion until some key questions are answered. If it should survive legislative debate in its current form, we will be urging Governor Walker to exercise his veto authority.

Bott continued:

"Wisconsinites have much to lose and nothing to gain by further empowering an entity best known for putting Wisconsin's reputation on the line through dubious, high-risk, out-of-state construction projects like a $1.2 billion bond for a New Jersey shopping mall and a $327 million bond for the University of Kansas campus. This motion invites further suspicion and concern about how it was slipped into the budget in the first place. Someone is trying to pull a scam on Wisconsin taxpayers and property owners and AFP-WI will not rest until we know why this is being done and which individuals or groups are doing it."

Bott added that AFP-WI is demanding that Assembly and Senate leadership provide public answers to the following key questions before any further legislative action takes place:

– Why does the legislature want to expand the PFA's ability to engage in economic development in foreign countries like China or Mexico?

-Why is the legislature seeking to subvert democracy in other states by financing development projects opposed by local officials in those states?

-Why is a so-called conservative majority in the legislature proposing to grant unprecedented new eminent domain authority to a shadow authority?

-Why are conservatives in the legislature going to bat for an organization that reportedly operates out of California, especially when nearly all jobs, profits, and tax revenues associated with the PFA appear to be bled out of Wisconsin and sent to California?

-Who is getting rich off the PFA and why is the legislature helping them get richer when there is little-to-no public benefit to the citizens of Wisconsin?

-Why were the PFA provisions added to the budget under the cloak of darkness without any public debate or discussion what-so-ever?

-Who is the author of the PFA motion? Who asked to put this in the budget?

-What is the public benefit of the PFA to Wisconsin citizens?

-Why is Wisconsin taking on this kind of unnecessary risk with its financial reputation? PFA is viewed by some in the market as a Wisconsin governmental issuer of bonds. Any problems they have will negatively impact the market's view of bonds issued by Wisconsin.

BACKGROUND:

PFA sought a similar but less dramatic expansion of its power through a budget motion inserted into the 2015-17 state budget. Governor Walker vetoed the provision in its entirety, stating:

I am vetoing this provision because I object to broadening the powers of [PFA] and do not support the decreases in accountability that would result from enacting this provision or the loss of local control and loss of state tax revenue. Such sweeping changes to current law decrease transparency and could create unintended consequences, the full extent of which are unknown.

The PFA's involvement in shady projects has been well-documented in recent years.

AMERICAN FOR PROSPERITY

SEP 13, 2017

H.R. 601 Extends EB-5 Program and Provides $15.25B of Disaster Relief Funds: Ballard Spahr

President Trump has signed into law H.R. 601, a continuing resolution that funds the federal government through December 8, 2017, and thereby extends the EB-5 Regional Center Program beyond September 30, 2017—the end of the federal fiscal year.

The resolution—Continuing Appropriations Act, 2018 and Supplemental Appropriations for Disaster Relief Requirements Act, 2017—provides $15.25 billion in emergency funding for the Departments of Homeland Security, Housing and Urban Development, and Small Business Administration to support disaster response and assistance. With the President's September 8 signing, the Act also temporarily suspends the country's debt limit, among other provisions.

The EB-5 Regional Center Program extension comes with no further legislative changes at this time, though passage of an EB-5 reform bill before December 8 is possible. Indeed, H.R. 601 arguably hints at the possibility of legislative reform before its next sunset date in language that states, in part, that "appropriations and funds made available and authority granted pursuant to this Act shall be available until whichever of the following first occurs:

- The enactment into law of an appropriation for any project or activity provided for in this Act;

- The enactment into law of the applicable appropriations Act for fiscal year 2018 without any provision for such project or activity; or
- December 8, 2017."

Ballard Spahr will provide updates on these developments.

USCIS Issues Form I-924A Filing Tips. Also on September 8, 2017, the U.S. Citizenship and Immigration Services (USCIS) issued updated filing tips on its "Annual Reporting Information/Filing Tips" page in preparation for regional center annual compliance by issuing Form I-924A, Annual Certification of Regional Center.

One filing tip of note is the inclusion of supplemental materials to the I-924A. Supplemental documents would be of optimal advantage in any year in which the regional center is overdue to show indicia of economic activity promotion in the center's geographic area, and thus at risk of receiving a Notice of Intent to Terminate (NOIT). USCIS issues a NOIT when a regional center appears not to have promoted economic growth, demonstrated typically by a lack of I-526 filings (or systemic I-526 denials). Supporting documents could include records on pending projects with fundraising underway or imminent. Examples include copies of licenses, permits, record of property purchased in support of a project, or other evidence of ongoing regional center activity. The decision on whether such evidence is sufficient to demonstrate promotion of economic growth is made by USCIS on a case-by-case basis.

The deadline to file a Form I-924A is December 29, 2017, for the current fiscal year (October 1, 2016 to September 30, 2017).

USCIS Stakeholder Meeting. Please mark your calendars for USCIS's next EB-5 Program national meeting of stakeholders on Tuesday, November 7, 2017, from 1 p.m. to 2:30 p.m. ET, at the agency's New York City field office. Participants can attend the meeting in person or through teleconferencing, with the opportunity to send questions in advance to be answered during the meeting. Information on how to dial in will be made available as the date nears.

Ballard Spahr's EB-5 Group brings together attorneys experienced in securities, private equity, business and finance, real estate, tax credits, and corporate law to assist clients with utilizing the EB-5 Program to accomplish their goals. The EB-5 Program has led to more than $15 billion of foreign investment in the United States and more than 220,000 jobs.

Ballard Spahr's Securities Group advises private and public companies, underwriters, selling stockholders, and officers and directors, as well as private equity funds, venture capital firms, and institutional investors in compliance matters, capital-raising activities, and other transactions.

September 13, 2017

are urged to consult your own attorney concerning your situation and specific legal questions you have.

[Risk Expert Says There's One Budgeting Question Every City Must Now Ask.]

Michael Berkowitz is no stranger to natural disaster, having responded to a West Nile Fever outbreak, tropical storm and major flooding as a deputy commissioner at the Office of Emergency Management in New York City. Today, as president of the Rockefeller Foundation's 100 Resilient Cities initiative, Berkowitz continues to help cities prepare for and respond to these types of disasters. He has led 100 RC since its founding in 2013. With a network of 100 selected cities across the globe, the program aims to better address the increasing "shocks" — sudden natural disasters like hurricanes, earthquakes and floods — and "stresses" — slow-burning crises like homelessness and water shortages — of the 21st century. 100 RC announced its final cohort of 37 cities last summer, and more than 50 cities, including non-participating cities, have appointed "chief resilience officers" in recent years.

I spoke with Berkowitz on Thursday, while he was in Athens, Greece, meeting with mayors, about a smart recovery strategy post-hurricanes Harvey and Irma, how chief resilience officers can leverage their small budgets to effect change, and projects he admires from New Orleans to Paris to Rotterdam and beyond.

Continue reading.

NEXT CITY

BY KELSEY E. THOMAS | SEPTEMBER 15, 2017

Force Majeure and Similar Considerations for the Energy Industry in the Aftermath of Hurricane Harvey: Mayer Brown

As an initial matter, Mayer Brown offers its greatest sympathies to those affected by Hurricane Harvey. Mayer Brown has been a member of the Houston community for more than 30 years and is deeply committed to helping Houston rebuild.

At this point, it is impossible to assess the full impact of the devastation caused by Hurricane Harvey. However, we can predict that it will have wide-ranging effects on the ability of some members of the energy industry to fully perform contracts—from production, to transport, to the provision of oil- and gas-related goods and services. It is common knowledge that some of the largest oil and gas production operations and refining facilities in the United States were forced to shut in or shut down as a result of the hurricane. What is less obvious—so far—is how many ongoing contracts are likely to be unfulfilled as a result of the shutdowns and what the domino effect will be. It is also unclear how many other companies—including providers of goods and services—will be unable to perform their contracts because of the physical destruction and ongoing infrastructure issues caused by the hurricane and its aftermath. It is predictable, for instance, that manufacturing facilities that have suffered flood damage will suffer both loss of product and loss of or damage to the equipment necessary to manufacture more product quickly.

In short, the energy industry is likely to experience a rise in contract disputes across a range of Hurricane Harvey-related situations that will trigger force majeure or similar concerns, as occurred in the aftermath of Hurricane Katrina and Hurricane Ike. Force majeure concerns are likely to arise from, among other situations, production shutdowns as a result of the hurricane and subsequent flooding; flooding or other damage to the premises of goods and services providers, resulting in delayed or non-delivery of goods; and potential government actions. Of course, every instance of delayed, partial or non-performance by one party is likely to have a detrimental effect on others in the energy value chain.

Force majeure, and the related doctrines of impossibility and/or commercial impracticability, may be viable defenses to failure to perform a contract where the failure to perform is caused by a natural disaster. It is typical for a commercial contract to contain a force majeure clause. Where a contract contains a force majeure clause, under Texas law, the terms of the contractual force majeure clause, as opposed to any common-law definition, generally control the breadth of the defense. See, e.g., *Virginia Power En. Mktg., Inc. v. Apache Corp.*, 297 S.W.3d 397, 402 (Tex. App.—Houston [14th Dist.] 2009, pet. denied) ("The scope and effect of a 'force majeure' clause depends on the specific contract language, and not on any traditional definition of the term.").

Most contractual force majeure clauses cover "acts of god," such as hurricane, flood, other severe weather events, war, terrorist attacks or similar occurrences. Every force majeure clause is different, and the precise language of the clause should be the first consideration when assessing what to do if a company finds itself potentially unable to perform a contract in the wake of a weather event like Hurricane Harvey. Some force majeure clauses will add a specific requirement that the event be "unforeseeable," while others are drawn more broadly (although a court interpreting the provision may still read an unforseeability requirement into the contract). See, e.g., *Valero Transmission Co. v. Mitchell Energy Corp.*, 743 S.W.2d 658, 663 (Tex. App.—Houston [1st Dist.] 1987, no writ); *Hydrocarbon Mgmt., Inc. v. Tracker Expl., Inc.,* 861 S.W.2d 427 (Tex. App.—Amarillo 1993, no writ). Force majeure clauses frequently require the non-performing party to take reasonable steps to minimize delay or damages caused by the force majeure event. The force majeure clause may also require the party claiming force majeure to provide notice to the other contracting party, often by a certain method (for instance, in writing), and possibly within a certain period of time. Close attention should be paid to any such requirements.

Even if there is no force majeure clause in the contract, depending on the jurisdiction, common-law doctrines that are the functional equivalent of a force majeure clause may provide a defense to performance. For example, in Texas, impossibility is recognized as a defense to contract performance. Pertinent to the post-Harvey situation, this defense may be applied where the thing necessary for performance has been destroyed or deteriorated and where the action is prevented by government regulation. See, e.g., *Key Energy Servs., Inc. v. Eustace*, 290 S.W.3d 332, 340 (Tex. App.—Eastland 2009, no pet.). The impossibility defense may also be referred to as a force majeure defense or a "commercial impracticability" defense. Regardless of the nomenclature used by the parties and the court, at common law, a situation approaching true impossibility—as opposed to mere impracticability or inconvenience (such as financial inconvenience)—will typically be required for this defense to be successful.

Similar defenses are recognized across much of the world, which (depending on choice of law issues) may be pertinent when inability to perform is implicated in a transnational contractual relationship. For example, the United Nations Convention on Contracts for the International Sale of Goods (CISG), which applies to certain commercial transactions between parties who are citizens of signatory states, provides that a "party is not liable for a failure to perform any of his obligations if he proves that the failure was due to an impediment beyond his control and that he could not reasonably be expected to have taken the impediment into account at the time of the conclusion of the contract or to have avoided or overcome it or its consequences." CISG Art. 79(1). Like a typical force majeure provision, the CISG also includes requirements for proper remedial actions and notice to the other party.

Ultimately, whether a force majeure or a similar doctrine will excuse performance is likely to turn on whether the party claiming force majeure could reasonably have avoided either the causal situation or non-performance. Whether the event was foreseeable is one element of this inquiry, but it is not necessarily determinative. For instance, if an unforeseeable event were to cause a contract to become more expensive to perform (but not impossible), a force majeure defense is likely to be challenging to prove. See, e.g., *Valero Transmission Co. v. Mitchell Energy Corp.,* 743 S.W.2d 658, 663 (Tex. App.—Houston [1st Dist.] 1987, no writ) ("[A] contractual obligation cannot be avoided simply because performance has become more economically burdensome than a party anticipated.").

It is best practice for a party considering asserting force majeure to analyze and evaluate whether there are alternatives that would make partial performance possible. Good faith and honest communications with the other party(ies) to the contract are key. It is generally advisable for the non-performing party to retain any written communications detailing the efforts taken to perform; this evidence may become important in defending any resulting breach of contract action. A non-performing party should also be careful about industry perception: performing one's most lucrative contracts, while not performing the less lucrative ones on the basis of a force majeure event, may result in negative visibility if such "most favored nation" status is not part of the underlying contractual relationship(s). While none of these issues alone may be dispositive, they may have a practical effect on the outcome of any resulting disputes.

In sum, if Hurricane Harvey and its aftermath appear to have made performance of a contract impossible, consulting the relevant contract(s) for any governing force majeure language should be the first step. Alternative means of performance, even if difficult, should also be thoroughly considered. Communication with the other contracting party(ies) is key and should be done in as timely a manner as possible. And finally, if the ultimate determination is that performance is not possible due to a force majeure event, notice should be provided to the other party(ies) in the time and manner required by the contract and/or governing law.

Last Updated: September 7 2017

Article by Jessica Crutcher, Micheal P. Lennon Jr. and Charles S. Kelley

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Catastrophe Bonds Avoid Direct Hit From Hurricane Irma.

Recent events appear likely to affect only a few, if any, of the outstanding $26 billion

What looked like a dark turn in the booming market for catastrophe bonds may wind up being little more than a blip.

With damage estimates for Hurricane Irma tumbling, investors in “cat bonds” will likely avoid the significant losses they may have absorbed had earlier, more aggressive estimates borne out.

Cat bonds are essentially a vehicle for insurance companies to transfer some of their financial risk to the global capital markets. Wall Street and other middlemen help insurers sell these bonds to sophisticated investors with the understanding that they could lose some or all of their principal to help pay claims.

These high-yielding bonds have surged in popularity in recent years among investors including pension funds, endowments and wealthy families. The rally has also come during a long stretch of few hurricanes hitting the U.S.

So the past couple of weeks have tested investor appetite as North America suffered three of its worst natural disasters in a decade. Private-sector insurers face as much as about $60 billion in costs in the U.S. from Hurricane Irma, which landed in Florida Sunday, Hurricane Harvey with historic flooding in Houston, and an 8.1-magnitude earthquake in Mexico, according to some risk-modeling firms’ estimates.

But these events appear likely to affect only a few, if any, of the outstanding $26 billion in cat bonds.

The spate of catastrophes “may cause some investors to rethink their positions in the market” and expect a higher rate of return, said Gary Martucci, a director at Standard & Poor’s Global Ratings. But “these bonds are generally two to three times oversubscribed, so even if a few investors walk, there’s still sufficient capital available to buy the risk that is being offered in the market.”

Hurricane Irma made landfall in the Florida Keys early Sunday, then moved up the state’s west coast. Even at the upper end of Monday’s projections of roughly $40 billion of damage, the storm is well below the $130 billion mark that put cat-bond investors on edge last week as Irma barreled across the Caribbean and seemed destined to strike Miami.

Mr. Martucci said he doesn’t expect any of the cat bonds rated by S&P, representing a slice of those outstanding, to suffer a principal reduction based on the current $40 billion upper-end damage estimate.

Many insurance executives and cat-bond promoters are gathered in Monte Carlo for one of the biggest annual industry confabs. As the conference began over the weekend, attendees said they were getting frequent updates on the storm's trajectory from various sources, and using smartphones to stay on top of the U.S. National Hurricane Center's forecasts of Irma's strength.

Which cat bonds might suffer, and how much will have to be paid out, will become clearer in coming days as the industry tallies up actual losses.

"There is a mountain of alternative capital on the sidelines that will be available to be deployed if the insured loss from Irma results in significantly higher expected returns for cat bonds," Tony Ursano, president of TigerRisk Partners LLC, a risk and capital adviser to insurers and reinsurers, said from the conference.

In simplest terms, a catastrophe bond works like this: An investor buys the bond, taking into account a calculation by an independent risk-modeling firm of the odds of a specified disaster occurring. The principal and interest are held in escrow and typically invested in Treasurys.

These bonds are typically sold in tranches, each with a different trigger. Triggers vary across the bonds. Some specify a deductible amount that an insurer must pay before tapping into the principal, while others are based on metrics tied to a weather event. Some are tied to a single event, while others reference damage accumulated over designated periods.

Florida hurricane risk is so large that around half of the $26 billion in outstanding cat bonds include that as a risk exposure. Bonds also cover other types of storms, wildfires, meteorite strikes and even solar flares among a growing array of choices for investors. In return for their investment, owners of the bonds are paid interest rates higher than conventional bonds for taking on the risk.

Aon Benfield's U.S. hurricane bond index had an 8.7% average annual return over the past 10 years, compared with a 6.9% average over the decade for high-yield bonds. But cat bonds returned less over the 12 months through June 30: 6.4% compared with 7.9% for the high-yield index.

Over the years, investors have lost some principal and as Irma barreled toward the U.S. last week, S&P said at the time that 13 cat bonds it rates totaling $1.35 billion could be at risk.

These included $250 million in a class of notes issued in 2014 by Kilimanjaro Re Ltd., an entity affiliated with the reinsurer Everest Re. Payouts from the bond would be made to Everest if insured industry losses in Florida exceed $68 billion, a figure that now seems unlikely.

Last week in thin trading on a secondary market, part of a series of bonds tied to Florida-focused Heritage Insurance Holdings traded as low as about 50 cents on the dollar before recovering to 68 cents, market participants said.

But as estimates of the insurance industry's costs fell Monday, "the cat-bond market has basically recovered," said Dirk Lohmann, chief executive of Switzerland-based insurance advisory Secquaero Advisors AG. Mr. Lohmann was among the pioneers of cat bonds in the early 1990s. "There will be some isolated hits" but not widespread loss of principal, he said.

For insurers, the growth of cat bonds has given them an alternative to traditional reinsurance, in which they pay other insurance companies to take responsibility for some of their claims. Many like that the bonds have increased price competition with reinsurers and make them less dependent on those reinsurers.

The bonds were born in the 1990s, when Mr. Lohmann and other then-colleagues at Hannover Re in

Germany were inspired to turn to the capital markets after Hurricane Andrew hurt many insurers' capital bases. That hurricane, which cut across southern Florida in 1992, counts as the second costliest U.S. storm, behind Katrina in 2005.The securities took off after the 2008 financial crisis because investors were attracted to their relatively high returns and to the fact that their performance was uncorrelated to market swings.

A record $11.3 billion of new cat bonds were issued in the 12 months through June, according to Aon Securities. Cat bonds and other "alternative" reinsurance investments collectively stand at roughly $90 billion, or about 15% of the $605 billion in capital within the global reinsurance industry, according to Aon.

By Leslie Scism and Anupreeta Das

Updated Sept. 11, 2017 10:04 p.m. ET

The Wall Street Journal

After Disaster Strikes, Munis Often Provide New Capital.

It has been a devastating hurricane season so far, and our hearts go out to the people and places for whom Harvey and Irma will be storms of lasting significance.

The first order of the day is to help meet the immediate needs of those affected, and people from across the United States have helped save lives, shipped necessities, and donated to various agencies that provide assistance. In Texas and other areas hit by Harvey, homeowners and businesses are filing insurance claims, and adjusters are busy assessing damages, a daunting task in the country's fourth-largest city.

Longer-term solutions in Texas, Louisiana, Puerto Rico, the U.S. Virgin Islands, Florida and elsewhere will require significant financing: The federal government has already agreed to provide $15.3 billion in disaster aid and that amount will certainly rise as the damage caused by the hurricanes is fully assessed. According to The New York Times, federal disaster aid related to Hurricane Katrina totaled $110 billion, and the $15.3 billion allocated so far represents "the first installment."

Sources of revenue

States typically supplement federal aid with money that has been set aside in aptly named "rainy day funds" for these types of emergencies. The rainy day fund in Texas is officially known as the Economic Stabilization Fund and will likely be tapped. As of June 30, 2017, its balance totaled nearly $10 billion, according to a recent Bond Buyer article by William Glasgall, the director of state and local programs at the Volcker Alliance in New York. Allocations from this fund – the biggest rainy day fund in any state, according to the state's Office of the Comptroller – can be allocated for hurricane relief by a two-thirds vote of the Texas Legislature.

At some point, depending on the degree to which affected municipalities have to (or choose to) retrofit or replace critical infrastructure, or embark on a master plan to rebuild areas that were largely destroyed, the municipal bond market may eventually become a source of capital as well.

In recent history, various restrictions in the Internal Revenue Code of 1986 have been relaxed to allow for special tax-exempt securities that could “foster economic recovery after natural disasters and other catastrophic events,” according to The Fundamentals of Municipal Bonds, a Securities Industry and Financial Markets Association reference book. As a result, the book explains, the U.S. Congress has occasionally authorized disaster recovery bonds: Gulf Opportunity Zone bonds were first sold in 2005 to help Alabama, Louisiana, Mississippi and other areas affected by Hurricane Katrina, and Midwest Disaster Area bonds were issued in 2008 to finance rebuilding efforts after severe storms, tornadoes and flooding occurred in seven Midwest states. A number of Texas and Louisiana counties that were damaged during Hurricane Ike were also eligible for financing from the 2008 issuance.

The relaxation of restrictions in the Internal Revenue Code of 1986 also helped New York City rebuild after 9/11. Non-rated Liberty Bonds were issued in 2005 by the NYC Industrial Development Agency to finance the completion of 7 World Trade Center, a skyscraper to replace one of the buildings that had been destroyed. By purchasing some of the $475 million in Liberty Bonds, which had coupons ranging from 6.25% to 6.75% and were backed by lease payments on the top 42 floors of 7 WTC, our team delivered shareholder value and something that we believe is equally important—the financing that helped rebuild a city that refused to be shattered by the events of that day.

Liberty Bonds and other bonds issued after natural disasters or catastrophic events, we believe, epitomize the essential character of the municipal bond market.

We believe similar bond structures may be created to help Texas, Louisiana, Puerto Rico, Florida and other areas rebuild, and we are confident that participating in this type of rebuilding will remain highly attractive to many municipal bond investors.

Market impact

Credit rating agencies have already begun to look at the bonds they rate to see if any of their assessments need to be adjusted. These agencies – S&P Global Ratings (S&P), Moody’s Investors Service and other Nationally Recognized Statistical Rating Organizations (NRSROs) – are focused on whether the securities issued by hospitals, toll roads and other issuers in the affected geographies still have the same credit quality after the storm as they did before it.

According to S&P, “There’s no question the hurricane’s devastation of the fourth-largest city in the U.S. could have a negative effect on the credit quality of various local government issuers, but it’s too soon to tell.”

While some credits may see downgrades if an NRSRO perceives a change in an issuer’s likelihood of maintaining its debt-service obligations, Moody’s notes that none of the municipal bonds it has rated has defaulted because of a natural disaster. Additionally, the number of credit upgrades issued by Moody’s one year after Katrina for bonds issued in the New Orleans region was greater than the number of downgrades issued in the hurricane’s wake, according to a report by RSM, which provides audit, tax and consulting services to the financial industry. RSM also reports that no natural-disaster-related defaults have occurred in at least 75 years. Some muni sales were postponed and some bonds experienced brief payment interruptions after Katrina hit, but those events were the result of logistical problems caused by flooding, not by changes in credit quality.

This track record goes a long way toward explaining why the muni market has remained calm amid the storms. Prices in the municipal market and among municipal securities issued in Texas have been rising overall during the third quarter, and Hurricane Harvey had little impact on the trajectory of either the Bloomberg Barclays Municipal Bond Index or its Texas component, Bloomberg Barclays Municipal Bond Texas Exempt Index.1 The end of summer is generally a quiet time for munis, but the market's reaction to Hurricane Sandy, which struck late October 2012, was similarly muted.

The Handbook of Municipal Bonds, often referred to as Fabozzi – an homage to Frank J. Fabozzi, one of its editors – provides an example of an uninsured Bond Anticipation Note (a BAN) that was issued at par in New Orleans in late July 2005. The evaluation for this BAN was just above par on August 29, 2005, when Katrina made landfall in Louisiana. The evaluation was adjusted after the next trade, at $94.40 on September 21, and again on September 22, when it traded at $98.00. The BAN was subsequently traded actively and quoted, in large part thanks to the extra effort of its evaluator to keep the market apprised of the bond's status.

It is too soon to tell what will happen to the prices of muni bonds in areas affected by this year's hurricanes. Analysts at S&P have cautioned that securities backed by property taxes may be at risk. Many school district bonds issued in Texas are guaranteed by the state's Permanent School Fund, which totaled $37.3 billion as of the latest annual report, according to Glasgall's Bond Buyer article. This fund guarantees more than $4 billion in public and charter school debt and provided $1 billion in state aid as of August 31, 2016, Glasgall reports.

Economic impact

Municipalities that have been damaged by a storm or other catastrophe often see an increase in spending as homeowners and businesses start to repair properties and replace goods that had been lost. Spending on household goods and construction materials often drives economic growth, especially if the population remains relatively constant. In the short term, it is likely that tourism will be adversely affected – which could have an impact on bonds backed by hotel taxes – but Americans have often demonstrated a willingness to show their support by showing up once the catastrophized municipality is back on its feet.

Some municipal officials have embarked on ambitious revitalization plans in the aftermath of a natural disaster, according to a 2013 article in Governing Magazine by Liz Farmer.

In Tuscaloosa, Alabama, city leaders used an ample reserve fund to meet immediate needs after a tornado struck in 2011 and, while waiting for federal funds, began to think about ways to revitalize the parts of the city that had been destroyed. Officials approved a high-density master plan for a mixed-use district. The new district surrounds CityWalk, a nearly 6-mile trail that traces the approximate path of the tornado and is scheduled to be completed next year.

Amid a contentious debate among stakeholders, San Francisco's mayor persuaded federal officials that it was economically sensible to replace (not retrofit) the Embarcadero Freeway, which was extensively damaged in the 1989 earthquake. According to the Governing Magazine article, "the waterfront where the Embarcadero once stood is a model of city planning, attracting billions of dollars in reinvestment and new development," including AT&T Park, home to the San Francisco Giants.

And the 1.5-square-mile farming town of Greensburg, Kansas, transformed itself after a tornado destroyed 95% of it, Governing Magazine reports. The small community took advantage of state and federal grants and appropriations, established a property tax incentive program for businesses willing to adhere to green building standards, and even issued bonds to fund projects that turned Greensburg into "a world model for sustainable, environmentally friendly development."

OppenheimerFunds

September 13, 2017

Municipal Finance is the Key to Rebuilding Cities After Disasters.

Much of our nation's infrastructure is in great need of maintenance, repairs or rebuilding. This will be especially true as cities and communities in Texas, Louisiana, Florida and the Caribbean, as they start recovering after the damage left behind by Hurricane Harvey and Hurricane Irma. I know from personal experience that these communities will face the long and challenging task of rebuilding damaged roads, water and sewer infrastructure, bridges and public buildings to not only restore them to what they were, but also to make them stronger, smarter and more resilient.

In October 2015, my city faced the worst flooding disaster known in our history. More than 11 trillion gallons of water fell from the sky during the historic flood, which saw a record 16 inches of rain and caused $12 billion in damages in Columbia, South Carolina. While the historic flood was an incredibly devastating time for our city, it allowed our resilience to be shown. While this historic event occurred almost two years ago, Columbia residents and businesses still continue to face many challenges as we rebuild our homes, restore our businesses and regain normalcy in our lives.

As a part of our recovery efforts and continued investment in infrastructure, the Columbia City Council last year issued more than $210 million in water and sewer revenue bonds and will issue an additional $153 million in both revenue and general obligation bonds this year that includes $43 million in storm water improvements and $100 million in wastewater and general water improvements. This will help protect future generations from such catastrophes. Infrastructure investments like these could not be made without using tax-exempt municipal bonds.

Tax-exempt municipal bonds are the primary tool that state and local governments use to finance investment in schools, transportation, housing, health care clinics, water and wastewater treatment, police, fire, ambulance services and other public services that are vital support mechanisms to a growing and well-functioning economy. Keeping infrastructure costs low is critical to job creation and to the infrastructure investments that are the backbone of our economy. All Americans benefit from core infrastructure projects financed by tax-exempt bonds.

The City of Columbia and local governments across the nation make responsible public infrastructure investments with tax-exempt municipal bonds to create jobs, improve the quality of life and spur economic development in our communities, and we do not take this responsibility lightly. Our disaster recovery efforts would not be where they are today without the aid of this financial tool.

Removing or capping the tax exemption for municipal bonds would increase our borrowing costs significantly, an increase that would impact our taxpayers and utility ratepayers directly. If either proposal were enacted, we would have to choose between delaying needed investments or pushing these higher costs onto the public.

Taxing municipal bonds for the first time in history would be counterproductive to creating jobs and ensuring American competitiveness. This would ultimately discourage investments in infrastructure and increase costs that will be borne disproportionately by small businesses and low or fixed-income households that can least afford it. Given what is at stake in the Gulf Coast and cities across the nation, I urge members of Congress and the administration to support preserving the tax exemption of municipal bonds as they consider infrastructure financing and tax reform proposals this fall.

THE HILL

BY MAYOR STEPHEN BENJAMIN, OPINION CONTRIBUTOR — 09/14/17 10:00 AM EDT

Stephen K. Benjamin is mayor of Columbia, South Carolina. He is vice president of the U.S. Conference of Mayors and chairman of the Municipal Bonds for America.

Muni Market Holds Up Well During Hurricane Onslaught.

The municipal bond market actually rose last week, even as Hurricane Irma fears and the reality of Hurricane Harvey's path of destruction gripped the country.

The iShares National Muni Bond ETF (MUB) rose 0.38% last week bringing its total return to 4.8% year-to-date.

Much of that gain came because interest rates fell as investors rushed to safe haven government bonds. The The iShares 7-10 Year Treasury Bond ETF (IEF) rose 0.82%.

On Monday morning, when Irma passed through Florida without wreaking as much havoc as feared, the pattern was reversed. Rates were rising and munis were down, but by less than Treasuries.

IEF was down 0.5% to $108.13 at 12:30 p.m. ET, while MUB was down 0.13% to $111.51.

CreditSights' Pat Luby highlights these points Monday:

- Munis rallied last week, but underperformed Treasuries.
- On a relative basis, munis are cheap to Treasuries in the 5, 10 and 30 year spots.
- Muni trading volume last week was the slowest since the week of July 4th.
- The new issue calendar has picked up, with $7.4 bn scheduled for this week, including 20 long-term issues of $100 mn or more.
- Last week was the 9th week in a row with positive muni fund flows, but YTD flows are down 53% versus the same period last year.

And here's how Wilmington Trust summed up last week's muni market action:

> Despite worries over the potential damage caused by hurricanes Harvey and Irma, the tax-exempt municipal bond market forged ahead over the holiday -shortened week, to deliver the best return in seven weeks. In fact, last week ranked twelfth of thirty-six thus far in 2017. Certainly the risk-off tone prompted by the goings on in North Korea, and the consequent rally in the benchmark 10-year U.S. Treasury note helped move municipal interest rates lower. Per se, we think it entirely reasonable for domestic fixed income markets to begin the upcoming week with a positive tone. The new issue calendar for the next five days is heavier than last week's, as we would expect, but supply is running behind 2016 year-to-date levels, and demand appears strong enough to absorb it.

Barron's

By Amey Stone

Sept. 11, 2017 12:47 p.m. ET

How Will the Bond Market Hold Up Against the One-Two Punch of Irma and Harvey?

Investors are wondering how the bond market will handle the one-two punch of Hurricane Harvey and Hurricane Irma.

Some market participants expect the economic impact of the devastation to take a third Federal Reserve rate increase off the table for this year by slowing down the pace of inflation. Others have argued credits for municipalities hurt by the hurricanes may suffer a drop in their ratings, or at least a perceived drop in their ability to pay their debts.

See: Here’s what history says about Hurricane Irma and the stock market

To answer the question, John Mousseau of Cumberland Advisors and his colleague Gabriel Hament tested how bond yields reacted in the wake of hurricanes over the past 30 years. To do this, they tracked the 12 most destructive storms during that stretch and tracked how the U.S. 10-year Treasury note yield TMUBMUSD10Y, +0.76% and the Moody’s municipal bond yield, a gauge of the average yield for high-grade municipal bonds, changed after landfall.

They acknowledged that their experiment could prove flawed if only because the strength of Harvey and Irma are expected to surpass the strength and ensuing destruction wrought from previous hurricanes.

The pair of bond investors found that the data was more mixed and less conclusive than they had expected, even if the general trend suggested bond markets tended to experience a yield rise, meaning a fall in bond prices, more often than not six months after a hurricane (see table below).

Six months after a hurricane, long-dated Treasury yields increase even as municipal bond yields show little change

Treasurys felt the bigger blow with the 10-year benchmark Treasury yield rising more than 13 basis points after a hurricane. Kotok and Hament think this “points to overall better insurance coverage as well as quicker response by federal agencies with relief dollars. This response translates, of course, into a higher level of economic activity in the years after a storm, and the bond markets perceive a potentially higher level of inflation.”

The impact for municipal credits, however, was more muted as changes in muni yields have to be adjusted for their tax-exempt status. In effect, a move in municipal bonds is more pronounced relative to a move in Treasurys. But even after six months, the hurricanes barely moved the needle for municipal credits, in part because hard-hit areas make an eventual recovery.

Kotok and Hament’s overall findings jibe with New York Fed President William Dudley’s point that hurricanes “unfortunately” lifted economic activity through rebuilding efforts. But other economists have suggested the actual impact wouldn’t show up in gross domestic product figures, with the real blow being dealt to levels of household wealth in affected areas.

See: Fed’s Dudley says hurricanes Harvey, Irma to give boost to U.S. economy

For example, Mark Vitner, senior economist at Wells Fargo, told MarketWatch a week ago that flooded automobiles after Hurricane Harvey would need to be replaced, putting Texans in a worse position overall. “When they buy a new [car] that shows up as stronger GDP and the person feels better. But the stock of wealth is not better. We destroyed a car,” he said.

MarketWatch

by Sunny Oh

Published: Sept 8, 2017 4:23 p.m. ET

Commentary: Historic Hurricanes Present a Challenge for Muni Market.

As Hurricane Harvey’s floodwaters begin to recede in Texas and Louisiana and Hurricane Irma bears down on Florida, we are just beginning to focus on the many tasks ahead. The focus of this comment is the consideration of public assets in everyday life; the prospects for accomplishing the rebuilding with municipal financing, and the effect on credit quality for the credits affected by these forceful and devastating storms.

I have a great deal of empathy for the challenges and the suffering that people face in the Greater Houston area and along the coast. Having had to deal with the tragedy of 09/11 and the damage and disruptions of Sandy first hand, I truly know what you are going through and I hope for the best for you.

In Texas, we will need to begin to focus on the fine points of damage estimates and the challenging tasks of recovery, debris removal and rebuilding. Given the fact that access at this point to properties is just not practical, drones are really proving their worth. Assessments must be made by claims adjusters no matter which approach is utilized. Early estimates of industrial and commercial damage have been in the $20 billion range for the commercial insurers, though at this point the number is just an educated guess. The number will be revisited many times before the aggregate total is more accurate.

The damage estimates when they become formal are likely to lead to property tax appeals that are likely to exert additional pressure on local property taxes. The latter is the fundamental support for school districts in Texas and for local governments.

In the municipal market we are concerned about all aspects that will affect the outcomes, especially for public assets. As reported, the preliminary ask to Congress is going to be approximately $180 billion. The rationale for this number will need to be strongly supported with facts and refined damage estimates. In a post Sandy world this aspect has become highly politicized. However, when the final vote comes I would trust that we will do right by the people in the zone.

The Municipal Promise

What can be accomplished by tax exempt financing? The programs authorized for the Sandy recovery were very specific as to amount, time and purpose. In the case of Harvey, this consideration may take more than one week when Congress is in session. The pressing needs will still dictate that swift action will be a factor in the process. But it is probable that the recovery package that is formulated by Congress will be patterned after what has come before.

The muni industry can get a lot of supply to market very swiftly. The market is starved for supply and a surge of Texas paper could be absorbed easily. It does not matter that the bond paper constitutes national names versus specialty state paper. There is the added kicker to the prospective buyer that in addition to sufficient yield that the buyer is assisting in the effort to rebuild.

The impact on the states and its localities is quite real and discernable. In a different market than the one we are in at present, bonds would potentially trade off more given the potential for credit concerns. In this market now, this condition is not quite the case.

Most local governments have some kind of specific event, blanket insurance, or self-insurance policies against property damage and loss. Flood coverage is often the most difficult to obtain and is not as prevalent. It is impossible to obtain flood when the improvement is in the flood plain. Ultimately, this means that the Issuer is question has to go out of pocket to the extent there are no other reimbursements pending.

In light of this event, we may want to revisit whether relaxing regulations for building in the flood plain should be acceptable. In the event there is no other coverage, FEMA is called upon.

Lessons Learned

The lessons learned from Katrina and Sandy are many. We should hearken back to some of those lessons but we should also be very cognizant of where we may make improvements in the recovery effort so as not to disturb the underlying credit quality.

I had the opportunity to visit New Orleans just a couple of weeks after Katrina. I did not fully appreciate what the Army Corps of Engineers was talking about when they referred frequently to the “bathtub”. There I was standing in the Ninth Ward viewing the destruction. I looked at the one structure that was standing on that block and realized that the lip of the levee was higher than the roof of that structure. All was clear. I just relay this experience because actual inspections will make a difference.

Different structures will have an array of specific damage incidents. Many structures will be affected by electrical and HVAC damage. Concerning the former, in the case of Sandy, the salt water did a great deal to compromise cables and systems. Generators were overcome by the flooding. HVAC systems were water logged.

The Potential Credit Impacts

In Texas, on average, the physical plant is much more youthful particularly in an area such as Houston that has experienced a great deal of growth in recent years. In many cases, the HVAC systems for schools, civic centers, and other important structures are on the roof. It is not likely that all of them are situated this way. Electrical cables generally are run from the street in heavy conduit, but, eventually they have to come above ground.

Primary and Secondary schools for the most part are among the best designed structures around. It is just that there is no way to fully design and prepare for an event such as this one. Most of the schools in the state have the Permanent School Fund backing for their bonds. The integrity of the payment stream for school bond payments is well protected. What will take time is what damage that is not covered by any kind of insurance will have to be repaired with the proceeds of a financing. Of course, some schools have relatively large fund balances but those balances are primarily maintained due to the unevenness of the cash flow. Some repairs will be done out of pocket or with bank loans. Extensive damage will require bonding of some kind.

I have focused on schools because there are just so many of them. Houston ISD on its own has 283 schools serving over 210,000 students.

Now we need to turn our attention to all of the other public assets out there. We cannot fully cover these in a commentary of this kind but they include roads, bridges, airports, governmental centers, civic centers, police & fire stations, water & sewer systems, levees, etc. You have the picture. Each asset has its own discrete set of considerations and challenges for recovery.

Turning to credit quality of the local issuers, most of the credits in the state are evaluated at an A or higher. Fund balances of 5% or more and relatively steady assessed valuation growth are common features. Most of the GOs at the local level are covered by specific millages that are dedicated to the repayment of debt. What this means is that the damage would have to be very significant before the GOs would have an insufficiency. However, downgrades for localities with weaker financial positions going into the event may be harder to forestall. There may be some cheapening in the trading of local paper.

The state itself is reliant on the sales tax for over 50% of its general fund revenues. A depressed level of activity in the Greater Houston area is likely to have some impact on the state's budget in the near term. In the longer term, the state is likely to experience a boost when the repairing, rebuilding and refurbishing commence. This effect would only be somewhat mitigated by any programs to grant sales tax breaks on the rebuilding materials. However, the hours paid for in the rebuilding will still yield some economic uptick. This effect is likely to be delayed for some months. Given the state is AAA, we do not think that these factors will have an overly pronounced effect on the state's creditworthiness.

Revenue bonds will need to cope with a diminution or cessation of revenues for a period of a couple of months or longer. Some of the outcome depends on whether the asset that is linked to the cash flow is in service or not. This is part of the reason that revenue bonds have excess coverage and reserve funds. Water & Sewer systems tend to operate with somewhat tighter coverage due to rate pressures. Most systems have more coverage than what is called for in the rate covenant as a buffer against events both large and small. Water & Sewer systems are also somewhat easier to repair and need to be due to public health considerations. We could discuss the other sectors, but, you have the idea by now. Some sectors may trade off than others for a time. Analysts will be poring over reports to see which bonds may be more subject to challenges.

Irma in some ways may pose an even greater challenge to Florida, Georgia and the Carolinas depending on the trajectory of the record winds associated with this event. Florida has anticipated a storm such as this one with the creation of the CAT fund. The fund has had the benefit of a long period of time to build assets without the incidence of any major events. The fund has also had a long standing practice of issuing relatively short term debt to have ready cash available for just this kind of event. The protection afforded by the presence of the CAT fund would prove its worth if a major event develops over this coming weekend.

In the end, the repairs and the rebuilding will be pursued apace. Few credits, if any, will experience such a degree of damage that even with the consideration of state and federal aid programs they cannot sustain their operations.

We are hoping for the best outcomes for all. The municipal market will do its best to create and place any financing that is required and we will do it in a fashion that is efficient and at the lowest possible cost. We know how to deliver.

The Bond Buyer

By John Hallacy

Published September 07 2017, 10:44am EDT

[S&P: How Long 'Til We Get There? Major Post-Hurricane Recoveries In Recent Years.]

As we write this, we don’t know what’s going to become of Hurricane Irma, which is currently churning through the Caribbean. But we do know that Hurricane Harvey inundated Houston and its environs with record rains for days last month, and now the fourth largest city in the U.S. is left to clean up and rebuild.

Continue Reading

Sep. 7, 2017

Kroll: Bond Insurers’ Exposure to Harvey and Irma.

Kroll Bond Rating Agency (KBRA) has published a comment on the effect of hurricanes Harvey and Irma upon the bond insurers. KBRA sees no rating impact on the bond insurers it rates from the effects of Harvey and Irma. Natural disasters have not led to increasing defaults in the past although they can contribute to financial strain and downgrades. Nonetheless, it remains to be seen how deep and long lasting the impact will be given the scope and severity of these events.

To access the full report, please click on the link below:

The Bond Insurers’ Exposure to Harvey and Irma

If you have any difficulties accessing the report, please contact info@kbra.com or visit www.kbra.com

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S&P: No Respite For Re/Insurers As Hurricane Irma Prepares To Give A Big Jolt.

First and foremost, as Hurricane Irma unfolds, S&P Global Ratings continues to hope for the safety and wellbeing of the many people who will be affected by this devastating and potentially deadly event.

Continue Reading

Sep. 8, 2017

[S&P: While Hurricane Irma Prepares For Landfall, Florida Is Already Braced For The Assault.]

NEW YORK (S&P Global Ratings) Sept. 8, 2017—S&P Global Ratings today said that the State of Florida (AAA/Stable/–) is well-positioned, to the extent possible, to confront the potential demands of a catastrophic storm, namely Hurricane Irma, given the state's governing framework and infrastructure.

Continue Reading.

Credit FAQ: How To Evaluate Potential Rating Impacts For K-12 School Districts In The Wake Of Natural Disasters Like Harvey And Irma.

In the aftermath of any natural disaster such as a hurricane, we acknowledge that leading up to and immediately after the disaster, management teams are focused on emergency responses, public health and safety, and supporting the general welfare of residents in the area. While management teams address these issues, we recognize market participants' desire to understand …

Continue reading.

Sep. 11, 2017

S&P: In A Storm's Aftermath - Assessing The Impact On Local Government Credit Quality.

After tracking toward Miami for days, Hurricane Irma changed direction several times before making landfall and eventually deteriorating to a Category 1 storm before leaving Florida. The sheer size of the hurricane was enough to ensure destruction on some level, but even knowing now where the majority of damage was sustained cannot tell us what the impact on the affected credits will be.

Continue reading.

Sep. 13, 2017

S&P Bulletin: U.S. Virgin Islands Water & Power Authority Revenue Bonds' Credit Quality Will Likely Deteriorate After Irma.

NEW YORK (S&P Global Ratings) Sept. 8, 2017–S&P Global Ratings said today that the impact of Hurricane Irma on the credit quality of U.S. Virgin Islands Water & Power Authority's (WAPA) electric system revenue bonds will most likely be negative. However, we have not taken a rating action on the bonds as of yet.

Continue reading.

Visualizing Hurricane Harvey's Impact on Houston's Neighborhoods.

Questions loom about the Houston housing market after Hurricane Harvey dumped 9 trillion gallons of water on the city last week.

Questions loom about the Houston housing market after Hurricane Harvey dumped 9 trillion gallons of water on the city last week. Houston is the fifth-largest metropolitan area in the United States, and the housing market has rapidly expanded there in recent years.

Harvey's aftermath puts an enormous hurdle in front of all homeowners and renters but will be a particular setback for low-income, minority families recovering from the 2008 housing bust. As policymakers consider the path to rebuilding, here are five facts to keep in mind about the storm's impact.

(The maps below show the extent of Hurricane's Harvey flooding in Houston, along with key housing variables. Although the flood maps indicate which areas were hardest hit, not all homes in flooded areas will suffer flood damage.)

Continue reading.

The Urban Institute

by Sarah Strochak & Bhargavi Ganesh

September 15, 2017

Hurricane Irma Adds New Fiscal Strain for U.S. Territories.

Hurricane Irma's destructive path through the Caribbean is exacerbating financial crises in Puerto Rico and the U.S. Virgin Islands.

The storm downed power lines and left more than 1 million power customers in Puerto Rico without service on Thursday, forcing hospitals to activate backup generators and disabling water service for more than 221,000, according to the island's government. The coastal capital of San Juan in the north registered waves of up to 30 feet, and Governor Ricardo Rosselló warned of possible landslides and floods on the saturated terrain.

The physical damage is another stress on the island's dilapidated and inefficient power infrastructure, already weakened by years of neglect and underinvestment. Puerto Rico's central government and its public power monopoly are both under bankruptcy protection, the culmination of years of over-borrowing and economic stagnation on the island. Congress last year installed an oversight board to renegotiate roughly $73 billion in debt and coax business interests back to Puerto Rico.

“The government is incurring a lot of expenses to manage the emergency,” said Rep. Jenniffer González (R.), Puerto Rico’s nonvoting representative in Congress. “The major problem is our power grid is down.”

Not all the cost of rebuilding will fall on Puerto Rico. The U.S. Senate on Thursday advanced legislation providing $15.25 billion for relief and recovery efforts for the Harvey and Irma hurricanes as part of a compromise to keep the federal government open and the debt limit suspended until Dec. 8.

But the recovery effort will unfold against a financial crisis that has pitted Wall Street firms demanding repayment on Puerto Rico’s defaulted municipal bonds against its federal financial supervisors, who are trying to minimize obligations to creditors.

How the repair costs will affect this multibillion-dollar standoff will likely be determined by the courts. Creditors have criticized the oversight board’s plans to allow private partners to take over the Puerto Rico Electric Power Authority’s generation assets without fully repaying its $9 billion in debt.

Lengthy power outages “will have negative impacts on Prepa’s revenues” and ”could impact ultimate recovery for bondholders,” Rick Donner, senior credit officer at Moody’s Investors Service, said.

Electrical workers surveying the damage are estimating it may take six days to reconstruct concrete high-voltage lines destroyed in the storm and have no firm estimate on the time to restore service to residential and business consumers, according to a person familiar with the matter.

Gov. Rosselló said Thursday that officials were beginning the process of evaluating the damage and warned that another 5 inches of rain could come as Irma drifted toward Florida. Some regions in Puerto Rico had already received a foot of rain. Emergency officials are bracing for another possible hit from Hurricane Jose, which strengthened to a Category 3 storm Thursday.

Noel Zamot, the oversight board official tasked with encouraging private investment, said he was examining whether an expedited infrastructure permitting process established by Congress could be invoked to help critical energy infrastructure.

The process “was not meant for disaster recovery; it was meant for an emergency,” he said. “But…a disaster can constitute an emergency.”

Power service was also affected in the U.S. Virgin Islands, Puerto Rico’s smaller Caribbean neighbor. The U.S. Virgin Islands has never defaulted on its obligations but shares many of the same fiscal weaknesses as Puerto Rico. Emergency responders on Thursday were clearing roadways, distributing food, removing downed power lines and relocating occupants of damaged shelters.

The Roy Lester Schneider Hospital on the island of St. Thomas was no longer able to care for its patients after its roof was destroyed, the government said in a news release. Emergency responders relocated critical patients to another hospital on St. Croix and were finalizing plans to evacuate all other patients to hospitals in Puerto Rico.

The Wall Street Journal

By Andrew Scurria

Updated Sept. 8, 2017 11:09 a.m. ET

Trump Infrastructure Plan Seeks to Shift Decisions - and Bills - to States, Cities.

White House puts localities in driver's seat for funding as it aims for $1 trillion goal, but some local officials raise alarms

Top advisers crafting President Donald Trump's infrastructure plan say they aim to upend the way U.S. public works are financed, shifting the bulk of the decision-making and costs to states and cities and away from Washington.

The administration is proposing $200 billion in new federal funding as the central piece of its $1 trillion plan to improve the nation's infrastructure. President Donald Trump frequently cited the need for upgrades on the campaign trail.

Most of the $200 billion, White House officials say, will be parceled out as incentives to localities that raise their own funding for building projects, with the aim of reaching the administration's overall goal. Cities and states could turn to private-sector financing or levying tolls and taxes to pay for new bridges and roads instead of relying on the federal government for the bulk of the funding.

"Right now the dynamic is: Come, ask for a whole lot, bang on the table, have your economic studies showing the tens of thousands of jobs that will be created, have your regional study saying this will transform America, bang on the table some more, hire some lobbyists and you get money," a senior White House official said in a recent interview. "We'd rather have people come and say, 'Listen, we're chipping in this much, give us this little increment and we can make this thing happen.'"

The administration's approach—which it hopes to deliver this fall to Congress as a set of "principles" for legislative action—alarms supporters of some of the country's biggest planned projects, who say that local cost-sharing and private financing efforts would fall well short of making up for sharply reduced federal funding.

Funds for roads, bridges and other infrastructure currently come from a variety of sources, including the Federal Highway Trust Fund and formula grants that the administration says it will maintain.

The proposed 20-80 split of federal to local contributions would dramatically change parts of the current system. Though funding levels vary, the federal government generally pays about 80% of highway projects and up to 90% of projects at airports, with the remainder coming from local government. In mass transit and passenger rail, there is no formula funding, and the federal share of funds varies widely, as local systems compete for grants by offering to accept smaller shares of federal money.

The Trump White House wants to continue and expand some priorities of the Obama administration, including encouraging the use of public-private partnerships where possible, and expanding low-cost federal loan programs to help pay for major building projects.

At the same time, the White House wants to change the way states and cities approach the pools of federal capital that are used to initiate large projects, saying Washington can encourage local governments to make smarter investments by awarding grants to communities that compete based on how much of the cost they are willing to take on themselves.

"If we're putting in a dollar, we want a state or a locality to have ideally four dollars that they're putting in," the senior official said. "This gets us to the trillion."

Talking to local government officials about the incentive plan earlier this week, White House Budget Director Mick Mulvaney said he had spoken to a governor who was nearly ready to begin a $200 million bridge project, and needed just $20 million from the federal government to complete the financing.

“That’s the kind of thing that we want to put at the top of the list,” Mr. Mulvaney said.

Still uncertain is whether that approach will work on projects with much larger price tags. Officials working on a proposed new railroad tunnel under the Hudson River and related improvements say they were concerned at the White House’s refusal so far to commit to a large share of the more than $29 billion cost.

Republican New Jersey Gov. Chris Christie and Democratic New York Gov. Andrew Cuomo have said they expect the federal government to cover half the cost of the Gateway project, which also includes bridges and track improvements. The White House looks on such calls for funding as just the sort that they would like to curtail.

“There’s no people or economic activity in that region that could possibly cover the cost of that?” said the administration official, when asked about a recent appeal by Mr. Cuomo for federal aid for the project. “I think that’s a tough sell, would be my response.”

The suggestion that New York and New Jersey could pay their own way on the project, while not a final decision on federal funding, shocked some of the tunnel’s advocates. Already, local officials say the state and local share of infrastructure investment has been rising, thanks to congressional gridlock and no increase in the federal gasoline tax to help pay for public works.

“You’re just not going to be able to raise the level of funding that’s necessary” without federal support for the tunnel, Amtrak Co-Chief Executive Richard Anderson said in an interview.

Even with project leaders seeking private investors to help finance the tunnel project, direct federal funding is essential to making the project feasible, said Scott Rechler, the chairman of the Regional Plan Association, a research organization that studies mobility and transportation in the greater New York region.

“It’s an absolute impossibility for the states to be able to handle these projects on their own,” he said.

There have been early signs of resistance from the Republican-controlled Congress, which will draft and ultimately vote on the administration’s plan. A Senate transportation subcommittee reversed an array of 2018 budget cuts proposed by the White House, including in infrastructure grant programs relied on by states and cities for new transit lines.

The White House also acknowledges that it faces a crowded autumn calendar. The senior official said that the administration still plans to take up infrastructure only after it tackles a proposed overhaul of the tax code. And Congress must also handle more immediate responsibilities first, including raising the federal borrowing limit and agreeing on a budget for fiscal year 2018. The administration still plans to send its principles to congressional leaders some time this fall, but the timeline will be dictated by the progress of the tax bill.

The Trump administration points to the rising number of local initiatives raising funds for infrastructure, including in regions with Democratic leaders, as evidence for the wisdom of its approach.

In Los Angeles, a 2016 ballot initiative to raise taxes for a 40-year, $120 billion plan to maintain and expand the region's mass-transit system passed with more than 70% of the vote. Officials in the administration of Mayor Eric Garcetti, a Democrat, have spoken with Trump administration officials to express their enthusiasm for a federal funding formula that rewarded cities and regions that help raise their own capital, according to city and White House officials.

On top of the local funding, the Los Angeles plan still anticipates billions in grants from the federal government over the next several decades, a city official said.

In West Virginia, Gov. Jim Justice, a Democrat who turned Republican this summer in a show of support for Mr. Trump, helped push through a package of tax and fee increases to expand the state's capacity to repair and extend its highway network.

"The days of the federal government bailing us out on infrastructure are gone," said Illinois Transportation Secretary Randall Blankenhorn, an appointee of Republican Gov. Bruce Rauner.

Mr. Blankenhorn has urged the state legislature to consider options from new tolls to increased taxes to support investment in the state's highways and railroads.

"We're going to have to find other sources" of funding, Mr. Blankenhorn said. At the same time, he said: "I do think that there's still going to be a role for the federal government in those major, mega projects."

THE WALL STREET JOURNAL

by TED MANN

Sept. 1, 2017 2:43 p.m. ET

Fitch Focus on Munis: Shift in Federal Trade Policy Could Hurt Select State and Local Economies.

Fitch Ratings-New York-30 August 2017: Some U.S. States and metropolitan markets could face economic challenges if U.S. trade policy – notably related to NAFTA – shifts dramatically, according to Fitch Focus on Munis, a monthly series that examines the major forces effecting change across municipal finance.

For 2017, the series concentrates on three issues: healthcare, pensions and federal policy.

"Even before taking office, President Trump and his cabinet nominees struck a decidedly different rhetorical tone on trade than their predecessors," said Michael D'Arcy, a Director in Fitch's US Public Finance group. "While many details of the Trump administration's policy shifts remain unclear, current regional exposure to trade and border traffic with Mexico and Canada can illustrate where federal policy change could have the greatest impact."

Michigan is most at risk to changes in NAFTA because its economy is the most interconnected of all U.S. states with Canada and Mexico. Potential risks include lower sales and income tax revenues, which would likely transfer to localities through curtailed state revenue sharing and lower school funding. The tax bases and income tax collections of its most export-dependent localities, particularly those in the Detroit-Warren-Dearborn area, would also be affected.

Other states most at risk include North Dakota, which sends 82 percent of its exports to Canada, and New Mexico, which sends 43 percent of its exports to Mexico.

Texas's vast size and economic diversity, and the global reach of its petroleum and chemical industries, provide it with a degree of insulation from NAFTA, despite sending Mexico 40 percent of its exports.

California would also be isolated by its size and economic diversity, notably its overseas exporting relationships. Border traffic is an economic factor in only a handful of counties and localities situated at the state's southern tip.

Click here to view Fitch's "Trade in the Time of Trump" infographic.

For the September 2017 report, Fitch Focus on Munis will address additional, potential challenges associated with shifts in federal trade policy.

About Fitch Focus on Munis
Fitch Focus on Munis is a monthly report series that explores the critical issues faced by U.S. public finance.

Fitch Focus on Munis leverages Fitch's unique insights backed by data and experience, and a commitment to providing forward-looking analysis, to deliver an in-depth examination of emerging opportunities and challenges in U.S. public finance.

For more information, the special report "Fitch Focus on Munis: Federal Policy – Trade in the Time of Trump, Part 1" is available at www.fitchratings.com.

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Bloomberg Brief Weekly Video - 08/31

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

Watch video.

Bloomberg

August 31, 2017

New Math Deals Minnesota's Pensions the Biggest Hit in the U.S.

- **State's public pensions go to 7th-worst funded from 30th**
- **"It's a crisis," says director of pension commission**

Minnesota's debt to its workers' retirement system has soared by $33.4 billion, or $6,000 for every resident, courtesy of accounting rules.

The jump caused the finances of Minnesota's pensions to erode more than any other state's last year as accounting standards seek to prevent governments from using overly optimistic assumptions to minimize what they owe public employees decades from now. Because of changes in actuarial math, Minnesota in 2016 reported having just 53 percent of what it needed to cover promised benefits, down from 80 percent a year earlier, transforming it from one of the best funded state systems to the seventh worst, according to data compiled by Bloomberg.

"It's a crisis," said Susan Lenczewski, executive director of the state's Legislative Commission on Pensions and Retirement.

The latest reckoning won't force Minnesota to pump more taxpayer money into its pensions, nor does it put retirees' pension checks in any jeopardy. But it underscores the long-term financial pressure facing governments such as Minnesota, New Jersey and Illinois that have been left with massive shortfalls after years of failing to make adequate contributions to their retirement systems.

The Governmental Accounting Standards Board's rules, ushered in after the last recession, were intended to address concern that state and city pensions were understating the scale of their obligations by counting on steady investment gains even after they run out of cash — and no longer have money to invest. Pensions use the expected rate of return on their investments to calculate in today's dollars, or discount, the value of pension checks that won't be paid out for decades.

The guidelines require governments to calculate when their pensions will be depleted and use the yield on a 20-year municipal bond index to determine costs after they run out of money.

The Minnesota's teachers' pension fund, which had $19.4 billion in assets as of June 30, 2016, is expected to go broke in 2052. As a result of the latest rules the pension has started using a rate of 4.7 percent to discount its liabilities, down from the 8 percent used previously. Its liabilities increased by $16.7 billion.

The worsening outlook for Minnesota is in line with what happened nationally. Pension-funding ratios declined in 43 states in the 2016 fiscal year, according to data compiled by Bloomberg. New

Jersey had the worst-funded system, with about 31 percent of the assets it needs, followed by Kentucky with 31.4 percent. The median state pension had a 71 percent funding ratio, down from 74.5 percent in 2015.

For a look at Bloomberg's pension ranking, click here.

While record-setting stock prices boosted the median public pension return to 12.4 percent in 2017, the most in three years, that won't be enough to dig them out of the hole.

Only eight state pension plans, in Minnesota, New Jersey, Kentucky and Texas, used a discount rate "significantly lower" than their traditional discount rate to value liabilities, according to July report by the Center for Retirement Research at Boston College.

"Because of that huge drop in the discount rate under GASB reporting, their liabilities skyrocket," said Todd Tauzer, an S&P Global Ratings analyst. "That's why you see that huge change compared to other states."

Public finance scholars at George Mason University's Mercatus Center have found "considerable variance" in how states were applying the new standards. In Illinois, for example, despite the state's poor history of funding its plans, actuaries project they won't run of money until 2072.

In Minnesota lackluster returns and years of shortchanging have taken a toll. The state's pensions lost 0.1 percent in fiscal 2016.

But other factors also helped boost Minnesota's liabilities: Eight of Minnesota's nine pensions reduced their assumed rate of return on their investments to 7.5 percent from 7.9 percent, while three began factoring in longer life expectancy.

Minnesota funds its pensions based on a statutory rate that's lower than what's need to improve their funding status. School districts and teachers contribute about 85 percent of what's required to the teacher's pension, according to S&P Global Ratings.

"It's woefully insufficient for the liabilities," said Lenczewski, the director of Minnesota's legislative commission on pensions. "You just watch this giant thing decline in funding status."

Bloomberg Markets

By Martin Z Braun

August 31, 2017, 2:00 AM PDT

Trump Wants States and Cities to Pay More for Infrastructure.

The White House said this week that it also aims to cut red tape. Many state and local officials like the idea of less regulations but fear less funding.

The White House envisions that a long-promised infrastructure package would streamline the federal approval process for major projects and also require states and localities to shoulder more of the financial burden for building them. It's a shift in focus from the Obama administration, which had pledged to increase infrastructure funding but never came up with a long-term solution.

“I can assure you that building a road, building a bridge, building a sewer plant, is the easy part,” said Mick Mulvaney, director of the Office of Management and Budget to a gathering of 150 state and local transportation leaders on Wednesday. “Getting permission to build it is the really, really hard part.”

Mulvaney not only said they wanted to reduce Washington’s role in state and local projects but also offer new “incentives” to help them complete projects.

“We’re trying to figure out how to use a little bit of [federal] money to generate a lot of money, to give state and locals the incentives to do stuff you might not otherwise do,” he said.

One East Coast governor told Mulvaney, for example, that his state needed another $20 million to complete a $200 million road project.

“That’s the kind of thing that we want to put at the top of our list, where our money gets you over the edge,” Mulvaney said.

The administration called the group to Washington to gather ideas and feedback for the infrastructure bill that President Trump has talked about since his campaign. Over the last year, though, Trump and his team have provided few concrete details about the proposal.

While many state transportation leaders welcome streamlined regulations, nearly all of them also worry about federal funding for future projects. The federal highway trust fund — the main source of transportation funds — is running a deficit because Congress hasn’t raised the gas tax since 1993. Those fears were compounded by Trump’s budget proposals, which called for cuts in transportation spending, particularly grants to launch new transit systems and other big-ticket projects.

The president insists infrastructure is one of his top priorities, but it is on the legislative backburner for now. Congress must deal with several time-sensitive issues, like hurricane relief, raising the debt ceiling and passing a federal spending plan for the fiscal year starting in October. Republican leaders have also said they would like to overhaul the country’s tax code — no easy task — before moving onto infrastructure.

Trump himself has tried to stoke interest in a new infrastructure initiative. He appeared at Trump Tower earlier this month with a flowchart meant to show the complexities of the federal approval process for major infrastructure projects. He signed an executive order to encourage agencies to speed up their decision-making, by, for example, issuing rulings on environmental issues within two years, on average. The order also instructs the government to designate one lead federal agency to shepherd all of the needed approvals for a project and come up with a single federal decision on whether it can proceed.

Many state and local officials praised those changes, but they were overshadowed when Trump used the press conference announcing them to revive a debate over his response to the white supremacist rally in Charlottesville, Va.

The same executive order has also come under scrutiny, especially since Hurricane Harvey hit Texas and the Gulf Coast, because it revoked a federal flood management standard established by the Obama administration that would require officials to plan for climate change.

At the White House meeting, U.S. Transportation Secretary Elaine Chao said the country needs a new approach for dealing with aging, congested and technologically lagging infrastructure.

“Previous attempts to address this problem relied upon massive borrowing and top-down federal control. This administration takes a different approach," she said, repeating the administration's pledge that it will use $200 billion in new federal spending to generate $1 billion over the next decade.

"To avoid saddling future taxpayers with unsustainable debt, the plan seeks to unleash billions of dollars in private capital for infrastructure investment," she said.

Along with new incentives, the administration plans on pushing for dedicated funding for infrastructure improvements in rural areas because sparsely populated areas would generally have a harder time coming up with money to match federal dollars, Mulvaney said.

The White House will also push for greater use of loan programs and investments in "transformative" technologies that could make infrastructure projects cheaper in the future. Mulvaney gave the example of NASA's move to privatize missions to Low Earth orbit using prizes and federal contractors.

"We should see if there's not new ways to build bridges, new ways to build tunnels, new ways to build ports and improve the stuff we have," he said.

GOVERNING.COM

BY DANIEL C. VOCK | AUGUST 31, 2017

The Week in Public Finance: Predicting Harvey's Fiscal Impact and More.

A roundup of money (and other) news governments can use.

GOVERNING.COM

BY LIZ FARMER | SEPTEMBER 1, 2017

How Green Bonds Can Bridge Infrastructure Financing Gaps.

The Rockefeller Foundation, along with two financial partners, is launching a new challenge to fund so-called green infrastructure and resilience efforts in the United States.

This comes at a portentous time, given the devastating flooding in Houston and President Donald Trump's rollback earlier this month of an Obama-era order requiring resilient building standards for infrastructure projects in areas exposed to floods or rising sea levels. Trump also promised to allocate $1 trillion to fortify U.S. roads, tunnels and bridges, but has so far failed to offer a plan to funnel public and private investment into these much-needed projects.

With the Rockefeller-backed project, two cities or counties will be selected to issue the first publicly marketed environmental impact bonds (EIBs), enabling them to use a "pay-for-success" model to fund these projects by sharing performance risks with private investors.

By purchasing a bond, investors have a stake in the successful outcomes of local municipal projects — and governments help green infrastructure get off the ground that needs to be piloted before it is widely adopted.

Continue reading.

GREENBIZ

by Anya Khalamayzer

Thursday, August 31, 2017 – 1:28am

S&P Credit FAQ: What We Look At When Analyzing Cash Flow Notes.

With a sluggish economy leading to sluggish revenue growth, cash and liquidity can be of greater importance when analyzing a state's or local government's (SLG) credit profile. S&P Global Ratings assigns ratings to cash flow notes that local governmental entities use to bridge the cash troughs in their budget cycles …

Continue Reading

Aug. 28, 2017

S&P Median And Credit Factors: Midwest Community College Districts.

S&P Global Ratings maintains active general obligation (GO) ratings on many Midwest community college districts. The following tables and charts provide data for publicly rated community college districts across the Midwest as of Aug. 30, 2017. We note most of the rated universe is within Illinois.

Continue Reading

Aug. 30, 2017

Municipal Bonds, Big Squeeze Getting Tighter - Bankruptcy No Longer Rare.

Summary

- Local general obligation bonds can be swept up in bankruptcies necessitated by an inability to pay other contractual obligations.
- Nationally, spending for health insurance has reached $3.2 trillion, or $10,000 per person.
- The negative impact on local governments that provide lifetime private health insurance for retired employees is substantial and growing.

Local taxation is higher than ever. Taxes go up or remain the same, but never go down. Yet, most of our local roads, bridges and other government infrastructure are in poor condition. Municipal bond issuance is not growing in line with capital needs, even though interest rates are still at historic lows. What else is happening that would make sense out of these seemingly contradictory facts?

Contractual financial obligations of municipalities (school districts, villages, towns and counties) include, but are not limited to, bonds and promissory notes issued to investors in exchange for cash. Bond proceeds are, for the most part, used to build and maintain infrastructure.

Another large category of municipal contractual obligations is defined benefit pension plans and the cost of lifetime health insurance for retired employees. Defined pension benefit versus defined contribution plans and lifetime health insurance have been long gone from America's private sector because they became unaffordable.

In nearly every municipal failure since Orange County, CA, in 1994, the entity could not afford to pay the sum of principal and interest, pension fund contributions, and the non-deferrable, ever-rising annual health insurance premiums for retirees. These municipalities used appropriation bonds to fund deficiencies in their pension plans. All the structures failed. In fact, most major losses suffered by bond holders were on appropriation-backed bonds, not general obligation bonds.

For more information on appropriation-backed debt used by many states and localities to circumnavigate constitutional limits on indebtedness, click here.

General obligation principal and interest payments and pensions contributions are fixed or predicable costs, depending on long-term investment performance for the latter. Contractual obligations are unsecured but have the borrower's unconditional promise to pay – the only way to obtain debt relief is in bankruptcy court. However, most of local and state pension plan benefits are granted under statutory laws whose terms can be changed at will by legislative action. It remains to be seen whether that legal distinction would protect unsecured general obligation bonds in a bankruptcy.

Health insurance, on the other hand, is a variable cost that only goes up. This is just as big a problem for states and the federal government who pick up the tab for Medicare and Medicaid for persons over 65 years of age. But that is not the case with many of the largest local and state retired employee health insurance plans.

Incredibly, these plans have not elected to switch to Medicare insurance from the much more expensive private health insurance. The result is states and the federal government save money, and the local government pays much more than necessary for retired employees' health insurance. Post-retirement benefits, excluding pension payments, are for the most part, agreements that are subject to negotiation and re-negotiation each year, with the employer having the final say. However, there doesn't appear to be any local political will to address the issue except in bankruptcy.

As it is, the current federal budget and structural deficits are the result of current and projected spending on health insurance premiums, which continue to be paid from Treasury borrowing.

In many cases, the cost of health insurance and pension funding can exceed by a wide margin the amount due each year on general obligation bonds. Thus, bankruptcy may be petitioned even when bonded debt is modest but employee benefit funding is unaffordable.

Growth in the cost of health insurance for the public and private sectors is so great (see chart) that it is the chief cause of the shrinking or slow growth in government capital improvement borrowing and a major contributor to local bankruptcies.

Characteristics that you don't want in an issuer of general obligation bonds, of which the presence of any two suggest looking elsewhere, are:

- Population loss of 5%+ in the past five years
- Declining real estate values
- Unemployment greater than or equal to 140% of the national average
- High overall real estate taxation. Total real estate taxes paid as a percent of the current market value of all taxable property yields the overall tax rate, which typically ranges from 1% to 3% of current or fair market value. Stay away from municipalities having overall property taxes greater than 2%, unless it's a high-income jurisdiction. Taxation approaching, equaling, or exceeding 3% is a major indicator of financial distress or inability to increase taxation without further damage to the local tax base.

These characteristics, in my experience, highly correlate to local governments in or heading toward serious financial distress for any number of causes.

Seeking Alpha

by Carl Dincsesen

Aug. 29, 2017 7:50 PM ET

Disclosure: I/we have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours.

I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

Neighborly is Working with California to Return Bond Financing to Individual Investors.

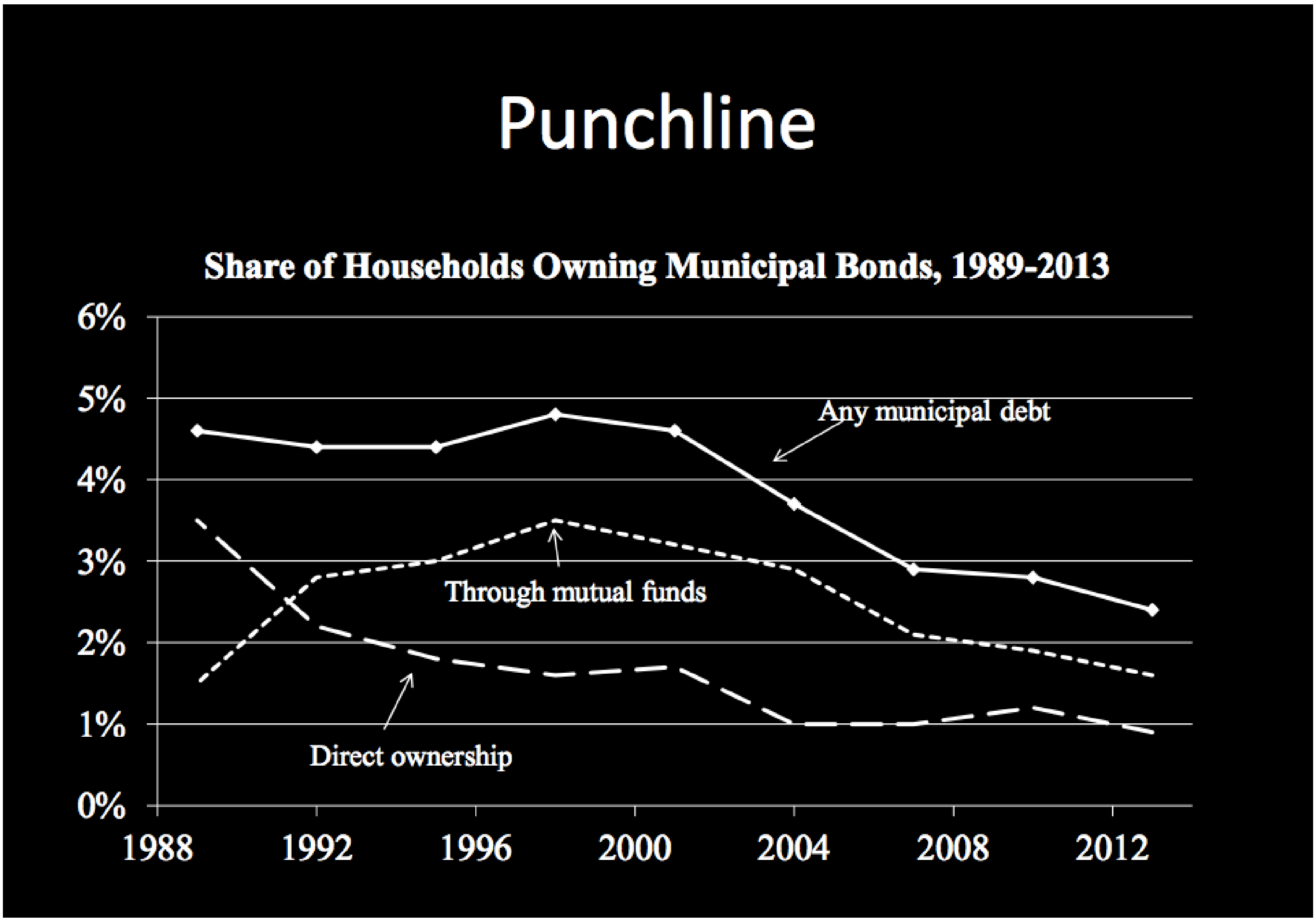
Looking to increase local participation in public financing, the State of California is adding early stage startup Neighborly as a certified bond seller to make municipal bond investments available to any and all backers.

Over 100 years ago, when the Golden Gate Bridge was just a glimmer in an urban planner's eye, residents from all walks of life banded together to buy municipal bonds to support the massive construction project.

People were mortgaging their houses to buy into the future growth of San Francisco and its surrounding regions.

Today the rates of participation of citizens paying for infrastructure projects are far lower.

Since its inception, Neighborly has billed itself as 'modern public finance' and the idea is an incredibly persuasive one.



The public bond market is massive — clocking in at roughly $3.7 trillion in 2016 — and it should be easier for citizens to invest in public works that will benefit their local community.

The California state site provides information about the bond offerings that are coming up, but the process for signing up for a service that sells the bonds is complicated and unwieldy.

Bond investment opportunities range from at least $5100 on the low end to at least about $6300 on the high end for the California General Obligation Bonds that are available this month.

When Neighborly raised its initial $5.5 million in funding two years ago from Joe Lonsdale's 8VC and Ashton Kutcher's Sound Ventures there was nothing even close to its easy functionality available in the bond market.

According to our story at the time:

> "I thought — why isn't there an AngelList for this?" Wilson said at the time, adding that 2.2 percent of a cities' total debt issuance goes toward the cost of borrowing on top of interest. On top of that, city governments can end up on the bad side of a deal that they are unable to evaluate as well as investment banks, which see deals day after day.

TechCrunch

Posted Aug 29, 2017 by Jonathan Shieber

[Pioneering Proposal: Kalamazoo Becomes 'Laboratory' for Philanthropy-Backed Municipal Finance.]

KALAMAZOO — About a year ago, William Johnston and Bill Parfet, two local businessmen with long-time connections to Southwest Michigan, approached the city of Kalamazoo with a potentially transformational proposal.

If the city created a nonprofit foundation, they committed to give a lead gift of more than $70 million and pledged to help raise upwards of $500 million by 2019 that the city could use to fund operations and supplement its normal sources of revenue.

In signing the articles of incorporation for the Kalamazoo Foundation for Excellence on Aug. 23, the city unlocked a funding mechanism that it will use to address generational poverty in Southwest Michigan's largest city. But aside from that lofty goal, the foundation funding will also have a more direct, tangible benefit for taxpayers: Immediately, the city plans to cut its property taxes nearly in half, using the foundation to make up the difference so it can pay for basic municipal services.

It's an unprecedented model — and far beyond the one-time donation Mayor Bobby Hopewell initially requested — but the structure of the funding has also drawn its share of critics, including within the ranks of the Kalamazoo City Commission. Still, if the foundation funding model proves to be successful in the coming years, it's sure to serve as an example for other cash-strapped cities around the country, according to Michelle Miller-Adams, a research fellow at the Kalamazoo-based W.E. Upjohn Institute for Employment Research.

"Other communities do have philanthropists and they make choices all the time about how they spend their money," Miller-Adams said. "Once they find out that this Foundation for Excellence transforms the community (and) reduces poverty, philanthropists in other communities may look and say, 'build an arena, or put money into the city budget?' We're kind of a laboratory for some extreme generosity approaches to urban governance. It's pretty interesting to watch."

Sources contacted for this report largely agreed that the Foundation for Excellence has the potential to pay significant dividends for the city of Kalamazoo, particularly when combined with the Kalamazoo Promise, the anonymously endowed foundation that offers free tuition to any graduate of Kalamazoo Public Schools who attends one of Michigan's public universities.

According to Kalamazoo City Manager, the creation of the Foundation for Excellence allows the city to solve multiple problems, including tackling complex societal issues such as poverty and access to housing, as well as to lower its property tax rate to a level that's competitive with many surrounding municipalities. What's more, the city gets to do it without having to implement an income tax, as officials had long discussed, he said.

The foundation also sends a powerful message to the private sector that might consider investing in Kalamazoo, Ritsema said.

"We're competitive and we'll remain competitive," he said. "We have so much to offer beyond taxes. We have a community that works on social issues."

For some local critics, the merging of municipal finance and philanthropy poses its share of concerns.

"I'm very hopeful it works out for Kalamazoo, but honestly, in the generic sense, it's really not a direction anyone should be going toward," City Commissioner Matt Milcarek told MiBiz.

Milcarek was one of two commission members to vote against incorporating the foundation.

"I think we already have some pretty blurred lines (around) wealthy control over government," he said. "If it works in Kalamazoo, it's going to work because of the benevolence of our particular donors. But to sort of promote a governmental finance system that relies on billionaires being benevolent is really a dangerous model to replicate."

'A TEST,' OF SORTS

In providing the lead donation, philanthropists Johnston and Parfet saw an opportunity to support a city where they have considerable financial and family roots.

"(T)he Donors are concerned with the long term viability of the City of Kalamazoo and its ability to meet only the basic needs of its residents but also its inability to invest in efforts to help create a dynamic and growing city," the two wrote in a Statement of Donor Intent last month.

Attempts to reach both Johnston and Parfet for comment were unsuccessful at the time this report went to press. Their avoidance of the spotlight comes as no surprise, said Miller-Adams, who believes the two businessmen would have preferred to fund the foundation anonymously. That the donations went to a public entity likely made preserving their anonymity challenging from a legal perspective, she said.

Johnston, the chairman of Greenleaf Companies, is married to Ronda Stryker, a scion of the Stryker Corp., a medical device manufacturer where she serves as a board member. Parfet, meanwhile, is an heir to pharmaceutical maker Upjohn Co.

Parfet, who founded MPI Research Inc., also served on the board of Stryker Corp., but resigned last year after becoming embroiled in a sexual harassment lawsuit involving a former employee. That case was settled out of court last week, according to a docket report for the U.S. District Court for the Northern District of California.

Both families hold considerable business interests in Southwest Michigan, meaning that if the foundation proves attractive for economic development, they could see financial benefit, according to sources contacted for this report.

Rob Collier, president and CEO of the Grand Haven-based Council of Michigan Foundations, noted that tax advantages often serve as a driver for philanthropic giving, but are not the primary reasons behind it.

It's common for philanthropic donors to seek some sort of return from giving, said Miller-Adams, adding that Johnston and Parfet have shown no interest in micromanaging the foundation.

"The preferences of powerful, wealthy citizens are always there. Things like the Western Michigan University medical school don't happen without those in power," said Miller -Adams, referring to the Stryker/Johnston family providing the lead $100 million gift for the Homer Stryker M.D. School of Medicine.

Nationwide, foundations and philanthropic ventures have long supported municipalities in various narrow capacities. Several sources cited organizations such as The Kresge Foundation and The Ford Foundation, which played key roles in helping engineer the so-called "grand bargain" that protected the artwork in the Detroit Institute of Arts and allowed Detroit to emerge from bankruptcy in 2014.

However, there's no precedent for a foundation stepping in to fund operations at the scope that could happen in Kalamazoo.

"I do think this is unique, innovative and in some ways a test," said Carrie Pickett-Erway, president and CEO of the Kalamazoo Community Foundation. "Communities need to be reinventing themselves these days in a lot of ways. Figuring out the funding structure to make communities vibrant, that's a big challenge. I do think the taxing structures that exist today are making it really hard for cities, counties and others to really be the community they want to be. I think we need to be innovative and creative and try something."

Pickett-Erway said her organization likely will be involved in engaging community members to sit on the 15-person board for the Foundation for Excellence, as well as potentially in helping to manage the endowment.

IDENTIFYING PARTNERS

Under the terms of an agreement with Parfet and Johnston, the city of Kalamazoo will get an initial $70.3 million over the next three years as initial funding for the Foundation for Excellence. The funding will allow the city to stabilize its budget and lower the property tax rate from 19.2705 mills to 12 mills, according to public documents. The city will also use $10 million of the initial donation to fund community projects over the three-year period, starting in 2017. Those projects will largely come about as part of the ongoing implementation of the Imagine Kalamazoo 2025 master planning process.

That money comes with "no strings attached," meaning the donors have no say over how the city spends it. At the same time, the philanthropists plan to raise a permanent fund of around $500 million from unspecified donors, including corporations, individuals and private foundations.

The nature of the funding continues to pose concerns for Commissioner Milcarek, who said he'd prefer the city implement an income tax rather than go the philanthropic route.

Milcarek's specific concern lies in the influence that donors to the fund could in theory exert over how it's spent, leaving insufficient funding for operations or basic services.

Kalamazoo City Attorney Clyde Robinson cited that scenario in a memo to the commission, noting the foundation's 15-member board should decide how to deal with restricted funds versus adding various stipulations to the group's bylaws.

"Rather than tie the hands of the FFE Board with language in the Articles or Bylaws precluding the acceptance of restricted gifts, some of which may be acceptable and consistent with the FFE purposes, this issue is best left to the FFE Board to craft a gift acceptance policy that can be reviewed and modified as circumstances dictate," Robinson wrote in the memo.

While critics likely will continue raising questions about the creation of a foundation to fund municipal operation, others see the merging of philanthropy and local government as a natural step, particularly given their shared goals of addressing social issues.

"We see cities with this overall set of objectives that they're trying to accomplish," said Chris Fabian, co-founder Denver-based municipal consulting firm ResourceX.

The firm worked with Kalamazoo for the last three years to identify community priorities and to align budgets based on those priorities.

“We encourage cities (to understand) that they can’t be everything to everybody,” he said. “That’s the hardest thing. We encourage cities to find partners that can provide services … and accomplish similar goals. So long as the city is assured that the goals they’re trying to achieve with this foundation money are congruent — in alignment — with the (community’s goals), then it’s all good.”

MiBiz.com

Written by Nick Manes

September 3, 2017

[Muni Prices Stable Amid Texas Floods, but Investors Watch for Risks.]

Longtime municipal finance maven Marilyn Cohen unloaded several million dollars worth of Houston-area utility bonds on Tuesday even though she did not see a high risk to the debt – because a few of her clients were getting nervous.

The concerns were “not what you want to hear in muni-land,” said Cohen, president of Envision Capital Management in California, who like other investors has been reviewing the storm’s potential impact on payments from securities meant to be safe and boring.

The sales were, however, just a small piece of her total Houston holdings, and so far prices in the space have not changed dramatically. “It’s an orderly market,” she said.

Her views are common as municipal bond investors and analysts try to assess the overall damage to Houston, the fourth-largest city in the United States.

Television news has shown nonstop footage of flooded freeways, submerged homes and dramatic boat rescues.

However, data from the Municipal Securities Rulemaking Board shows that large debt issues in the area have not traded heavily, reflecting expectations that insurers and government agencies will make sure critical infrastructure, schools and hospitals can continue to operate.

Texas’ credit spreads are unchanged this week, versus prior to the storm, with the credit quality of the state’s taxpayer-backed debt remaining around 11 basis points over top-rated 10-year U.S. municipal debt.

Major credit rating agencies said it is too soon to know whether they will downgrade issuers as a result of the storm.

Historically, the market impact of major natural disasters has varied widely depending on the government’s response, said Daniel Berger, a senior market strategist with Thomson Reuters Municipal Market Data.

In the three months after Hurricane Katrina, the spread of Louisiana’s general obligation bond widened by 14 basis points, signaling a sharp spike in risk and uncertainty, according to Berger’s research. Texas, which was also struck by the 2005 storm, saw a widening of only one basis point by the end of those three months.

Craig Brandon, co-director for municipal investments at Eaton Vance Corp in Boston, said investors expect little long-term disruption. “You don’t see a lot of bonds out there at a discounted price,” he said.

Nor are there signs of property insurers looking to sell munis to pay their own claims, he said, a step that could signal market stresses ahead.

The biggest risk for credit investors could be faced by high-yield projects like nursing homes, charter schools or jails that may not be able to replace their patients, students or inmates once repairs are completed, according to an investor note by researcher Municipal Market Analytics.

“Larger credits like the city, county, school districts, will have lots to deal with, but it is still a safe assumption they will continue to make debt service payments when due. Other smaller credits like municipal utility district bonds may be more impacted,” John Bonnell, vice president of fixed income investments at USAA in San Antonio, said via email.

Jim Schwartz, head of municipal credit research at BlackRock Inc’s Global Fixed Income group, said he was reviewing the asset manager’s $1.8 billion worth of municipal bondholdings from the city of Houston, Harris County and other areas, but that “it’s a little too early” to make buy or sell decisions.

By REUTERS

AUG. 31, 2017, 9:42 A.M. E.D.T.

(Reporting by Ross Kerber in Boston and Laila Kearney in New York. Additional reporting by Hilary Russ; Editing by Steve Orlofsky)

S&P: As Hurricane Harvey Hammers Houston, Its Final Impact On Texas Municipalities' Credit Quality Remains Unclear.

S&P Global Ratings) Aug. 29, 2017—While Hurricane Harvey’s assault has had a quick and brutal impact on Houston (AA/Negative) and its environs, the storm’s long-term impact on the area’s credit picture is unclear. S&P Global Ratings rates 25 of the 54 counties included in Texas’ emergency declaration.

Continue Reading

Harvey’s Havoc May Bypass the Muni Market.

Investors weren’t too worried Monday about the hurricane’s impact on the broader muni market, or even Houston’s munis.

Devastating flooding in Houston, the country’s fourth largest city, is bound to have an impact on the municipal bond market, but it hasn’t shown up yet.

Munis traded flat Monday with the iShares National Muni Bond ETF (MUB) up 1 cent in late afternoon trading to $111.32. Surprisingly, a newly issued block of Houston school bonds traded well, says Peter Block, credit strategist with Ramirez & Co. He says investors are well aware that federal and state funds will stabilize the economy.

“Investors also know that Houston is such an important economic hub,” he adds. “Given that, rebuilding efforts should occur in a (relatively) timely and adequate fashion. Therefore, I think the market would only react if recovery is slower or worse than expected in the coming weeks, months, years.”

If there is a short-term selloff, it would likely be a buying opportunity, beleives Matt Fabian of Municipal MarketAnalytics. He writes Monday:

> The effects of Hurricane/Tropical Storm Harvey are unlikely to: 1) interrupt national municipal market outperformance; or 2) create a material break in strong southeastern Texas growth trends and/or related issuer credit quality improvements. To the extent local bonds cheapen by more than a few points, they will reasonably present value to both income and performance-oriented investors (meaning that, in this market, any depressed prices probably won’t last long).

Nonetheless, he isn’t so sure munis will experience the usual medium-term tax revenue and credit improvements that regions often see following natural disasters. He writes:

> Traditional municipal strategy expectations for major storms producing medium-term credit and tax revenue improvements (as insurance policy proceeds are spent on rebuilding) come with somewhat less confidence here, noting the extreme size and duration of the ongoing disaster. Houston public infrastructure may take a decade or longer to fully repair. Because this is the third major flooding event in Houston in as many years, immediate private sector rebuilding efforts may not seek to recapture 100% of the property being lost today, even in the downtown area. That a great deal of Houston’s recent private construction occurred within or nearby 100 year flood plains (as reported by ProPublica) amplifies this point.

One possible impact to municipal bond market could come if insurance companies sell munis held in reserve to fund claims. Current estimates are that Harvey could cause $40 billion in damage.

Barron’s

By Amey Stone

Aug. 28, 2017 3:47 p.m. ET

Why Harvey's Not Rattling a Bond-Market Haven: QuickTake Q&A

The record-setting flooding that’s devastating Houston has caused thousands to flee their homes, submerged much of the city and left tens of billions of dollars in damage. It has also cast some uncertainty over the finances of governments in the devastated region that routinely raise money in the U.S. municipal-bond market. In just Texas’s Harris County, the home of Houston, there are about $67 billion of outstanding government bonds, some issued for hospitals, sewer lines, schools and other projects potentially affected by the deluge. So far, however, investors appear relatively confident that an influx of aid will keep those borrowers from going under.

1. Will Harvey cause municipal-bond defaults?

That’s extremely unlikely. Natural disasters haven’t caused a single default by a municipal borrower that was rated by Moody’s Investors Service, according to David Jacobson, the company’s spokesman. Even Hurricane Katrina, which flooded much of New Orleans and triggered a lasting exodus from the city, didn’t force it to renege on bond payments as the state and federal government extended aid to help the region rebuild.

2. How has the bond market reacted?

There’s been very little trading of bonds issued by affected government agencies since Harvey hit, with no significant changes in the prices of those that have changed hands. Such a muted reaction also followed Katrina and Sandy, the superstorm that hammered New York and New Jersey in 2012. The small lots of securities that have traded indicate that it’s individual bondholders who are reacting, not mutual funds and other big investors. Matt Fabian, a managing director at Municipal Market Analytics, said in a note to clients that if there is a significant drop in the price of Houston’s bonds it may be a good time to buy.

3. How strong are the public finances of the region?

Texas for years had one of the fastest growing state economies in the U.S., thanks to an oil boom, a population influx and companies relocating there. While the pace of growth slowed in 2016 after oil prices slipped, Texas expanded at a rate of 3.9 percent during the first quarter of 2017, faster than any other state and more than triple the pace of the overall U.S. Texas’s government has a AAA grade from the two major credit rating companies. Houston has also been gaining ground before the storm. Houston will have the funds needed to handle the aftermath of the storm, Mayor Sylvester Turner said in a post on Twitter, citing the city’s controller.

4. How will this impact public finances in the region?

With the area still gripped by the flooding, it’s still too early to say. S&P Global Ratings, which grades 25 of the 54 counties included in Texas’s declaration of emergency, said that while the disaster could have a negative impact on the ratings of various governments, federal and state aid and insurance payments tend to offset the impacts of natural disasters. “There’s no question the hurricane’s devastation of the fourth-largest city in the U.S. could have a negative effect on the credit quality of various local government issuers, but it’s too soon to tell,” the company said. Much depends on the response of the federal government. President Donald Trump has said he’ll work with Congress to extend emergency funds to Texas, as was done for the areas battered by Katrina and Sandy.

5. Are there any types of bonds worth watching?

One niche that may be affected are so-called Municipal Utility Districts, which issue bonds to finance infrastructure for new housing developments. The debt is repaid through a portion of homeowners’ property taxes. S&P said it rates 564 such districts in the Houston area. If too may people leave after the storm, it could hinder their ability to make debt payments, according to S&P.

Bloomberg

By Rebecca Spalding and Danielle Moran

August 30, 2017, 2:00 AM PDT

Houston Will Be A Boomtown In The Muni-Scape: Bloomberg's Mysak

GUEST: MUNIS IN FOCUS: Joe Mysak, Editor for Bloomberg Brief: Municipal Market, on rebuilding Houston.

Running time 05:21

Listen to audio.

September 1, 2017 — 8:40 AM PDT

Fitch: Hurricane Harvey Takes Aim at Texas Gulf Coast Utilities.

Fitch Ratings-Austin-25 August 2017: Texas Governor Greg Abbot's pre-emptive declaration of 30 Texas counties as disaster areas sets the stage for entities impacted by Hurricane Harvey to be eligible for federal funding and assistance from the Federal Emergency Management Agency, according to Fitch Ratings. In a disaster scenario, federal funding is significant factor in how utilities manage the fallout, both financially and operationally. The counties accounted have an estimated population of 7.5 million.

Hurricane Harvey is forecast to make land fall on the Texas gulf coast overnight Friday, likely coming to shore as a category 3 hurricane–an example of the extreme weather challenges that Texas utilities often face as very wet and very dry periods alternate.

Corpus Christi, expected to be ground zero for the impact of Hurricane Harvey, is currently under a voluntary evacuation order. However, other low lying areas in the region are under mandatory evacuation orders. For context, the last major hurricane to impact the Texas coast was Hurricane Ike in September 2008, which made landfall at the north end of Galveston Island as a category 2. Damage estimates for Ike from the National Hurricane Center were $19.3 billion.

Fitch rated utility systems directly in Harvey's path include: Corpus Christi (combined utility system revenue bonds rated 'AA-'/Stable Outlook), Nueces River Authority, TX (water revenue bonds rated 'AA-'/Stable Outlook) who's rating is directly linked to Corpus Christi's combined utility rating, San Patricio Municipal Water District, TX (water revenue bonds rated 'A+'/Stable Outlook) and Victoria,TX (water and sewer revenue bonds rated 'AA-'/Stable Outlook). Corpus Christi could see yearly rainfall total levels in a matter of a day or two. The city of Corpus Christi combined utility system serves not only the city population (estimated at 300,000) but also provides water to several municipalities, water districts, and industries within a 70-mile radius of the city. Utility operations have exhibited signs of operational stress and management is currently in negotiations with the EPA regarding violations of the Clean Water Act. Nueces River Authority is the wholesaler water provider to the city of Corpus Christi, while San Patricio Municipal Water District serves part of the Corpus Christi MSA and purchases all its raw water from the city.

After making landfall Hurricane Harvey is forecast to stall near Victoria, which lies about 30 miles inland from the Gulf of Mexico, north east of Corpus Christi. Officials in Victoria have issued a mandatory evacuation order and the city is forecasted to receive record-breaking rainfall totals from 15 to 25 inches over a 72 hour period and up to 135 mile per hour winds that could potentially result in significant property and infrastructure damage. Depending on the future track of Harvey, other large urban regions could see substantial rainfall totals resulting in flash flooding, including Houston (senior water and sewer revenue bonds rated 'AA+/Stable Outlook), San Antonio (senior water and sewer revenue bonds rated 'AA+'/Stable Outlook) and Austin (water and sewer revenue bonds rated 'AA-'/Stable Outlook). Fitch will continue to monitor the situation along with the financial and operational impacts to Fitch-rated utilities and inform the markets accordingly.

For more information about Texas water and sewer utilities, please see Fitch's report, "Texas Water and Sewer Peer Review," dated Aug. 2, 2017.

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[Fitch: Hurricane Harvey's Devastation Unlikely to Affect US Public Finance Credit Quality.]

Fitch Ratings-New York-29 August 2017: Fitch Ratings believes the short-term fiscal impact of Hurricane Harvey on public entities in affected areas of Texas and Louisiana will largely be mitigated by their financial flexibility and support from federal and state governments and private insurance policies.

As has been the case historically with natural disasters (most recently Hurricanes Katrina, Sandy and Ike), the local governments affected by Harvey are likely to use a combination of federal relief funds, state support and insurance claims to pay for most storm-related damage. On Friday President Trump approved a major disaster declaration. According to FEMA's website, the following 13 Texas counties are included as affected areas in the declaration: Aransas, Brazoria, Calhoun, Chambers, Fort Bend, Galveston, Harris, Jackson, Liberty, Matagorda, Victoria, Wharton and Bexar.

The president’s approval starts the process of making assistance available in the affected counties. Assistance to individuals can include grants for temporary housing and home repairs and low-cost loans to cover uninsured property losses. For state and eligible local governments and non-profit organizations, federal funding can be available for emergency work in the affected areas and for hazard mitigation measures statewide. The magnitude of aid, its sufficiency to address the damage, and the availability of state funding to cover any shortfall cannot yet be determined. In several past storms, states have contributed to recovery costs and/or provided support for local governments’ short-term liquidity needs.

We believe the financial flexibility of local governments and, utilities, along with the resumption of normal business operations, will mitigate the risk posed by lost revenue. In most cases, following the initial interruption, economic activity and related tax revenue is likely to increase, as residents and business purchase items related to repair and rebuilding and workers are hired to assist in this effort. Hurricane Katrina in 2005 was the most notable exception to this pattern of prompt rebuilding and service restoration due to the dislocation of the city’s population for an extended period. Even in this case, outside assistance allowed the city to meet its financial obligations throughout the reconstruction and repopulation process.

The City of Corpus Christi dodged the brunt of Harvey, although smaller communities to the northeast took a direct hit and will be slower to recover. Houston (population 2.3 million) and the surrounding communities are currently experiencing unprecedented levels of flooding. They are part of a very large and diverse regional economy that Fitch believes should begin to recover promptly once the floodwaters recede. Overall, we expect most damaged property in affected communities to be rebuilt, which will maintain tax bases, rather than residents and businesses leaving the areas.

We expect smaller municipalities with low levels of liquidity before the storm to be the most affected. However, information-gathering from the most affected communities is challenged by their immediate need to protect residents and by damage to basic infrastructure. Information from which we can draw meaningful conclusions is therefore not yet available for this group of rated entities. While we expect recovery efforts in those jurisdictions to follow historical patterns of storm recovery, we will report on any significant findings that might affect credit quality.

Fitch expects the majority of its rated higher education institutions will experience relatively limited disruption as a result of Hurricane Harvey. Some credits in the immediate impact zone have been forced to remain closed for several days until campus safety needs are met and regional transportation systems return to normal. We do not anticipate taking negative rating action solely as a result of the storm. However, we will continue to monitor possible longer-term impacts to enrollment, property damage, or other operating issues in the coming months.

Fitch has contacted its rated nonprofit hospitals in the storm’s path, and all have reported that they have managed through Hurricane Harvey with minimal damage and expected limited financial impact. Most of the credits did not have facility damage and while some canceled elective procedures in preparation for the Hurricane, others were recipients of transfers into their facilities. All facilities remain open. With more rain and flooding expected over the next 24 to 72 hours, Fitch is continuing to monitor the situation. For Fitch’s rated nonprofit continuing care retirement communities in the area, none suffered extensive facility damage. Fitch will continue to monitor all of our credits for any operational pressure as a result of the storm.

Fitch is in the process of contacting various transportation related issuers in Texas including airports, toll roads and seaports. Fitch does not anticipate any near-term rating impacts, but additional leverage for repairs and operational impacts will have to be fully analyzed. Fitch-rated transportation issuers maintain adequate-to-strong liquidity to deal with short-term needs once facilities reopen. Near-term risks to operations will be assessed when facilities determine the extent of the damage. The ability and timing to reopen will likely impact operations but will vary across assets.

Commercial air service has ceased at both Houston International Airport (IAH) and Houston Hobby Airport (HOU) and the Port of Houston facilities remain closed. Service levels at the ports and airports could be significantly lower in the near term, but revenue losses may be partially insulated, even during periods of suspended operations, through lease agreements with airlines, shipping tenants, and other commercial users.

Toll roads in the greater Houston area including Harris County Toll Road, Fort Bend Expressway, Grand Parkway (partially operational and under construction)have waived tolls and/ or have sections that are closed or impassable. SH 288 (Blueridge Transportation Group) is currently under construction with an expected opening of July 2019. While there will be impacts, the 23 months remaining to scheduled completion provides flexibility to mitigate delay risk.

Moderate to major capital rehabilitation and replacement for transportation assets, ranging from terminal and runway damage at the airports to roadway damage on the toll roads and equipment, electrical and IT systems replacement, will likely be costly and delay issuers in becoming fully operational. Some of the costs will be covered by insurance claims. Further, to the extent employees have been displaced, operations could be further impacted in the near term depending on staffing adequacy. Underlying demand impact is hard to predict, but there will be some that remains subject to timing of the recovery. Enterprises with pricing flexibility will be able to better navigate those impacts versus project financings.

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Executive Order Reinforces Measures To Reform Infrastructure Project Review.

On August 15, President Trump signed an Executive Order calling for streamlined federal review of major infrastructure projects. The Order applies to federal approvals for infrastructure projects in the following sectors:

- surface transportation;
- aviation;
- water resources;
- energy production and generation (including fossil fuels, renewable energy and hydropower);
- electricity transmission;
- broadband internet;
- pipelines;
- stormwater and sewer infrastructure; and
- drinking water.

Under the Order, additional sectors may be determined by the Federal Permitting Improvement Steering Council (FPISC).

The Order builds on prior efforts to streamline infrastructure permitting by (1) setting new goals for federal reviews of covered projects and (2) establishing formal methods to hold agencies accountable for the efficiency of their reviews.

Federal Permitting Goals

The Executive Order establishes several new targets for federal reviews, including:

- requiring one federal decision record for each major infrastructure project;
- requiring final agency decisions within 90 days of completing the federal decision record (an approach adopted by the Federal Energy Regulatory Commission); and
- setting a two-year average target for agencies to complete the permitting process for infrastructure projects.

These are ambitious goals, and their effectiveness will depend on the details of their implementation. For example, the two-year target is an “average of approximately 2 years, measured from the date of the publication of a notice of intent to prepare an environmental impact statement or other benchmark deemed appropriate by the Director of [the Office of Management and Budget

(OMB)].” The baseline for this average, the benchmark used to start the two-year timeline, and the consequences for deviating from it will determine how effective this goal will be at driving project-specific progress.

In addition, the Executive Order’s emphasis on “one federal decision” may result in fewer designations of “joint” lead agencies for proposed projects. See, e.g., 43 C.F.R. 46.220. Such designations are rare, however, and the Executive Order allows project proponents to request that separate agencies issue separate decisions under the National Environmental Policy Review Act (NEPA).

Finally, implementing a final agency action within 90 days of completing NEPA analysis may prove challenging if other key reviews, such as consultation under Section 7 of the Endangered Species Act and Section 106 of the National Historic Preservation Act, are ongoing, and the Executive Order allows an exception for cases where federal law prohibits the agency from issuing its approval or permit within the 90-day period.

Agency Accountability

The Executive Order includes a number of provisions intended to institutionalize permitting reforms through agency management tools, such as cross-agency priority (CAP) goals, individual federal employee performance plans, and quarterly scorecards prepared by the OMB that would assess how each agency is performing and the federal government’s overall progress toward the goal of improved federal permitting. In addition to these provisions, the Order lays out mechanisms for holding agencies accountable for failing to comply with project schedules, including, in certain cases, requiring agencies to prepare an estimated cost of any delay in permitting and even allowing OMB to impose financial penalties in agency budgets for failure to meet timetable milestones.

Building on Past Reforms

The Order follows President Trump’s January 24, 2017, Executive Order directing federal agencies to expedite environmental review and approvals for “high priority” infrastructure projects, and his July 19, 2017, Executive Order establishing a Presidential Advisory Council on Infrastructure within the US Department of Commerce.

President Trump’s Executive Orders also build upon initiatives launched under the Fixing America’s Surface Transportation Act (the FAST Act), enacted in December 2015. Title 41 of the FAST Act (FAST-41) was intended to help address the complexity of the federal review process for infrastructure projects. 42 U.S.C. § 4370m. The Order clarifies that all projects that meet the criteria for FAST-41 projects qualify as priority projects. Thus far, 34 projects have been designated as covered projects under FAST-41. The status of each project can be tracked online using the Federal Infrastructure Projects Dashboard.

The Order also does away with some prior direction to agencies by revoking a January 30, 2015 Executive Order (EO 13690), which required federally-funded infrastructure projects to meet a new flood risk reduction standard. The revocation of EO 13690 is intended to ease requirements to protect projects from flooding. While this may streamline the permitting process, it may also complicate the allocation and management of risk associated with future flood impacts.

Conclusion

The latest Executive Order, building upon FAST-41, may help enable the promise of infrastructure investments to be more fully realized. Its effectiveness in doing so will depend largely on the way in which the ambitious goals laid out in the Order are implemented.

Last Updated: August 23 2017

Article by Raya B. Treiser and H. David Gold

WilmerHale

What Does the Demise of Trump's Infrastructure Council Mean?

DALLAS — The abrupt demise of President Trump’s infrastructure council less than one month after it was officially established should not be an impediment to the administration’s pledge to deliver an infrastructure renewal proposal to Congress next month, industry observers said.

The dissolution of the infrastructure council is not a problem because it was not a serious effort in the first place, said Robert Poole, director of transportation policy at the Reason Foundation.

“I’m not that concerned, since I saw the infrastructure council as mostly window dressing,” Poole said. “The hard work seems to be getting done by Gary Cohn and D.J. Gribbin at the National Economic Council and by [Transportation Secretary Elaine] Chao and her staff.”

“With all the folks in the agencies and in the White House involved with infrastructure, I don’t think there is a shortage of qualified people to work on an infrastructure package,” said Dave Bauer, senior vice president of government relations at the American Road and Transportation Builders Association.

The White House said late Thursday that the council, which was announced July 19 but never met and had no appointed members, “will not move forward.” The infrastructure council was one of three presidential business advisory panels that were terminated following criticism of Trump’s statements on Tuesday blaming both sides for the violence over the weekend in Charlottesville, Va.

“The President has announced the end of the Manufacturing Council and the Strategy & Policy Forum. In addition, the President’s Advisory Council on Infrastructure, which was still being formed, will not move forward,” a White House official said.

Chao told lawmakers on a Senate appropriations panel last month that a multi-agency task force is working on a 10-year, $1 trillion infrastructure renewal effort that would be sent to Congress in September.

The dissolution of the infrastructure panel is a bonus for the municipal bond market, not a sign that the Trump administration is losing interest in infrastructure, said Matt Posner, managing director of capital markets at Neighborly, a San Francisco-based broker-dealer.

There would have been no representatives from municipal finance on the 15-member infrastructure panel that would have been loaded with real estate developers and business executives, he said.

“I actually think this is a nice opportunity,” said Posner. “I don’t see this as an unwillingness to pay attention to the issue. Under that committee there was zero chance that municipals were going to be taken seriously."

There is mounting political pressure on Trump to get something done on infrastructure, which he and Democratic rival Hillary Clinton campaigned on heavily last year, Posner said.

Lawmakers are far more bipartisan on the infrastructure agenda than on other issues such as healthcare or tax reform, Posner said, adding he fully expects some effort to materialize despite the dissolution of the infrastructure committee.

"There is going to be some legislation put out there," he said. "I think infrastructure in general is a path of less resistance."

The end of the council should not affect development of administration's infrastructure proposal, said transportation financing consultant Jack Basso of Peter J. Basso & Associates LLC.

"It's not a big deal," said Basso, a former chief operating officer of the American Association of State Highway and Transportation Officials. "It's just not that important. It never met and nobody was ever appointed to it."

Infrastructure policy is best developed through a robust debate that includes a variety of viewpoints, said Brian Turmail, senior director of public affairs for the Associated General Contractors of America.

"Certainly any move that limits the range of voices participating in that conversation runs the risk of undermining the quality, and perhaps the political viability, of the administration's long-promised proposal," Turmail said. "Even without this group, however, we will continue to hold frequent conversations with administration officials to make sure the construction industry's voice is well represented as the White House crafts its infrastructure proposal."

Divisions in Congress over health care, immigration, and tax reform pose a bigger roadblock for infrastructure than the lack of an infrastructure council, said Poole.

"The disorganization in Congress makes it less and less likely that they will get to an infrastructure bill this year," Poole said. "I'd be pleased to see a serious tax reform bill by the end of the calendar year, with an infrastructure bill after they come back from the Christmas/New Year holiday."

The industry's' optimism remains despite a mounting track record of stalled plans, infighting in the White House, and an increasingly contentious relationship between Trump and lawmakers in his own party. The president's push to repeal Obamacare has now died two public deaths, most recently last month when ailing Arizona Republican Sen. John McCain cast a surprising vote against the repeal measure Trump urged Republicans to pass.

Republicans have not advanced a tax reform agenda, another Trump campaign pledge. The president has traded barbs through the media with Senate Majority Leader Mitch McConnell, R-Ky. Republican lawmakers have been all too willing to criticize the president over the past week, rebuking him for a perceived failure to unequivocally denounce a white supremacist march in Charlottesville at which a woman lost her life and others were hurt.

Trump has also had major shakeups within the White House, dismissing communications director Anthony Scaramucci July 31 after he had served fewer than two weeks on the job. Scaramucci's brief tenure also saw the resignation of White House chief of staff Reince Priebus and his subsequent replacement by John Kelly, who had been Homeland Security secretary. Trump announced Friday that chief strategist Steve Bannon, a confidant and key member of his campaign, would also be out of the West Wing,

Chris Hamel, managing director and head of municipal finance at RBC Capital Markets, urged patience.

"The administration and Washington policymakers are sincere in wanting to advance meaningful policy to improve our infrastructure," Hamel said. "The process will be long, though, so we should keep our focus on the end goal."

The Bond Buyer

By Jim Watts & Kyle Glazier

August 18 2017, 4:12pm EDT

Number of Charter Schools, Students in U.S. Rises: Report

NEW YORK (Reuters) – The number of children attending charter schools in the United States hit a record of about 6 percent of all students in public schools, according to a federal education report released on Tuesday.

Charter schools are publicly funded schools operated separately from local school districts. They are usually independently run but can also be managed by for-profit companies or nonprofit organizations running multiple schools.

About 3 million students were enrolled in charter schools in the 2015-2016 school year, up from roughly 1.8 million students five years prior, according to the report by the U.S. Department of Education's National Center for Education Statistics.

They represented 6 percent of the total in 2015-2016, up from 3.6 percent.

Of more than 90,000 public elementary and secondary schools, charter schools made up nearly 8 percent, an increase from 5.9 percent five years earlier, the report said.

The three most populous states – California, Texas and Florida – have the highest number of charter schools. In Arizona, among the most pro-charter states, charter schools make up about 25 percent of all K-12 public schools.

Six states do not allow charter schools.

As charter schools and the number of students attending them grow, bonds used to finance the schools is also a growing segment of the municipal bond market.

More than 1,000 tax-exempt charter school bonds totaling about $15.5 billion have been issued since the first deal came to market in 1998, according to a report earlier this year by NewOak's Fundamental Credit team.

AUGUST 22, 2017

Don't Be Afraid Of Buying Premium Bonds.

Mathematics can be challenging and complicated. Many people have an aversion to math. If you are a full-fledged do-it-yourself bond investor it’s imperative you understand bond math and the IRS rules surrounding bond premiums. Finally, the brokerage firms have grasped the importance of bond math and have made it much easier for investors.

Many investors don’t like paying over par for municipal or corporate bonds. The reason, as I see it, is because they don’t understand the bond math. Why buy something at 115 ($1,150 per face value) only to receive 100 ($1,000 per face value) back?

First of all, the premiums paid on either a municipal or corporate bond do not just vaporize. Your brokerage firm amortizes the premium for you; that means it displays your adjusted cost.

In many Forbes columns I have encouraged investors who own taxable premium corporate bonds to deduct their corporate bond premiums against their income annually. You will find that amount on your year-end Form 1099. Those who don’t take the annual deduction against the income must take a capital loss at maturity.

The rules are different, much different, for municipals. Premiums are not a deduction. But premium municipal bonds sold before maturity will generate a gain or a loss.

Here’s an actual example:

A block of 550 Connecticut General Obligation bonds was purchased August 30, 2013 at 117.08 ($1,170.80 per bond). June 14, 2017 bonds were sold at 107.338 ($1,073.38 per bond). Most people would think this transaction generated a capital loss—not so. By June 14, 2017 the bond had been amortized (according to IRS rules) down to 106 and change, thereby generating a $5,055.94 capital gain.

It’s important you check your online or monthly brokerage statements to get a bead on the adjustments to your bond prices over time. That adjusted cost is a moving number. It is the adjusted cost on your 1099 that is reported to the IRS.

We have seen premium bonds rally to greater premium prices and premium bonds sink into distressed discounts. The key lesson here is that for shorter bonds those premiums eventually dissipate the closer it gets to maturity.

Think about it as a magnet: the maturity date magnet pulls the bond premium closer and closer to par every year. We say in bond-speak, it is rolling down the yield curve.

These bond technicalities matter the most if such positions are held in taxable accounts like your family trust or in a joint tenants account. The important minutia is that if you decide to sell, your original cost basis isn’t what is used. Instead, it is the adjusted cost.

That said, take a look at another example: If you purchased, as I did, 25 Advanced Auto Parts bonds at 112.06 in December 2014 the 5.75% due May 1, 2020; today they are priced roughly at 108.442. At first blush it looks like a loss if you sell. But it’s not. Bonds have been amortized down to an adjusted cost of 106.34 for a $526 capital gain if sold at 108.442.

Rates inched up, rates inched down since 2014. Over the next three years the adjusted cost on these

Advanced Auto bonds will roll down to par very quickly.

The moral of this column is: Harvest your gains and losses starting now. Don't wait until December when everyone else is. And equally important, don't be afraid of buying premium bonds.

Forbes

by Marilyn Cohen , Contributor

Aug 24, 2017

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

NABL Urges Creation of New PABs, Direct-Pay Bonds to Finance Infrastructure.

WASHINGTON – The National Association of Bond Lawyers has recommended the creation of new categories of tax-exempt private activity bonds and taxable, direct-pay bonds to help finance bridges, tunnels, roads, water facilities, schools and other infrastructure projects.

The new bonds are among eight recommendations that NABL submitted this week to the Trump administration and to the tax-writing committees in Congress to spur infrastructure development.

The proposals follow President Trump's plan to spend $1 trillion on infrastructure over the next decade.

Also among NABL's suggestions are allowing greater use of tax-exempt bonds for manufacturing facilities and elimination of a mortgage prohibition in bond financing for charter schools.

At the top of NABL's list of recommendations is a new category of exempt facility private activity bond that could finance the construction, expansion or rehabilitation of existing or new qualified road, tunnel and bridge facilities regardless of private business use as long as they are publicly used and state or local governments retain control over the setting of any tolls.

These PABs would not be subject to state volume caps and could be current refunded, but not advance refunded. The hope is that they could be more easily used in connection with public private partnerships for infrastructure projects.

Also near the top of the list is NABL's recommendation for a new kind of taxable direct-pay bond that would be called Enhanced Infrastructure Bonds or EIBs. These would be, similar to Build America Bonds that were issued in 2009 and 2010 under the American Recovery and Reinvestment Act. The issuers of these bonds would receive subsidy payments from the Treasury Department that would not be subject to sequestration.

The federal subsidy payments of EIBs would amount to 40% of interest costs for the first 10 years, dropping to 28% in the eleventh year. EIBs could be used for any purpose for which tax-exempt bonds could be used, except to advance refund tax-advantaged bonds. EIBs issued for private activity, other than qualified 501(c)(3) purposes, would be subject to the state volume caps that exist for PABs issued for the same purpose.

Clifford M. Gerber, NABL's president, sent the recommendations were included in identical letters sent to Treasury Secretary Steve Mnuchin, National Economic Council Chairman Gary Cohn and the top Republicans and Democrats on the Senate Finance Committee and House Ways and Means Committee.

The letter, signed by Gerber, highlighted the importance of using state and local bonds in financing the nation's infrastructure.

"Federal assistance is limited to the revenue foregone on the untaxed interest, estimated to be approximately $50 billion per year on approximately $3.8 trillion of outstanding state and local tax-exempt bonds,'' Gerber wrote. "That is money well spent. Because the interest on state and local bonds is exempt from federal income tax, investors are willing to accept lower interest payments than they would otherwise."

NABL also recommended increasing the qualified small issuer limit to $30 million from $10 million for bank-qualified bonds and applying the revised amount to conduit deals by treating conduit borrowers as issuers. Under this proposal, banks could deduct 80% of the cost of buying and carrying tax-exempt bonds from issuers, or borrowers in conduit deals, that have issued or borrowed $30 million or less of tax-exempt bonds in a calendar year. The conduit borrower provision would help qualified 501(c)(3) bonds become bank-qualified.

The new $30 million limit would apply to 501(c)3s such as hospital systems, higher education institutions and some housing projects.

NABL also recommended higher authorized amounts for New Clean Renewable Energy Bonds, Qualified Energy Conservation Bonds, Qualified Zone Academy Bonds, and Qualified School Construction Bonds and allowing these bonds to be issued in a direct-pay mode, with the subsidy payments exempt from sequestration.

In addition, NABL wants to exempt bonds for water and sewer facilities from state volume caps.

The bond lawyers group recommended several changes to allow greater use of tax-exempt bonds to finance manufacturing facilities. The limit on issuance size would be increased to $30 million from $10 million and the limit on capital expenditures would rise to $40 million from $10 million.

The group also wants the definition of a manufacturing facility to be changed to include a facility that manufactures intangible property, such as software, copyrights, licenses, and trademarks, as well as tangible property. In addition, the definition of manufacturing would be changed from "directly related and ancillary facilities" to a more flexible definition under the tax law that covers "functionally related and subordinated facilities.''

Also among NABL's suggestions is the elimination of a mortgage prohibition in bond financing for charter schools.

NABL also wants to eliminate the unrelated or disproportionate component of the private business use test for private activity bonds along with the dollar limits on private business use.

Municipal and state governments generally face a 10% cap on private business use and a 5% cap on facilities where use is unrelated to the government under current law.

The group called for permitting refundings of bonds where less than 85% of the proceeds have been spent.

The Bond Buyer

By Brian Tumulty

08/23/17

Credit FAQ: An Overview Of S&P Global Ratings' Proposed Methodology For Solid Waste System Financings.

On Aug. 21, 2017, S&P Global Ratings published a request for comment (RFC) on its proposed methodology for rating solid waste systems. The proposed framework is designed to provide additional transparency and comparability to help market participants better understand our approach …

Continue reading.

Aug. 21, 2017

S&P Request for Comment: Solid Waste System Financings.

S&P Global Ratings is requesting comments on its proposed criteria for assigning issue credit ratings, issuer credit ratings (ICRs), and ratings derived from stand-alone credit profiles (SACPs) for solid waste systems.

Continue reading.

Aug. 21, 2017

Governments Are Turning to Banks for Easy Money.

States and localities say direct loans aren't as much of a hassle as issuing bonds. That may be true, but they're also riskier.

In the years since the Great Recession, state and local governments have increasingly borrowed money directly from banks instead of issuing public bonds. The loans, they say, come with lower costs and can be more convenient than going through the cumbersome public debt process. But observers worry that the terms around these loans aren't transparent enough, obscuring an important part of a government's financial health.

Now, a new Stanford University study of these loans in California concludes that more than half of the municipalities there that have borrowed from banks have put themselves at "financial risk" thanks to stringent terms in the loan. Alarmingly for bondholders and ratings agencies, those terms often mean their investment takes a back seat to the bank's loan in the event of a default. What's more, the terms are so broad in some cases that the bank can recall the loan more easily. That, says Sylesh Volla, one of the paper's co-authors, makes direct loans riskier than bonds.

In a review of 41 direct loans to California governments between 2010 and 2016, the terms all defined a missed debt payment and a bankruptcy filing as a default. That's standard, but some terms went further. More than 60 percent said a nonpayment on any of the issuer's debt would also count as a default and require immediate repayment of the loan. One-quarter said that any "material adverse change" in a government's operations or financial prospects — as interpreted by the bank — could trigger a default. And one-tenth said a credit rating downgrade would prompt a repayment.

The findings of the study, prepared for the Volcker Alliance, which promotes government accountability and performance, sheds light on what is becoming a highly controversial area in state and local finances. California is the only state that requires governments to disclose the terms around all types of debt, thanks to a law that went into effect in 2015.

That has been very frustrating for those whose job it is to assess state and local governments' financial health. Since 2009, banks have more than doubled their municipal holdings to $536 billion in securities and loans, according to the Federal Reserve. Not much is known about these deals — a fact that angers credit rating agencies and many industry trade groups such as the Government Finance Officers Association, the National Federation of Municipal Analysts and the Municipal Securities Rulemaking Board.

A recent S&P report estimates that as much as $50 billion to $60 billion in deals are made privately with banks each year. That's significant, considering that last year $450 billion in total debt was issued publicly in the municipal bond market.

While noting most of the deals haven't changed a government's credit quality, S&P's report went on to warn "that the lack of uniformity in timely disclosure of bank loan agreements remains a potential risk to the functioning of the municipal marketplace."

The Securities and Exchange Commission seems to agree. After being lobbied for years to do so, the commission in February proposed a rule that would require governments to disclose their direct loans from banks no more than 10 days after closing. If approved, it would be a major step forward for disclosure. But Volla notes California's experience shows that simply requiring disclosures doesn't guarantee that all governments will comply. The Stanford research notes that — despite its disclosure rule — the California Debt and Investment Advisory Commission doesn't actually know how many direct loans it is capturing in its database. A representative of the commission emailed researchers that trying to put a number on that "would simply be a wild guess."

Rather than relying on a regulatory body, Volla says governments likely need more of a stick than a carrot to comply with bank loan disclosure requirements. He says municipal market forces — such as more favorable interest rates on public debt for governments that provide more data — are more likely to encourage compliance.

GOVERNING.COM

BY LIZ FARMER | AUGUST 23, 2017

The Week in Public Finance: Higher Ed's Lost Decade, Straining Connecticut's Localities and Popular Pensions.

A roundup of money (and other) news governments can use.

GOVERNING.COM

BY LIZ FARMER | AUGUST 25, 2017

Bloomberg Brief Weekly Video - 08/24

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

Watch video.

Bloomberg

August 24, 2017

NABL Submits Infrastructure Proposals.

The National Association of Bond Lawyers has put together eight legislative tax-exempt bond proposals to facilitate building and maintaining infrastructure. The proposals have been sent to the Treasury Department, the National Economic Council, the Senate Finance Committee and the House Ways and Means Committee.

Two Cities Will Get Chance to Raise Money for Green Infrastructure.

For nearly 800 cities around the United States, the storm drains you see along the streets send stormwater into the same sewer pipes handling the wastewater coming from homes and businesses. All of it ultimately ends up at a plant where it's treated and sent back out into a river, lake or other body of water. When it rains hard and the system can't handle all the water, overflow goes directly into natural bodies of water. If it's raining hard enough, and long enough, you may be flushing your toilet straight into the nearest river. The systems are called "combined sewer overflows" — and the Environmental Protection Agency's mandate to eliminate them carries a total price tag in the billions. Still, many cities are working on the problem.

Last fall, the DC Water and Sewer Authority issued an Environmental Impact Bond or EIB. Investors put up $25 million to construct green infrastructure designed to mimic natural processes to absorb and slow surges of stormwater during periods of heavy rainfall. The investors in that case were Goldman Sachs and the Calvert Foundation.

Two more cities will soon issue EIBs for infrastructure projects (not just stormwater management) — and the investors could be you or me.

Which two cities exactly will be determined in a competition announced by Neighborly, a company with a platform that makes it easy for the public to invest directly in municipal bonds via the internet, and the Rockefeller Foundation's 100 Resilient Cities initiative.

"We need new models and financing mechanisms to produce more jobs, create new opportunities and build more resilient cities," said Neighborly CEO Jase Wilson, in a statement calling for cities to apply.

Eligible EIB proposals must geographically include one of the cities that are part of the 100 Resilient Cities network (regional authorities that include a city in the network may submit a proposal). Among other factors, proposals will be judged on impact, including environmental impact as well as benefits to poor and vulnerable communities; the financial strength of the issuing agency or government; the size of the proposed transaction ($5 million or greater is suggested); and the scalability of the proposed project and finance approach within the city or to other cities.

Proposals may also incorporate multiple projects and aspects of environmental impact, such as stormwater reduction, clean energy infrastructure, water conservation, or recycling and waste reduction.

The winning cities will get technical help with designing their EIB offerings.

Like D.C.'s stormwater EIB, the new EIBs will use a pay-for-success model. In D.C.'s case, the district will pay investors back with interest only if the green infrastructure meets a certain stormwater reduction goal within a specified time frame. If that goal isn't met, the investors lose their money.

The pay-for-success model was meant in part to be a way of shifting risk off of taxpayers and onto investors, generally people who take risks with money for a living. But the new pay-for-success EIBs will be offered for sale to nonprofessional investors via Neighborly.

Municipal bonds in general can be very safe, but pay-for-success has less of a track record. The first pay-for-success bond in the U.S. failed to meet its goals, resulting in investor losses. So this will be interesting, in more ways than usual.

NEXT CITY

BY OSCAR PERRY ABELLO | AUGUST 17, 2017

Startup Seeks Cities to Test Bonds that Put a Twist on Pay-for-Success.

Neighborly wants to try a kind of risk-reducing bond to finance infrastructure projects that have an element of uncertainty to them.

It can be difficult for government to try new things. If one is spending taxpayer dollars, and under constant public scrutiny, and has an enormous legal broadside, it tends to make one risk-averse.

So what if someone else took on part of the risk of uncertainty?

That's the thesis Neighborly is starting from. The municipal bond-focused startup has announced a new program that puts a spin on the pay-for-success concept and is seeking a couple local government projects to put the idea to work. It’s called an environmental impact bond (EIB).

Thus far, pay-for-success projects have mostly taken the form of social impact bonds (SIB), which tend to focus on many of the same areas charities do: reducing criminal recidivism rates, helping children in the foster care system, etc. The projects were met with enthusiasm from government, but are still a relatively new concept and have faced skepticism from researchers because of their complexity and the sudden crumbling of certain programs.

The EIB differs from the traditional SIB in two big ways: payments and area of focus. Where SIBs call for the government to pay for a project only in the event of measurable success, EIBs establish a sliding scale of payment. Where SIBs focus on services, the EIB concept appears more readily geared toward hard infrastructure.

The payment part is a particularly large departure. After all, an early SIB in New York City failed because the investor pulled out for fear of the program not meeting its goals — and thus not requiring the city to pay back the bond. With EIBs, the city must still pay back the bond if the project doesn’t meet its goals. The payback simply becomes smaller in the event of failure.

From an investor perspective, return on investment (ROI) disappears, but at least they don’t lose everything they put in. From a government perspective, they still must shell out money for a failed project, but at least it’s a smaller payment.

The opposite is also true under an EIB: If a project is more successful than anticipated, the government that issued the bond must pay more, and then the investor generates an unexpectedly good ROI.

As George Hawkins, CEO of the District of Columbia Water and Sewer Authority puts it, it’s like a bond with insurance.

“Most insurance policies you pay a premium no matter what,” Hawkins explained. “In ours, we only pay the premium if it works for us.”

DC Water’s project, which involved using water-absorbing “green infrastructure” instead of tunnels to help avoid too much rainwater overwhelming the sewers, was a sort of trial balloon for the concept. In that instance, they issued the bond privately to Goldman Sachs and the Calvert Foundation.

In Neighborly’s project, the startup is looking to open up the bonds to a wider pool of purchasers. In fact, that’s what Neighborly was founded to do — the startup’s goal is to allow average people to buy municipal bonds. In the context of EIBs, then, people could use the platform to invest in environmental projects in their own cities and then earn a payback on it.

“The humble municipal bond is the original impact investment,” said Neighborly CEO Jase Wilson. “It’s been funding things like parks and schools and libraries since longer than that’s been a term.”

The Neighborly program isn’t limited to projects to absorb rainwater, either. In preliminary talks with cities, Wilson said he’s heard ideas ranging from sea walls to electricity microgrids.

“We don’t know what happens when we open the flood gates on the project, but it’s shown us that there’s a world of innovative projects waiting to be financed,” Wilson said.

And there are, potentially, a lot of areas where the project’s organizers think the model could work. Because the purpose of the EIB is to provide peace of mind through risk reduction, it could theoretically apply to any project where the government isn't totally sure that the project would work.

Take D.C., for example. Green infrastructure has proven successful in plenty of places, but that success tends to hinge on things like what type of soil the green infrastructure will sit on. Others have examined this type of bond for a program helping farmers implement best practices to avoid pollutants entering local water supplies, or setting up a program to help reuse materials from deconstructed homes instead of simply demolishing the structures.

A key aspect of such bonds is setting up the performance metrics. That's where Quantified Ventures (QV) comes in — in the Neighborly project, they'll be aiming to structure the bonds so that the most likely scenario results in a middle-of-the-road bond payment. Just as important, they'll be working out what constitutes underperformance and overperformance.

The Rockefeller Center is supporting the initiative through a grant that will pay for QV's and Neighborly's support services. Should the projects prove helpful to governments looking for ways to try out new things, the program's organizers will be looking to try it out on a larger scale.

"Rockefeller is trying to promote a wider market for this," said Todd Appel, QV's impact director. "So our thinking, and Rockefeller's, is if we had a couple different examples, different locations, maybe a couple different design features, that that will help facilitate adoption of the model."

GOVTECH

BY BEN MILLER / AUGUST 16, 2017

Issuers: Don't Let the Rating Agencies Tell Your Story – Tell It Yourself.

Despite Government Finance Officers Association Best Practices on the benefits of investor outreach, the vast majority of issuers in the municipal bond market spend very little time communicating directly with investors or engaging in investor outreach. There are a lot of good reasons for this: take the general lack of resources of governments, or the demands of other aspects of a finance director's job. It's not a stretch to suggest that typical GFOA members probably spend something like 90% of their time working on budgets, audits and tax collections over the course of a year, and maybe 10% focused on accessing capital in the municipal bond market.

However, a bond sale – even if it's a once-a-year event – usually involves huge sums of public dollars. The interest costs associated with a bond sale are almost always locked-in for decades based on a single day's pricing. And the channels to communicate with investors – things like investor websites – make it easy and cost effective even for small bond issuers to do well effectively. With the stakes so high and the channels to communicate available, issuers should engage bond investors in order to tell their story.

If you don't tell your story, someone else will

The above adage is directly relevant to issuers as they think about attracting more investors to their bond program. Investor outreach is all about telling your story as an issuer. It's that simple: provide some context for the financial reporting that accompanies a bond sale or an annual disclosure filing. Not only does this foster differentiation from other issuers, but its critical to clarify technical and financial content for investors so they understand where a government is headed and how they will get there.

If you’re an issuer who doesn’t communicate directly with bond investors, then investors will turn to the only other source to provide context for the raw data they are consuming: the rating agencies.

Rating agencies are a necessary and important part of the process of accessing capital. The need of investors to garner a third-party evaluation of an issuer is never going to go away. Like the reviews of a product offered on Amazon.com, rating agencies’ opinions of an issuer’s creditworthiness help buyers evaluate a bond offering. But most importantly, investors want the agencies’ context for the issuer’s numbers and the interpretation of the numbers.

Despite the value of ratings, leaving that role up to the rating agencies is a shortcoming that can create a big exposure for issuers. Rating agencies will interpret an issuer’s financial position based on their own criteria, which can change over time. They can also emphasize one aspect of an issuer’s fundamentals and not another, and they often don’t really don’t measure what’s not seen.

Let’s use debt burden as an example. For a general government, all of the rating agencies measure the affordability of a government’s outstanding debt. A lower debt burden is a credit positive relative to a higher debt burden. But what if an issuer has a low debt burden – let’s call it City 1 – simply because it is avoiding necessary infrastructure improvements? And conversely, a second government – call it City 2 – develops a high debt burden because it aggressively tackles its infrastructure needs while interest rates are low.

If City 2 doesn’t provide context for its front-loaded capital program to bond investors, it is likely to pay a penalty relative to City 1 to access the market. The key takeaway for issuers is that the opinion of a rating agency should not be the only interpretation that finds its way to the buy-side community.

Provide the context behind your government’s financial performance.

To get a better sense of the value of telling your story as an issuer directly to bond investors, think about how you would go about describing yourself to a stranger. Would you simply hand him a copy of your resume? No, of course not. The resume would be a good starting point, but it would paint a very incomplete picture of who you are.

Like a resume, a financial report or audit without context provides the investor an incomplete picture. And in the muni market, audits tend to be completed and published months after the end of the fiscal year, making the data very stale. Bonds are usually structured over many decades – 20- or 30-year bond issues are common. So if you’re asking for a long-term investment, it pays to provide investors with more than just stale historical financial documents.

According to Rivel Research from 2013, investors in the stock market paid a median premium of 10% to those companies that employ effective investor relations, while discounting a company a median of 20% for ineffective investor relations. That’s a 30% swing in an investor’s valuation based on investor outreach. For a municipal government issuing bonds, that could mean tens of thousands or more of public dollars.

Build your investor outreach program as if you were an investor

Investor outreach is not a short-term, one-off project to improve the pricing of your next series of bonds. No matter how big or small you are as an issuer, it requires a signal to the buy-side that you are a borrower that will help investors better understand your credit. But you should signal that you are committed to investor outreach for the long-term.

It certainly helps to provide more data and more documents to the market as they become public and are shared with taxpayers and ratepayers. But it's also important to inform and educate investors who may own your bonds for decades about that data. Why should an investor buy your bonds, and why should they buy now? Even if the news is bad – or perhaps more importantly if the news is bad – provide context to the data you are releasing in order to engage investors.

The story you can tell to bond investors – including about the management team – should explain where you're headed as an issuer and how you expect to get there. Bring alive your long-term financial and debt financing goals, and articulate what you trying to accomplish.

In 2017, with the availability of channels to communicate directly with investors like investor websites, an issuer should do more than simply publish historical data in a POS. Use technology to efficiently let investors know every detail about you as an issuer, because if they do, the chances of them being long-term investors – and repeat investors – will go up.

The Bond Buyer

By Colin MacNaught

August 16 2017, 10:42am EDT

Colin MacNaught is the CEO of BondLink. From 2008 to 2015 he was the Assistant State Treasurer of the Commonwealth of Massachusetts.

Trump's Agenda Could Bring Disaster for America's Aging Infrastructure.

Here's something that almost everyone can agree on: We need to rebuild and retool the country's aging infrastructure for the 21st century. The difficult question is how — and President Trump's infrastructure agenda isn't the way.

The Trump agenda, while light on details, will surely rely on so-called "public-private partnerships," which use expensive private financing instead of cheap, reliable public financing. By depending on such deals to rebuild America, the agenda poses serious risks to the public and fails to address the real issue causing our roads to crumble and water pipes to age: the long-term shortage of public funding.

Advocates of privately financed and operated infrastructure often claim that contracts shift risks from the public to private investors and operators. But all risks are not created equal. The potential for cost overruns and delays in new construction is real but is, in fact, where risk can be shifted to construction contractors with proven contracting methods such as Construction Manager at Risk and design-build.

Continue reading.

THE HILL

BY DONALD COHEN AND DWAYNE ROYSTER, OPINION CONTRIBUTORS – 08/21/17 02:00 PM EDT

Trump Infrastructure Push Rolls Back Environmental Rules.

WASHINGTON/NEW YORK (Reuters) – U.S. President Donald Trump on Tuesday rolled back rules regarding environmental reviews and restrictions on government-funded building projects in flood-prone areas as part of his proposal to spend $1 trillion to fix aging U.S. infrastructure.

Trump's latest executive order would speed approvals of permits for highways, bridges, pipelines and other major building efforts. It revokes an Obama-era executive order aimed at reducing exposure to flooding, sea level rise and other consequences of climate change.

"It's going to be quick. It's going to be a very streamlined process. And by the way, if it doesn't meet environmental safeguards, we're not going to approve it – very simple," Trump said at a press conference at Trump Tower in New York.

President Trump promised in his election campaign to press for widespread deregulation to spur business spending. The former New York real state developer has complained that it takes too long to get permits for big construction projects.

Business groups praised the streamlining of regulations, while environmental groups and others criticized the order, saying it would lead to riskier projects, waste taxpayer dollars and result in a "climate catastrophe."

The American Petroleum Institute said in a statement that the order reflects recommendations the oil industry lobby group submitted to the Commerce Department in March. The National Association of Home Builders also praised the Trump administration's move, saying the flood rules had raised the cost of housing.

But the environmental group Oil Change International said the order would silence local communities that have safety and environmental concerns about major projects like pipelines.

"If Trump has his way, we'll be facing a fossil fuel buildout that locks America into climate catastrophe," said Janet Redman, U.S. Policy Director at Oil Change International.

The order would set a two-year goal for completing permits needed on major infrastructure plans, and create a "one Federal decision" protocol that would appoint a lead federal agency to work with other agencies to complete the environmental reviews and permitting for infrastructure projects.

The Trump administration has issued dozens of rules and orders to reverse Obama-era regulations addressing climate change and its consequences such as rising sea levels and more severe storms.

The administration proposes $200 billion in government funding over 10 years as part of a goal of getting $1 trillion in public and private infrastructure spending.

The Obama-era standard required that builders factor in scientific projections for increased flooding and ensure projects can withstand rising sea levels and stronger downpours.

It required all federal agencies apply the standard to public infrastructure projects from housing to highways.

Rafael Lemaitre, former director of public affairs at FEMA who worked on the Obama-era order, said Trump is undoing "the most significant action taken in a generation" to safeguard U.S.

infrastructure.

“Eliminating this requirement is self-defeating; we can either build smarter now, or put taxpayers on the hook to pay exponentially more when it floods. And it will,” he said.

by Valerie Volcovici and Jeff Mason

Editing by Chris Sanders and David Gregorio

AUGUST 15, 2017

Indiana Completes Takeover of P3 Road Project.

DALLAS — Indiana completed a settlement agreement to take over a road project that’s been cited as an example of the pitfalls of public private partnerships and will sell $180 million of state backed bonds next week to wrap up the financing piece of the agreement.

The bonds will refund notes issued to complete the settlement agreement.

The Indiana Finance Authority on Monday announced the completion of its settlement to terminate the state’s contractual relationship with I-69 Development Partners, reimburse the developer’s bond holders for $246 million, and return direct control of the I-69 Section 5 project to the Indiana Department of Transportation.

“The state is officially in charge of this important project,” Gov. Eric J. Holcomb said in a statement. The IFA announced the pending settlement agreement June 16 and it has since been approved by the IFA Board and reviewed by the State Budget Committee. The 21-mile project, beset with construction delays and funding woes tied to the developers, is be completed before August 2018.

“The decision by Indiana to voluntarily terminate the I-69 contract highlights certain risks governments take on when they enter into availability payment P3s,” said Julius Vizner, an associate vice president at Moody’s Investors Service, the firm’s lead analyst on IFA. “Governments enter into P3s to efficiently develop and finance infrastructure, but depending on how they are structured, the P3 contract may obligate the government to payments that are similar to debt. If the developer becomes financially strained to the extent it did in Indiana, the government may choose to step in to gain control, make private lenders whole, and to ultimately finance the project itself.”

IFA public finance Director Dan Huge said the state will use the $180 million in highway-revenue bonds to retire the developer’s private-activity bonds. Bondholders will receive an additional $12 million from the I-69 Development Partners and the IFA will receive $50 million from the developer.

The bonds are rated at AA-plus by S&P Global Ratings and Fitch Ratings. Moody’s rates the bonds Aa1.

“This rating is considerably higher and more advantageous to the State than the BBB and BBB- rating assigned to the developer’s private-activity bonds and will result in interest savings over time,” according to Huge.

The settlement agreements release the state from future liabilities or claims that could have been made by bondholders, the developer, the design-builder Isolux Corsan, and insurance and surety companies. The state assumes all future financial risk to operate, maintain, and preserve the new roadway over the next 35 years instead of its private partners.

The project's construction delays, cost disputes, and the financial woes of the design-builder tipped the PABs' ratings deep into junk as the bonds headed toward default. S&P on June 7 dropped its rating to CCC-minus from B-minus. In May, S&P lowered the bonds to B-minus from B-plus. Fitch lowered the rating to B-plus in April. Fitch said in its June 9 report it was lowering the rating to CC from B-minus.

The IFA issued the project bonds, lending the proceeds to private contractor I-69 DP to finance the upgrades to a 21-mile stretch of highway between Bloomington and Martinsville that will become Interstate 69.

The bonds are secured by a first priority lien on I-69 DP net revenues. The IFA was to make milestone payments during the construction period and then availability payments after the road opened.

Indiana has $935 million outstanding in highway revenue bonds, according to S&P.

In terms of P3s, The state has used private capital via public-private partnerships (P3s) to address transportation infrastructure needs. Moody's views availability payments as debt-like and counted $541 million in P3 liabilities towards net tax-supported debt as of fiscal 2016, not including the P3 being taken out by the current sale.

The state is rated AAA by S&P and Fitch. Moody's rates the state Aaa.

The original cost in today's dollars is approximately $590 million under the public-private structure; the new agreements and structure total approximately $560 million dollars. The state may have to issue an additional $155 million of bonds to cover the costs to complete the project, according to Moody's.

Moody's, S&P and Fitch have all said that the additional debt burdens Indiana will assume in the take out financing of the PABs are manageable and won't affect the state's credit rating.

Indiana entered into the project in 2014 to complete a 21-mile highway connecting southwest and central Indiana. Construction delays and developer financial woes, including a bankruptcy filing, led the state to decide to take over the project in order to avoid a work stoppage that could have lasted through October.

By the end of March 2017, the IFA moved to seek legislative amendments that, in the event the PPA was terminated, authorized the use of Highway Revenue Bonds to complete the project after the collapse of a Jan. 25 memorandum of understanding involving the developers and their equity sponsor, the state government, and design-build contractor Isolux Corsan LLC.

The MOU, was expected to ease pressures on the project by settling various disputes, providing additional funding, and pushing off a project completion deadline, but it became clear that Isolux would not be able to meet its $52 million equity commitment due to financial troubles of Isolux's parent.

The Bond Buyer

By Nora Colomer

Published August 15 2017, 1:28pm EDT

New EPA Water Infrastructure Finance Website Open.

On July 26, the Environmental Protection Agency (EPA) opened a web based portal to assist municipalities, counties and communities in identifying grant, loan and other financial sources for infrastructure. Recent Safe Drinking Water Issues in Flint, Michigan and other communities involving lead in drinking water have increased focus on drinking water infrastructure needs and system investigation and replacement. EPA indicates that the Water Finance Clearinghouse has over $10 billion in water funding sources and over 550 resources to support local water infrastructure projects. Water Finance Clearinghouse consolidates and expands upon existing EPA-supported databases to create a one-stop-shop for all community water finance needs.

The clearinghouse can be accessed here.

Funds can be utilized for water system upgrades, infrastructure, disinfection and distribution systems, wastewater and stormwater systems. The clearinghouse consolidates numerous federal, state and local sources of funding and outlines potential funding sources by geographic region and area. EPA state revolving funds (SRF) and other federal source information are included.

Article by David M. Moore and Phillip E. Hoover

Last Updated: August 16 2017

Smith Gambrell & Russell LLP

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

Municipal Market Snapshot.

Read the Snapshot.

Hutchinson, Shockey, Erley & Co. | Aug. 15

How Driverless Cars Could Be a Big Problem for Cities.

The technology could signal the beginning of the end of parking tickets and other revenue sources. Some cities' budgets could take a big hit.

Like a growing number of cities, Austin, Texas, is getting ready for the arrival of autonomous vehicles. On any given afternoon, self-driving test models can be seen darting along a Formula One race track. More than 500 electric vehicle charging stations are already spread throughout the city. (Autonomous cars are expected to utilize electric drivetrains.) In March, the city council adopted a resolution prioritizing plans for self-driving vehicles.

Austin's transportation director, Robert Spillar, is working to prepare the city. But earlier this year, a realization hit him about what driverless cars might mean for his budget. "It struck me," he says. "Half my revenue for transportation capacity and operations improvements is based on a parking model that may be obsolete in a dozen years."

Continue reading.

GOVERNING.COM

BY MIKE MACIAG | AUGUST 2017

Infrastructure Lessons From One of the Nation's First P3s.

A 75-year-old highway project offers clues to solving a critical present-day problem.

When I was young, family fun usually involved a trip on the Pennsylvania Turnpike. Everyone — my mother and father and the four kids — would pack into our station wagon with the faux-wood paneling on the side and drive through the turnpike's tunnels. Our favorite was always Ray's Hill. My dad's name was Ray, and the family rule was that we had to clap all the way through the tunnel (which was as annoying to the driver as you might imagine). If we were really lucky, the trip would include a stop at a Howard Johnson's restaurant, best known for its orange roof and, most important, its 28 flavors of ice cream.

Bizarre as it may seem, those memories got me thinking about the future of federalism. The turnpike was one of the country's first great public-private infrastructure projects, built by private contractors, financed with revenue bonds and repaid through drivers' tolls. As for HoJo's: It won the first private franchise to provide food (and, of course, ice cream) on public roads, paying for the privilege by dishing out money that the whole turnpike enterprise could put to use.

We're going to have to do something as innovative as that if we're going to deal with the infrastructure problems we're facing right now. When President Trump announced his $1 trillion plan to fix the nation's infrastructure, National Public Radio's Ailsa Chang tried to figure out just how far the first yearly tranche of $100 billion would go. She started counting New York City's needs and couldn't even get across the Hudson River before the money ran out.

Of course, Trump isn't really proposing that the federal government spend $1 trillion in federal tax money. Rather, he wants the feds to put up $250 billion in the next decade and leverage the rest through public-private partnerships, with the states and cities carrying a big share of the load. In his most recent budget, Trump asks for $5 billion to get started, which works out to about one-seventh of what it might take just to get our school buildings into fair condition. That leads us to confront three truths: No state or local government has much money to spare right now. Everyone knows the feds aren't going to go deeper into debt to provide a cash windfall for construction. And every state has a vast — and growing — collection of must-do infrastructure projects.

If government doesn't have the cash, the inescapable solution may indeed be a new generation of public-private partnerships. One tempting plan is to raise money for domestic infrastructure by encouraging private companies to bring back profits generated abroad. With the right tax plan, advocates think, they can repatriate profits and redirect them to American needs. Estimates of the potential for repatriated profits, in fact, range as high as $3 trillion. Infrastructure planners see that as an enormous source of untapped funds.

The idea has attracted support from Trump and from leaders across the political spectrum, including House Speaker Paul Ryan and Senate Minority Leader Charles Schumer. But anything with support that broad in principle has got to be super-complicated in action, and that's just the case here. It's very hard to bring overseas money back without lowering corporate tax rates. It's similarly difficult to lower tax rates on foreign profits without doing so for all corporate profits. Finally, channeling overseas money into infrastructure projects will likely require special tax breaks.

This all gets very expensive very fast, and it collides with the goal of simplifying the tax code. Moreover, it wouldn't necessarily channel the money to the biggest infrastructure needs. Investors are going to put their cash where they can be most sure of getting the biggest profits. That might work for new airports and toll bridges, but it won't work for small-town street projects or bridge repairs in the inner city.

Then there's the plan to sell off airports and water companies, or at least license them to private operators who could keep whatever profits they generate. St. Louis is exploring that approach for its half-empty airport, which lost business when American Airlines bought TWA, which was once based there.

Chicago tried to do this with its Midway Airport, but the deal collapsed along with the credit markets during the 2009 economic crisis. Later on, Chicago Mayor Rahm Emanuel wrote that the city had learned an important lesson: "A true public-private partnership requires that taxpayers maintain control of the asset and share in management decisions and financial profit." Having to share control and profits, however, might shrink the enthusiasm of private operators.

There just isn't an easy way to solve the infrastructure problem we've allowed to grow and fester for a generation. To get the money it needs, government is going to have to attract substantial private investment. That, in turn, means figuring out new incentives to lure investors. It also means that state and local governments must develop new ways of managing such complex partnerships — and of figuring out how to share the proceeds with private partners.

It means, in one sense, reaching back to the Pennsylvania Turnpike and HoJo's to find clues about the future of federalism.

governing.com

By Donald F. Kettl | Columnist

Former dean of the School of Public Policy at the University of Maryland, and a nonresident senior fellow at the Volcker Alliance and the Brookings Institution

AUGUST 2017

[The Week in Public Finance: A Hockey Brawl in St. Louis, New Jersey's Pension Plan and Another Illinois Impasse.]

A *roundup* of money (and other) news governments can use.

GOVERNING.COM

BY LIZ FARMER | AUGUST 18, 2017

Climate Bonds Pioneered by Goldman Lure Storm-Plagued Cities.

- **Rockefeller Foundation seeks to expand environmental bonds**
- **Financing meant to cut cities' risks for untested projects**

As climate change pushes U.S. cities to build protections against stronger storms and more frequent floods, the Rockefeller Foundation is helping cities with a novel kind of financing, one that transfers some of the risk of innovative projects from cities to investors.

The foundation, established with John D. Rockefeller's oil wealth, announced Wednesday it will pay $342,000 to underwrite the costs for two municipalities in issuing environmental impact bonds, pioneered by The Goldman Sachs Group Inc. and Washington, D.C. More than a dozen cities have expressed interest in the bonds, which link an investor bonus or penalty to how well the underlying project works.

"You take the risk off the project not working" for city officials, said Saadia Madsbjerg, who leads the Rockefeller Foundation's work on financial innovation. "There are many, many municipalities that have the exact same problem that D.C. has."

The goal is to give local governments room to experiment with ways of protecting their residents against the impacts of climate change by providing a sort of insurance policy against failure of the micro-grids, flood walls or other untested projects. For investors, there's a upside, too: If the project works better than expected, they get a bonus payment.

So-called green bonds, which are similar in purpose, grew to $95 billion in 2016, twice as much as the previous year, according to Bloomberg New Energy Finance. Many are issued by companies — Apple Inc. sold $1.5 billion last year to help its operations run 100 percent on renewable energy — but governments are also getting into the act.

Environmental impact bonds were first used in the U.S. last September. As part of the deal made last year, Goldman Sachs has $3 million riding on how well tree planting, rain gardens and porous asphalt keep stormwater from swamping Washington's aging sewers.

DC Water, Washington's water utility, issued a $25 million bond to help build "green infrastructure" for stormwater management. The utility had been ordered by federal regulators to cut the raw sewage flowing into the Potomac River after storms.

Climate change results in more and wetter storms hitting the mid-Atlantic region, and massive rains can overwhelm the city's water treatment plant.

The bond that DC Water issued is similar to regular municipal debt, with one difference: If the project reduces stormwater runoff by more than 41 percent during its first 12 months of operation, DC Water promises to give investors a one-time bonus of $3 million on top of the bond's 3.43 percent interest rate.

But if the project reduces runoff by less than 19 percent, investors instead have to pay DC Water $3 million — what it calls a "risk share" payment. That would reduce the effective interest rate on the bond from 3.43 percent to 0.5 percent.

That structure was attractive because it means DC Water will have money to design a new project if the green approach doesn't work, said George Hawkins, the utility's chief executive. "You never really know until you build" it, if it will work, he said.

Goldman Sachs bought $23 million of those bonds. The Calvert Foundation, a Maryland-based nonprofit, bought the other $2 million.

Margaret Anadu, who heads Goldman's Urban Investment Group, said the bond is a chance to "really put your money where your mouth is" — funding a climate-resilience project that will deliver better returns for Goldman the better it performs.

Not everyone is so optimistic that tying payments to outcomes will produce better results. Daniel Edmiston, who teaches sociology and social policy at the University of Leeds, published a paper earlier this year looking at the effectiveness of those social impact bonds, which got their start in the U.K. and were the inspiration for environmental impact bonds.

Whether a program triggers a bonus payment could have just as much to do with the quality of the lawyers who drew up the contract as it does with its actual performance, Edmiston said.

"Very intelligent, well qualified private sector consultants in the U.K. have managed to dictate the terms of contracts," Edmiston said. "These public authorities that are commissioning them, they have no idea what they're doing or how to go about it."

Others say there's no time to wait for the results of earlier projects. Eric Letsinger is founder and chief executive of Quantified Ventures, the company that helped structure DC Water's bond and is being paid by the Rockefeller Foundation to choose the next cities to sell similar bonds. He said his goal is continuing to improve the way environmental impact bonds are designed, so that more cities are willing to issue them.

"I don't think we have a capital problem," Letsinger said. "What we have is an adoption challenge."

Jase Wilson, chief executive of Neighborly Corp, the company whose online brokerage tool will sell the bonds, said extreme weather puts pressure on local governments to try new ways of borrowing. "We need new models," Wilson said in a statement. "The threats that cities face from climate change, social strife and economic distress are real, current and widespread."

Bloomberg Politics

By Christopher Flavelle

August 16, 2017, 1:00 AM PDT August 16, 2017, 7:07 AM PDT

[Bloomberg Brief Weekly Video - 08/17]()

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

[Watch video.]()

Bloomberg

August 17, 2017

[Fitch: U.S. States Experiment with Cannabis Legalization (New Revenues Boost Bottom Lines but Have Limited Impact on Credit)]

[Read the report.]

[CUSIP: Pre-Market Corporate and Municipal Bond Activity Slows in July Following Two Straight Months of Rapid-Fire Growth.]

"The on-again/off-again nature of CUSIP request volume over the past several months is indicative of the cautious optimism we're seeing reflected in market psychology," said Richard Peterson, Senior Director, S&P Global Market Intelligence. "Market participants still see opportunities to raise new capital, but they are also dialing it back as they continue to watch the interest rate situation and overall market behaviour for signs of opportunity."

[READ PRESS RELEASE]

[Statement by U.S. Conference of Mayors CEO and Executive Director Tom Cochran on Threat to CDBG in Senate Border Security Bill.]

Washington, D.C. – U.S. Conference of Mayors CEO & Executive Director Tom Cochran today issued the following statement on the threat to Community Development Block Grant funds in the Senate Border Security Bill — *Building America's Trust Act*:

"The nation's mayors strongly oppose a provision in the Building America's Trust Act introduced in the Senate Thursday which would withhold Community Development Block Grant and Economic Development Assistance funding from jurisdictions which have instituted local policies to build trust with immigrant communities and uphold the Constitution in their treatment of people being detained.

"The CDBG program is critical to the community and economic development of our cities' lower income neighborhoods. Penalizing it and EDA's programs is counter-productive, mean-spirited, and likely unconstitutional.

"We will oppose any bill that contains a provision that seeks to punish cities for such local policies by withholding federal funds. These provisions jeopardize public safety, preempt local authority, and expose local governments to litigation and potential findings of damages.

"We urge the Senate instead to act in a bipartisan fashion, as it did just a few years ago, to fix our broken immigration system by passing comprehensive legislation that would:

- Strengthen our borders while assuring that state and local law enforcement can remain focused on community policing;
- Establish a streamlined visa process to efficiently process seasonal, agricultural, lesser-skilled and high skilled workers;
- Provide a uniform system of employment verification; and

- Implement a framework that enables people of goodwill currently living in the shadows to come out and fully pursue the American dream.

"The nation's Mayors stand ready to work with Congress and the Administration in a bipartisan manner to reform our immigration system to ensure that our communities are safe while allowing all our residents to thrive."

Fitch: WIFIA Loans Chip at Aging US Water Infrastructure Costs.

Fitch Ratings-San Francisco-09 August 2017: The Water Infrastructure Finance and Innovation Act (WIFIA) program will provide $2.3 billion in low-cost loans for water and wastewater projects this year, benefitting issuers that receive those loans with less expensive funding for their projects, Fitch Ratings says.

However, WIFIA's loan amounts are small compared to estimates of the total cost. The American Society of Civil Engineer's estimates $150 billion in water and wastewater infrastructure costs from 2016-2025 and the U.S. Environmental Protection Agency estimates approximately $655 billion will be required over the next 20 years.

WIFIA selected 12 water utilities, four of which are in California, to submit final applications for the loans. The California projects include the City of San Diego's (water revenue bonds 'AA'/'AA-'/Stable) Pure Water program, the Orange County Water District's (revenue bonds 'AAA'/Stable) Groundwater Replenishment System expansion, San Francisco Public Utility Commission's Biosolids Digester Facilities, and the City of Morro Bay's water reclamation facility.

Projects in other states selected by WIFIA include: water or wastewater facilities in King County, WA; City of Omaha; Metro St. Louis Sewer District (wastewater revenue bonds 'AA+'/Stable); Indiana Finance Authority (SRF program bonds 'AAA'/Stable); City of Oak Ridge, TN; Maine Water Company; Baltimore City Department of Public Works; and Miami-Dade County (water and sewer revenue bonds 'A+/Stable).

The water utilities that receive the WIFIA loans will see lower expenses as WIFIA loans have lower financing costs than the financial markets. WIFIA allows utilities to borrow up to 49% of the project cost at Treasury rates with 35-year amortization periods. In addition, WIFIA loans are larger than other types of financing, which can be important to projects with substantial costs due to scope and/or complexity.

The water utilities that have planned large infrastructure projects and do not get WIFIA loans will likely rely on public debt for their main funding. State revolving fund programs are generally too small – they can provide funding for some water maintenance programs but do not have sufficient assets to fund large, complex projects.

Water utilities that are not chosen to receive WIFIA loans will see some rise in capital projects expenses as their debt service costs will increase. Some issuers have more flexibility in passing these costs on to rate payers than others. Rate payers in California, for example, may be more sensitive to cost increases as recent years of drought-related conservation meant years of increasing rates to recoup revenue losses.

WIFIA's goal is to advance steady investment in water infrastructure development for regionally and nationally significant projects and to address the effects of persistent underfunding of capex, delayed system upkeep and shortages of quality water. These issues are taking on more urgency as issues like the Flint, MI toxic water crisis and cases of elevated lead levels in drinking water arise across the U.S.

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Bloomberg Brief Weekly Video - 08/10

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

Watch video.

Bloomberg

August 10, 2017

The Coming Backlash to 'Greenwashing' of Bonds.

So-called green bonds, which raise money for environmentally friendly purposes, have exploded in popularity in recent years. So have concerns about "greenwashing," or making misleading claims about just how good an environmental friend the seller is. The European Union has signaled that it may step in to oversee the market, using tools such as mandatory product labels to bring greater clarity to investors.

1. How much of the bond market is green?

Green bonds accounted for less than 0.6 percent of global bond sales last year, data compiled by Bloomberg show, but they're growing fast. About $95 billion worth of green bonds were issued in 2016, twice as much as in 2015, according to Bloomberg New Energy Finance.

2. Who sells them?

Corporations and banks, so-called supranational institutions such as the World Bank, plus governments at the local, state and national levels. Poland and France became the first sovereign issuers of green bonds in the past few months. Chinese sellers drove growth in 2016, led by a 30 billion yuan ($4.5 billion) sale by China's Bank of Communications. The largest green-bond sale in the U.S. was a $1.5 billion note by Apple Inc. in February 2016 to help reach its goal of running 100 percent of its operations on renewable energy. Municipal governments in the U.S. are also selling green bonds to finance urban infrastructure projects such as upgrades to sewage systems. In May, San Francisco's Bay Area Rapid Transit agency issued its first green bonds, noting the role of its trains in providing "low-carbon transportation alternatives."

3. Who buys the bonds?

Institutional investors, mainly, including pension funds, insurance companies and asset managers that are being pressed by their clients to make "responsible" or "sustainable" investments. France, in 2015, became the first country to introduce mandatory environmental reporting for institutional investors: Article 173 of the French Energy Transition Law requires fund managers to disclose how they consider environmental performance when making investment decisions.

4. Does 'green' investing mean compromising on returns?

Not necessarily. The vast majority of green bonds are investment-grade and, when issued, are priced similarly to conventional debt. In the secondary market, some green bonds, such as ones sold by the European Investment Bank and the World Bank, have outperformed peers because of rising demand for sustainable investments. The Bloomberg Barclays MSCI Global Green Bond Index returned 3.44 percent in 2016.

5. Just how green are green bonds?

That depends on the bond. At least until now, there have been no clear rules on what green actually means. The lack of clarity has led some environmentalists to accuse bond issuers of making misleading claims about supposed environmental benefits. In China, for instance, some "green" bonds are used to finance the construction of coal-burning power plants. The idea is that the plants being financed are cleaner than their predecessors. But many environmentalists would challenge whether any coal plant could really be described as "green."

6. Who decides whether a bond is green?

That's what the European Commission, the EU's executive arm, hopes to clarify. Currently, investors must decide for themselves whether a bond deserves to be called green. To help, organizations including S&P Global Ratings and the Climate Bonds Initiative offer to evaluate and certify bonds as helping the environment. (Bloomberg LP, the parent of Bloomberg News, also provides a green-bond tag and related disclosures.) The International Capital Market Association offers Green Bond Principles to guide sellers on appropriate use of proceeds. But all of these initiatives are voluntary and carry no enforcement mechanism.

7. What's the European Commission's plan?

In an interim report released on July 13, its High-Level Expert Group on Sustainable Finance recommended the creation of "a European standard and label for green bonds and other sustainable assets." The group says labels could be an effective response to investor complaints on the lack of standards in the market.

8. Is regulation the answer?

There's disagreement on that. Some analysts argue that tighter regulation on sellers of green bonds will slow the growth of the market. Regional regulation, such as by the European Commission, may also lead to a Balkanization effect, with a bond qualifying as green in one jurisdiction but not in another.

The Reference Shelf

- The bond industry is trying to go beyond mere "green" promises.
- A Bloomberg News story on the EU's plans for green bonds.
- A QuickTake explainer on sustainable investing.
- The European Commission's interim report.
- The Bloomberg New Energy Finance research note, "Green Bonds: 2016 in Review."
- A report by consulting firm EY on financing green projects.
- There's even a Greenwashing Index.

Bloomberg BusinessWeek

By Luca Morreale

August 10, 2017, 9:00 PM PDT

— With assistance by Daniel Shurey, Anna Hirtenstein, Katie Linsell, and Jess Shankleman

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It Was a Great Year for America's Pensions, but Many Are Still in Crisis.

Large public pensions are facing a funding shortfall of as much as $4 trillion because their liabilities are so large

A run-up in stocks helped deliver a banner year for America's public pensions. But the gains won't be nearly enough to ensure all state and local retirees receive their promised future benefits.

Large U.S. systems that oversee retirement funds for police, firefighters, teachers and other public workers earned median returns of 12.4% in the fiscal year ended June 30, according to Wilshire Trust Universe Comparison Service. That is their best annual result since 2014.

Yet many of these public pensions remain severely underfunded despite the recent gains, meaning they don't have enough assets on hand to fulfill all promises made to their workers. Estimates of their collective shortfall vary from $1.6 trillion to $4 trillion.

"It's a hole that took a long time to dig, so it will take a long time to fill," said Fitch Ratings analyst Douglas Offerman.

The pensions' predicament is the result of decades of low government contributions, overly optimistic investment assumptions, over-promises on benefits and two recessions that left many retirement systems with deep funding holes. Demographics are also a factor: Liabilities are rising as waves of baby boomers retire, leaving fewer active workers left to contribute to pension plans.

For many pensions, funding problems worsened in the years following the 2008 financial crisis as interest rates hit—and remained at—rock bottom. Some states pushed through benefit cuts that moved new employees onto less-generous, 401(k)-style plans, but those changes often failed to alleviate funding woes because they didn't affect existing retirees.

Many funds tried to address the issue by ramping up their ownership of equities in the hopes of benefiting from an eight-year bull market. Public pension funds had a median 56.61% of their holdings in equities as of June 30, compared with 54.9% a year earlier, according to Wilshire TUCS.

But that level of exposure to stocks means public pensions will experience even more funding stress if a bear market returns.

Many pensions are preparing for lower returns by scaling back predictions of what they will earn in the future, an accounting adjustment that pushes liabilities higher. Public pensions use a combination of investment income and contributions from employees, states and cities to fund benefits.

Even if returns remain elevated, large public pensions won't be able to reverse their shortfall in coming years, according to Moody's Investors Service. Large public plans currently have just 70% of what they need to pay future benefits to their retirees, according to 2016 figures from Wilshire Consulting.

Funding levels won't improve significantly unless cities and states ramp up their yearly pension contributions, according to a recent report by the Center for Retirement Research at Boston College. But budget problems in many states and cities mean governments either can't afford to make aggressive payments or opt to stretch them over decades so big outlays are delayed.

Few states are having more trouble with these issues than Illinois, which has struggled for years to agree on budget priorities and pay for mounting pension liabilities. One result is that the fund that oversees retirement money for state employees, judges and lawmakers now has just 35% of what it needs to pay for all future retirement obligations.

Funds overseen by the Illinois State Board of Investment earned nearly 12% in the fiscal year ended June 30—its best result since 2014—but Chairman Marc Levine said he expects the funding deficit to widen.

"Our liabilities are three times our assets," said Mr. Levine. "Maintaining our funding level would require investment returns over 20% annually. That's not going to happen.

"Even in a fantastic year," he added, "we can't keep up."

Many other public pensions around the country reported robust returns in the year ended June 30 but warned of difficult budget choices ahead. The California Public Employees' Retirement System, the biggest in the U.S., earned 11.2% in fiscal 2017—largely because of stocks and private equity. But the fund, known by its acronym Calpers, noted that it has just 68% of the assets it needs to pay for future benefits. That is up from 65% in 2016.

"We welcome this fiscal year's strong returns, but we also remain about 68 percent funded and vulnerable to a downturn in stock markets," Calpers Chief Executive Marcie Frost said in a statement. The fund has about $332 billion in assets for 1.8 million workers and retirees.

The California State Teachers' Retirement System, which sits roughly one mile from Calpers in Sacramento, Calif., reported a fiscal 2017 return of 13.4%. The fund's chief investment officer, Christopher Ailman, touted the number on Twitter as being higher than Calpers: "BOOYAH!!"

In a release, though, he offered some caution: “Just as one bad year will not break us, one good year will not make us.”

One of the best gains among public pensions happened in Connecticut, where retirement funds earned a collective return of 14.3% in the fiscal year ending June 30.

“It was a jackpot for the taxpayers,” said state Treasurer Denise Nappier.

But the fund that oversees retirements for state employees has just 35.5% of what it needs to pay for future obligations and a fund for teachers has 56%. The state, Ms. Nappier said, made a mistake by not contributing more to the funds in past years.

Now she wants the teachers’ fund to reduce expectations for future gains, calling its current goal of 8% “an unrealistic expectation.” The state employee fund last year dropped its assumption to 6.9% from 8%.

“The robust returns in the past aren’t in the cards for the future,” Ms. Nappier said.

The Wall Street Journal

By Heather Gillers

Updated Aug. 8, 2017 6:30 p.m. ET

Write to Heather Gillers at heather.gillers@wsj.com

[Why Cities Should Stop Fighting Big Banks and Create Their Own.]

Public banks can finance affordable housing, transit, and local economic development in a way private banks can’t

Six years have passed since Occupy Wall Street called attention to one of the most vexing problems of our time: an abstract financial system that concentrates prosperity at the top, produces massive inequality and drowns working people in unpayable debts. It is worth noting that some of the largest Occupy encampments occurred in some of the most liberal cities: New York, Oakland, Los Angeles, Boston and Chicago among them. Indeed, it is difficult to reconcile how progressive leadership has been unable to address myriad social problems, income inequality chief among them. Case in point: In San Francisco, home district of Nancy Pelosi, the top 1 percent of earners take home 30.8 percent of the total income in the region. Almost every major coastal city is dealing with some mix of rapid growth, a housing affordability crisis, the displacement of poor residents and overburdened public infrastructure. The failure of progressive strongholds to address the problems liberals routinely decry is an indictment of the Democrats, their priorities, and their moral imagination when it comes to improving the material conditions for their supporters.

How do we confront these social challenges? Generally, that sort of thing costs money — which cities can raise via bonds, or through raising new taxes. Both of these have their problems: Municipal bonds make cities heavily reliant on wealthy individual investors and Wall Street; banks profit at the expense of taxpayers and are highly unlikely to finance public goods that do not provide the highest returns — which is why it’s so hard to build affordable housing. Moreover, institutional racism plays an insidious role in city’s ability to raise bonds: notably, Moody’s downgraded

Ferguson's municipal bond rating in 2015, citing "[a] rapid deterioration of the city's financial position" and "[Ferguson residents'] below average socioeconomic profile," among other reasons. Relying on private creditors seems like a bum deal.

What about taxes? City sales tax is one option, but it's a regressive tax: poorer residents bear more of the burden relative to wealthy earners. Raising new taxes on top earners is a more attractive option for progressive cities. Seattle's City Council recently passed a 2.25 percent tax increase on individual earners above $250,000, but a legal challenge is already underway. The reality is that states retain more taxing authority than cities.

If cities want to promote financial inclusion, shared prosperity and sustainable growth, taxes and bonds alone may not get them very far. Consequently, some Occupy-inspired progressives have turned to monetary policy: Instead of fighting big banks, cities should create their own.

More bank for your buck

A municipal bank is a city-licensed public bank that operates much the same way private banks do: providing regular checking and savings accounts, and making loans to promote policy objectives like affordable housing. There are a lot of ways one might do this: a city can create the bank (as a line-item appropriation) in a mayor's budget; through an ordinance passed by a city council; or if the citizens vote for it.

Arguably the biggest benefit of municipal banks is that, unlike Wall Street, their priorities are in the community, not in profit. Indeed, municipal banks are one of the best ways to ensure a bank serves local interests and prioritizes community needs. Cities can hardwire economic and social equity goals into the charter of a municipal bank, which makes it a useful tool for ensuring a city serves its most vulnerable residents. People in need are often the most susceptible to budget cuts, so it's valuable to have a public institution catered specifically to low-income residents.

Karl Beitel, director of the Public Banking Project, describes how municipal banks can play a significant role in creating affordable housing supply. By partnering with credit unions and community development financial institutions, municipal banks can be a major source of funding for city property acquisitions, which can be used to take housing off the private market to be converted into affordable housing. Municipal banks can also coordinate investment from public-sector unions, non-profits and socially responsible investment funds to support additional acquisitions and development.

Municipal banks can offer more competitive interest rates for student borrowers and lower-cost financing of public works. Rather than paying massive interest rates on bonds to individual financiers and banks, municipalities can issue their own loans — meaning the interest payments that would otherwise go to Bank of America or Wells Fargo can instead be reinvested in the city. Municipal banks have the added benefit of being more publicly accountable. Seattle City Council recently voted to cut ties with Wells Fargo over its role in financing the Dakota Access Pipeline. A city can narrowly define the scope of a municipal bank's charter to make ethical investments that further the city's policy goals.

The North Dakota model

Frack-happy, Trump-supporting North Dakota probably isn't the first place you would expect to find a working model, but since 1919, the state has used the Bank of North Dakota to finance everything from student loans to sewer upgrades and small business loans. The bank just posted its thirteenth consecutive year of record profits, earning more than $136 million in 2016. And unlike at a big private bank, that money goes right back into investing in the people, rather than into investors' pockets.

Bob Hasegawa, a Washington State Senator, recently ran a mayoral campaign in Seattle that featured municipal banks at the core of his platform; he was clearly inspired by the Bank of North Dakota's success, observing that "the size of North Dakota and its annual operating budget are almost equal to that of Seattle." He isn't the only one taking notice of the bank's solid fiscal position and growth. Los Angeles, San Francisco and Santa Fe are also seriously considering proposals to establish municipal banks for wide-ranging priorities from building affordable housing to providing cannabis retail stores with a [safe place to make deposits.]

Still, major obstacles impede the path the municipal banks. Cities have to go through some rigamarole to approve the bank, meet capital requirements, provide oversight, and overcome other regulatory hurdles. The benefits may not outweigh the political difficulties of creating. As David Goldstein, a senior fellow at Civic Ventures in Seattle argues, "municipal banks must face the challenge of balancing wise lending with political pressure. So while [municipal banks] could play a limited role in lending to 'affordable' housing projects and small businesses, it is far from an economic panacea." He also notes that a municipal bank in Seattle may not be legal without supporting legislation from the state.

Washington's constitution does [pose some challenges] concerning the establishment of a municipal bank, though Beitel thinks "there are contradictions in the regulatory code" and a good attorney could find an interpretation of the law that paves a way for state or municipal banks. Nonetheless, many states have a long record of [preempting local legislation] in liberal cities that are politically at odds with their conservative state legislatures. That's why it's preferable to start with a state-owned bank like North Dakota's, which if properly constructed, could incorporate counties and cities that want to participate.

For now, Beitel thinks public banking advocates "should start where it's most feasible, [most likely at the municipal level] in places like Los Angeles, San Francisco or Seattle, then ramp up." Likewise, while Goldstein is skeptical municipal banks can make a huge dent in our current social problems, he admits "it would be a great tool to have, among many."

Similarly, Beitel is more inclined to look toward tax policy for social investments, rather than a public bank, but he doesn't think it has to be either/or. Beitel sees municipal banks as one piece of a broader "progressive public policy agenda that can address multiple needs simultaneously." While the frenetic energy of Occupy Wall Street has faded, maybe it's time to focus on the more mundane task of building a financial system that reignites the movement's spirit.

SALON.COM

BY JULIAN GOTTLIEB

AUG 13, 2017

[Legal or Not, States Forge Ahead With 401(k)-for-Everyone Plans.]

Congress jeopardized the future of state plans to help private employees save for retirement. States don't seem to care.

Matt Birong spent years cooking in upscale restaurants in Boston and New York City. In an industry notorious for low wages and zero benefits, he did something very unusual: He opened a retirement savings account for himself. Birong admits that if his parents hadn't insisted he do so, he likely would have skipped the process. Even then, the notion of setting up an investment plan on his own would have been overwhelming if he didn't have a trusted friend in the financial services industry to walk him through it.

Now, as owner and head chef of 3 Squares Café south of Burlington, Vt., Birong wishes he could do the same thing for his employees. He already offers other unusual perks for the industry to attract quality and loyal workers, such as paid time off after one year of service. But setting up a retirement savings program for his roughly 15 employees? "I've got my head under a sink making sure the water's not leaking on the tenants downstairs," he says. "I just don't have the time; it's not that I don't want to."

Birong's situation is similar to that of many small-business owners across the country and is a big reason why half of private-sector workers don't have an employer-sponsored retirement plan. Of those 57 million people, only a small percentage have saved on their own and those savings are generally paltry. According to the National Institute on Retirement Security, the median retirement account balance is $3,000 for all working-age households and $12,000 for near-retirement households.

Continue reading.

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BY LIZ FARMER | AUGUST 2017

The Week in Public Finance: Bankruptcy Looms in Hartford, Worries About the Sales Tax and Puerto Rico's Many Defaults.

A roundup of money (and other) news governments can use.

BY LIZ FARMER | AUGUST 11, 2017

GOVERNING.COM

P3 Digest, August 9, 2017

Read the Digest.

August 9, 2017

NCPPP

S&P Default, Transition, and Recovery: 2016 U.S. Public Finance Higher Education And Nonprofit Organizations Default Study And Rating Transitions.

The distribution of ratings for U.S. public finance (USPF) higher education and nonprofit organizations has remained stable since 1986. The most common rating category in the sector is 'A', while the percentage of ratings in the 'AA' category or higher has not fluctuated significantly from 30%. The percentage of 'BBB' category ratings has moved within a narrow band of 20% to 25%.

Continue Reading

Jul. 25, 2017

Show Me the Money: Financing Public Facilities in the Age of Scarcity.

In the wake of the 2011 demise of California's 400 redevelopment agencies, cities, developers, and institutions are all struggling to find new ways to fund the construction and maintenance of essential infrastructure and other public buildings and facilities. A San Francisco official recently complained to me that there are 40,000 dwelling units entitled in the city that aren't being built. He noted a variety of reasons, but a chief one for large developments is the need for massive unfunded up-front investments in infrastructure. This includes projects like Treasure Island, Park Merced, Pier 70, and Hunters Point/Candlestick. These huge developments are all reuse projects for outmoded economic and land uses that once would have benefited from tax increment financing (TIF) through the local redevelopment agency. Tax increment financing, in use in every state in the union (and many other countries), is a financial tool to bond against future general property tax revenues, based on the increased value created by the development. The governor took exception to this diversion of revenues from cities' general fund budgets. Redevelopment of course had other social and economic goals in addition to being a financing mechanism.

With the loss of TIF, other strictly financing techniques are being used, including Community Facilities Districts (also called Mello-Roos districts in California, around since 1982). CFDs, unlike TIF, are financed by bonds secured by special taxes on the benefited properties, and do not come out of the city's general fund. And unlike Redevelopment, they must be voted in by two-thirds of the property owners. A newer and more flexible financing technique, Infrastructure Financing Districts (IFD) is a cross between TIF, which diverted property tax from the general fund, and CFD, which are special taxes on the benefited properties requiring a vote of the landowners. IFDs have this same two-thirds voting threshold as CFDs, but then are able to divert property taxes from the general city revenue stream and are not a special tax.

Continue reading.

August 13, 2017 By Jim Chappell

GFOA Distinguished Budget Presentation Award - 2016 Results

GFOA congratulates the 1541 governments awarded the Distinguished Budget Presentation Award for the fiscal year beginning 2016 (through June 30, 2017).

Additional 2016 winners will be posted once a quarter. Results are listed and can be filtered or searched using the tools below. (Note: the display shows 200 award winners at a time. To view the next 200, use the navigation found in the header.)

Access the results.

GFOA's 12-Stage Financial Recovery Process: Recovery from Financial Distress and Fiscal First Aid.

The Government Finance Officers Association is pleased to provide, “Recovery from Financial Distress and Fiscal First Aid,” a resource for dealing with challenging times.Use the following diagram to navigate through the different stages of the financial recovery process.

Click here to access a brief overview of the process before beginning.

LA City Council Mulls Starting Municipal Bank to Help Cannabis Industry.

Although voters passed referendums legalizing recreational marijuana in California and Massachusetts in November, regulators at the state and local level are still working out how to manage the new industry. One of the key areas has been finance–a potential point of conflict between the federal and state governments. The Treasury Department reports that out of the 12,000 banks in the U.S., only 368 serve the cannabis industry. Now, the city of Los Angeles is considering becoming one of them by creating a municipal bank to serve the cannabis industry and the city’s needs for housing and other services.

Earlier this summer, Los Angeles City Council President Herb Wesson introduced the idea of a municipal bank in a speech that, among other points, laid out his agenda for battling racism and addressing a housing shortage.

“Do you know, we’ve got people that are going to go home tonight and sleep on a mattress that’s worth $2 million?” Wesson said, a reference to the marijuana businesses stashing cash because of a lack of banking options. “We have to figure out a way to make this industry work. We in government are supposed to push the envelope, not protect the status quo.”

One way to push the envelope would be to get the city involved in banking and loans to California’s cannabis industry, a project that Wesson hopes would be able to help the city fund housing projects. In California, the cannabis industry has welcomed the idea.

The proposal draws attention to a longstanding hindrance the industry has faced. The lack of access to traditional financial institutions affects both the expansion prospects and physical safety of marijuana businesses. Many of them operate with large amounts of cash, which has made them targets for robberies. At the same time, acquiring financing for expansion has proven difficult, since federal laws restrict the loans that banks can give.

“The lack of access to banking is one of the biggest limitations to growth in the cannabis industry,” says Frank Lane, president of CFN Media, a creative media agency for the cannabis industry. “That investment flow is slowed because investors are worried that [cannabis] isn’t legal.”

Since cannabis remains illegal under federal law, banks protected by the FDIC are required to inform federal authorities if they suspect that customers are involved in illegal activity. The stakes for failing to report are high. If they do not report suspected illegal activity, the FDIC could step in and force the bank to close.

This is enough to make cannabis loans fraught with peril for financial institutions. The situation is not much better for borrowers. Not only are traditional financial institutions accountable to federal regulators, borrowers have fewer legal protections. Under the standard terms of a mortgage agreement, a bank can "call" the loan and demand that the borrower produce the balance due if the property is being used to conduct illegal activity. Since cannabis remains a controlled substance under federal law, any business selling cannabis for recreational or medical consumption is at risk.

As a result, cannabusiness has often turned to credit unions or private loans for financing. Frequently, these businesses are also pushed into loan terms that would be considered draconian in other industries.

Municipal banking is becoming a more attractive option to local officials in California. After the passage of legalization in November, the state of California convened a working group led by the state treasurer to look at options for providing financing to the industry. In July, the city of Oakland also began to consider municipal banking.

While supporters of public banking do not always mention cannabis in their proposals, supporting the industry is often one of their considerations.

"[Marijuana-related business] banking has been on the radar of the public banking movement before, but many of our earlier assumptions were naïve concerning how cleanly a state-only cannabis economy could break free of federal banking oversight," said Matt Stannard, policy director of Commonomics USA, a group pushing for both public banking and economic justice.

"After extensively researching that oversight, the team at Commonomics USA determined that, while not a magic bullet (there are no magic bullets on this question), a public bank would be a strong candidate for containment and management of legal risk," he continued, "and serve as a conduit of states' independent approaches to cannabis policy and the multibillion dollar windfalls of recreational legalization."

State lawmakers are still considering the workability of these proposals. Despite the lofty principals, the day to day operation of a large bank could be difficult for the city to manage. Although the idea of a municipal bank has been floated on numerous occasions, there are few domestic examples of it.

Insidesources.com

August 09, 2017 by Erin Mundahl

Assured Guaranty Files Adversary Complaint Challenging PREPA's Failure to Remit Special Revenue Bond Collateral For the Payment of its Bonds.

HAMILTON, Bermuda–(BUSINESS WIRE)–Assured Guaranty Ltd. (NYSE: AGO) (together with its subsidiaries, Assured Guaranty) released the following comments regarding the adversary complaint filed yesterday challenging the Puerto Rico Electric Power Authority's (PREPA) failure to remit special revenue bond collateral for the timely payment of debt service on its bonds (Bonds).

Two Assured Guaranty bond insurance subsidiaries, Assured Guaranty Municipal Corp. and Assured Guaranty Corp., filed an adversary complaint in Federal District Court in Puerto Rico yesterday seeking (i) a judgment declaring that the application of pledged special revenues to the payment of the Bonds is not subject to the automatic stay under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) and that PREPA has violated the special revenue protections provided to the Bonds under the Bankruptcy Code by failing to remit such revenues for the payment of the Bonds; (ii) a judgment declaring that capital expenditures and other PREPA expenses that are not reasonable and necessary to operate the electric system do not constitute "necessary operating expenses" under the Bankruptcy Code and therefore may not be charged against PREPA's special revenues prior to the payment of the Bonds; (iii) a judgment declaring that the use of PREPA's special revenues to pay capital expenditures and other PREPA expenses that are not reasonable and necessary to operate the electric system prior to the payment of the Bonds violates the Takings and Due Process Clauses of the U.S. Constitution; (iv) an injunction enjoining PREPA from (A) taking or causing to be taken any action that would further violate the special revenue protections provided to the Bonds under the Bankruptcy Code, and (B) using its special revenues to pay for capital expenditures and other PREPA expenses that are not reasonable and necessary to operate the electric system prior to the payment of the Bonds; and (v) an order requiring PREPA to remit the pledged special revenues securing the Bonds in accordance with the terms of the special revenue provisions set forth in the Bankruptcy Code.

With this action, Assured Guaranty seeks to remedy PREPA's failure to comply with its obligation to remit pledged special revenues on a monthly basis to the bond trustee for the timely payment of debt service on the Bonds. Rather than comply with its obligations under the bond documents, PREPA has chosen to use its Title III bankruptcy proceeding to withhold and misapply special revenue bond collateral securing the payment of the Bonds, without providing just compensation to PREPA bondholders and their insurers. PREPA has no basis to ignore those contractual obligations or take collateral pledged as security for PREPA bondholders. Congress incorporated the special revenue protections of the Bankruptcy Code into PROMESA when it was enacted. These federal statutory protections guarantee that holders of PREPA's special revenue bonds and their insurers receive the benefit of their bargain by protecting the lien on PREPA's postpetition special revenues and ensuring the Title III bankruptcy filing does not operate as a stay against application of the pledged special revenues to the timely repayment of the Bonds. Enforcement of these protections is essential to the orderly marketing of municipal revenue bonds and for municipal issuers to retain critical access to the revenue bond market nationwide. Finally, this failure to apply special revenue bond collateral to the timely payment of the Bonds should prevent PREPA and other Commonwealth public corporations from accomplishing a primary objective of PROMESA, which is the ability to return to the capital markets.

Irrespective of PREPA's Title III bankruptcy filing and failure to remit pledged special revenues to the timely payment of debt service on the Bonds, payments to holders of the Bonds insured by Assured Guaranty will continue to be paid without interruption for the life of the bonds. Assured Guaranty unconditionally and irrevocably guarantees full and timely payment of scheduled debt service, in accordance with the terms of Assured Guaranty's insurance policies, and upon payment, takes over the rights of the insured bondholders. Assured Guaranty is determined to take reasonable and necessary actions to protect its rights as insurer of Bonds.

With $12 billion* in claims-paying resources across its group of companies, which includes an $11 billion investment portfolio that alone generates approximately $400 million of annual investment income each year, Assured Guaranty's liquidity and capital positions are very strong.

*Aggregate data for operating subsidiaries within the Assured Guaranty Ltd. group. Claims on each subsidiary's insurance policies / financial guarantees are paid from that subsidiary's separate claims-paying resources. Details of the components of claims paying resources are set forth in the most recent Assured Guaranty Ltd. Financial Supplement, which may be found at Assuredguaranty.com/agldata.

August 08, 2017 09:09 AM Eastern Daylight Time

New York Train Tunnel Project Hires Expert in Public-Private Finance.

NEWARK, N.J. — The Gateway Program, which includes building a new tunnel underneath New York's Hudson River, has hired a private financing expert from French bank Societe Generale as interim chief financial officer, the program said on Thursday.

Gateway Program Development Corporation trustees said at a board meeting that Francis Sacr, who headed Societe's infrastructure finance team for the Americas, will oversee financing for the $24 billion joint effort between national rail company Amtrak, New Jersey and New York to improve a critical train traffic chokepoint on Amtrak's Northeast Corridor.

The infrastructure program, among the largest and most urgently needed in the country, will almost certainly use a public-private partnership (P3) to build and finance some portions.

With P3s, more commonly used in Europe, Australia and Canada, a private consortium of companies usually designs, builds and finances a project. A public entity like a state or authority still owns the asset and pays the builders over the lifetime of the bridge, roadway or tunnel.

The corporation also said on Thursday that it had formally asked the private sector to provide ideas about funding, construction, risk allocation and other components. The response deadline for that so-called "request for information" is Sept. 15.

Sacr is based in New York and first joined Societe's project finance team in Australia in 1995, according to his biography. He advised the $4 billion public-private renovation of the central terminal at New York's LaGuardia Airport, a project that is underway.

LaGuardia is the biggest airport P3 in the country. Its size and complexity made a P3 model especially beneficial because of the potential for cost overruns, Sacr said at an infrastructure panel discussion in September, according to a Bond Buyer story.

The Port Authority of New York and New Jersey, which operates the airport, has long said it preferred the so-called P3 model for its LaGuardia project because of the ability to shift construction risk to the private sector.

The model, as written for LaGuardia, makes the private sector – instead of the Port Authority – responsible for paying additional expenses if there is a problem or delay with construction.

"Finding multiple sources of capital was the most important part of the solution," Sacr said, according to the Bond Buyer.

By REUTERS

AUG. 10, 2017, 5:06 P.M. E.D.T.

(Reporting by Hilary Russ; Editing by Daniel Bases and Richard Chang)

P3s Can Play an Important Role in Infrastructure Development: Black & Veatch

Welcome to our latest installment in Black & Veatch's Insights series on the water industry. This week we examine the public-private partnership (P3) project delivery model. Key attributes of the model can be overlooked. In a P3, the private entity may provide the capital, but the true benefits go well beyond financing alone.

Learn how public-private partnerships help infrastructure development and contribute to a safe and reliable water supply.

Black & Veatch
11401 Lamar Avenue
Overland Park, KS 66211

Infrastructure Borrowing Drops as U.S. States Await Trump Plan Details.

SAN FRANCISCO/NEW YORK — President Donald Trump arrived in office having promised a bold $1 trillion infrastructure investment plan over 10 years for roads, bridges, airports and transit systems crumbling by the day across the United States.

But nearly seven months later the administration has produced few details on the future of federal infrastructure funding, one reason why state and municipal governments have issued fewer bonds to improve roads, water systems and other projects so far in 2017.

An early budget by Republican Trump even proposed stripping popular transportation funding programs.

Through July, new municipal deals to fund transportation, utilities and power projects totaled $50.7 billion, down 19.4 percent from the same period last year, according to an analysis of Thomson Reuters data.

That decline outpaces a broader drop in the U.S. municipal bond market overall, with total issuance down 13.1 percent thus far in 2017 to $201.7 billion.

New deals have lagged since November's post-election selloff, when state and local governments quickly issued bonds fearing potential policy changes and rate increases by the Federal Reserve.

Since then, the lower issuance has been driven by plummeting refunding volumes. Such refinancings dominated last year's higher issuance levels, but the states and cities that sell such bonds were put off by the overall rise in rates.

"I think people started to realize that the agenda within the Trump administration wasn't going to accelerate as quickly as had been advertised," said Randy Gerardes, director of municipal securities research at Wells Fargo in New York.

That is discouraging news for commuters, travelers and the transportation industry that must contend with yawning gap of new projects and maintenance across the country. The American Society of Civil Engineers this year assigned a D+ grade to U.S. infrastructure.

The Trump administration has announced a 10-year $1 trillion infrastructure plan financed through $200 billion in government funding, underpinned by private investment.

While states and cities build most of the country's public infrastructure, they rely on stable and predictable funding from the federal government to help complete those projects.

Historically, the U.S. financed the vast majority of its infrastructure through the tax-exempt, low-cost vehicle of the $3.8 trillion U.S. municipal bond market.

Trump's plan to utilize private financing to spur the bulk of his infrastructure program is "unrealistic," said James Grabovac, a managing director at McDonnell Investment Management.

But state and local governments may be "reluctant to engage in long-term infrastructure financing given that there's a promise of a trillion-dollar federal investment program somewhere on the horizon," Grabovac said.

'BOND PICKER'S MARKET'

The dearth of infrastructure-related bond issuance has left a "bond picker's market," with more buyers than sellers.

"When deals do come to market, people are aggressively bidding them up," said Gerardes. "That's pushing up the price and down the rates."

Revenue bonds, which often finance infrastructure projects because they are repaid with tolls, fares and fees instead of tax dollars, maintained a small but steady spread over general obligation bonds for all of 2014 and 2015.

But that narrowed in the final days of 2016, and revenue bonds are now trading on par with GO bonds. That is in part because belief in the safety of the GO pledge has waned since special revenue pledges led to better bondholder recoveries in some Chapter 9 bankruptcies.

Such competition for new deals could encourage governments to issue more bonds. But that hinges on the support of politicians and taxpayers, who typically pay higher user fees or increased taxes to service debts.

"Unfortunately neither one of those options are politically palatable," said Gerardes.

State and local finances are also still pressured by lingering pension and retiree healthcare liabilities, leaving them wary of taking on more debt to fund infrastructure projects.

The tides may be changing, however. Last week transportation deals led the new issuance calendar, buoyed by deals from San Francisco, Washington, Georgia and Illinois.

Of all infrastructure sectors measured by Thomson Reuters – including water and sewer, highways and airports – public power saw the biggest drop in issuance of 57.4 percent below par value.

Bonds issued for seaports and marine terminals, however, increased by 134.1 percent and for bridges by 59.9 percent.

By REUTERS

AUG. 6, 2017, 6:06 P.M. E.D.T.

(Reporting by Robin Respaut in San Francisco and Hilary Russ in New York; additional reporting by Melissa Wen in San Francisco; Editing by Daniel Bases and Grant McCool)

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15 Creative Ways Large Real Estate & Infrastructure Developers Raise Millions Outside of Traditional Debt and Equity (Part I).

There is an expression that land development is a wealthy man's game.

Indeed, in our recent meeting with a very seasoned developer (over 30,000 lots before the Recession, now, licking his wounds, down to only 900), he pointed out to the young entrepreneur in attendance that most projects fail because the developer runs out of capital before he gets traction.

This is one reason that successful developers so often need to be visionaries and consummate salespeople. They not only have to convince stakeholders that the vacant land or the unproven mine or the undeveloped port really could be something more, but they have to motivate those stakeholders to act as if it already IS 'more'.

To the extent that a developer can do that, the more successful the development will be, whether in terms of cheaper cost of capital, project velocity or net returns.

Continue reading.

S&P: For U.S. State And Local Governments, The Resilient But Shallow Expansion Complicates Budget Management.

When it comes to the outlook for economic growth, U.S. state and local governments can expect the now long but shallow expansion to persist, according to S&P Global Ratings' updated forecast. Considering GDP, the broadest measure, the pace of the expansion is likely to remain subdued, with growth of 2.2% in 2017 and 2.3% in 2018.

Continue reading.

Jul. 24, 2017

New EPA Tool Helps Communities Access More Than $10 Billion in Water Infrastructure Financing.

New EPA tool gives communities access to information and financing opportunities that will help improve water quality and protect public health

WASHINGTON – The U.S. Environmental Protection Agency (EPA) is launching the Water Finance Clearinghouse, a web-based portal to help communities make informed financing decisions for their drinking water, wastewater, and stormwater infrastructure needs. The Clearinghouse provides communities with a searchable database with more than $10 billion in water funding sources and over 550 resources to support local water infrastructure projects. It consolidates and expands upon existing EPA-supported databases to create a one-stop-shop for all community water finance needs. The Water Finance Clearinghouse was developed by EPA's Water Infrastructure and Resiliency Finance Center, an information and assistance center that provides financing information to help local decision makers make informed decisions for drinking water, wastewater, and stormwater infrastructure to reach their public health and environmental goals.

"Every day, Americans depend on water infrastructure to ensure that their drinking water is safe and that local waterways stay clean," said EPA's Office of Water's Deputy Assistant Administrator D. Lee Forsgren. "Investing in water infrastructure sustains local economies by creating jobs, protecting public health, and increasing quality of life. EPA's Clearinghouse is a vital portal that helps connect communities with the information and tools they need to finance much needed water infrastructure improvement projects."

Many communities around the country have aging or inadequate water infrastructure: each year approximately 240,000 main breaks occur while elsewhere billions of gallons of raw sewage are discharged into local surface waters from aging conveyance systems. Communities increasingly need efficient access to up-to-date water finance information to rehabilitate or replace their water infrastructure. EPA's new Water Finance Clearinghouse meets this need.

The Water Finance Clearinghouse gives local decision makers an opportunity to search for available funding sources for water infrastructure as well as resources (such as reports, webpages, and webinars) on financing mechanisms and approaches that can help communities access capital to meet their water infrastructure needs. State, federal, local, and foundation funding sources and resources on public-private partnerships, asset management practices, revenue models, and affordability approaches are included in the Clearinghouse.

The Water Finance Clearinghouse is updated in real-time, following a crowdsourcing model. States, federal agencies, and other water sector stakeholders have the ability to suggest edits and new resources or funding options at any time through the Contributor Portal. Stakeholders can use this interactive feature to manage how their programs and initiatives are displayed in the Clearinghouse.

EPA webinars on how to use the Clearinghouse are scheduled for:

- July 27
- July 31
- August 3
- August 14
- August 18
- August 24
- August 31

All webinars will be held **2:00 – 3:00 p.m. Eastern**. You can register for a webinar here.

More information on the Clearinghouse is available here.

07/26/2017

KPM Weekly Rate Update.

Read the Update.

KPM Financial | Aug. 1

Municipal Market Snapshot.

Read the Snapshot.

Hutchinson, Shockey, Erley & Co. | Aug. 1

The Week in Public Finance: Tardy State Budgets, Philly's Soda Tax Sputters and Raising the Debt Ceiling.

A roundup of money (and other) news governments can use.

GOVERNING.COM

BY LIZ FARMER | AUGUST 4, 2017

Pension Plans Had a Great Year, But Retirees Likely Won't Benefit From It.

One good investment year isn't enough to fix struggling systems' problems.

Public pension plans are reporting double-digit investment returns, and some are even finishing with record highs this year.

The high earnings are due to a robust stock market and are welcome news after two straight years of below-average returns for most pension plans. But finance experts say the investment boost likely won't translate into an equally impressive reduction in pension debt because of the increasing cost of pensions.

"Government contributions tend to be insufficient to reduce unfunded liabilities — even if the plans meet their target," says Tom Aaron, vice president and senior analyst at Moody's Investors Service.

Pension plans rely heavily on investment earnings because annual payments from current employees and governments aren't enough to cover yearly payouts to retirees. As it stands, roughly 80 cents on every dollar paid out to retirees comes from investment income.

The average annual investment earnings target for pension plans is 7.4 percent. By Aaron's calculations, pension plans would need investment returns of nearly 11 percent to prevent unfunded liabilities from growing.

Many plans are actually on track to beat that lofty figure this year, reporting returns between 10 and 14 percent, according to a Governing analysis. But it's becoming much harder for pension plans to gain ground than to lose it.

For example in 2016, low investment earnings prompted the average funding ratio of pension plans — which refers to how much money is set aside to meet obligations to retirees — to slide down 5 points to 68 percent funded, according to Boston College's Center for Retirement Research. Meanwhile, the positive returns this year have the center projecting an average funding increase of only 3 percentage points.

Aaron and the center attribute this difficulty to the fact that governments are not paying enough into pensions in the first place.

Obviously, a plan's fiscal health can make it even more difficult to play catch-up.

That's been the case in Chicago. Its municipal employees' $4.3 billion pension fund last year had just 19 percent of the assets it needed to meet all its liabilities. It reported an impressive 12.4 percent investment gain, but those earnings weren't nearly enough to make up for the pension payments going out of the fund. In the end, its asset level actually dropped by about $31 million, which means its funded status likely won't improve.

It doesn't help, Aaron says, that Chicago retirees nearly outnumber the active workers still paying into their pensions. "That's the absolute worst time to be underfunded because you have this negative cash flow dynamic going on," he says, "so that makes the plan even more susceptible to volatility."

On the other hand, New York state's pension fund, which is nearly 94 percent funded and earned an 11.4 percent return on investments, saw its total assets increase to a record high $192 billion — a boost of more than $13 billion over the prior year's balance even after making payouts.

Many pension systems are seeking to remedy their funding issues by lowering their investment targets. In the short-term, that would increase a plan's overall liability, which would make them appear worse off — even after a year of good returns.

But over time, that would increase governments' annual pension payments, which is better for a system's long-term fiscal health.

GOVERNING.COM

BY LIZ FARMER | AUGUST 3, 2017

Money Lines Up for Public Infrastructure Assets But Faces Toll Gates.

President Donald Trump may be trumpeting great days at the White House, where there is supposedly no chaos (ahem). Regardless, his $1 trillion infrastructure plan is, by all accounts, stalled.

Notably, that hasn't stopped private equity firms in their tracks. Blackstone Group LP is forging ahead with its whopping $40 billion infrastructure fund, KKR & Co. is preparing to raise $5 billion for its third (and biggest) global infrastructure fund, and all eyes are on the likely debut of Apollo

Global Management’s efforts in this area.

Continue reading.

Bloomberg Gadfly

by Gillian Tan

Aug 1, 2017 10:44 AM EDT

Bloomberg Brief Weekly Video - 8/03

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

Watch video.

Bloomberg

August 3, 2017

Fitch: Closure of Nuclear Plant Limits Risks for US Public Power.

Fitch Ratings-New York-03 August 2017: Santee Cooper’s (The South Carolina Public Service Authority) decision to suspend construction of the Virgil C. Summer Nuclear Generating Station (Summer) will limit the near-term credit risks it faces from the project, Fitch Ratings says. The suspension limits risks related to additional cost overruns, completion delays and the absorption of excess generating capacity for Santee Cooper, as well as its municipal and cooperative customers. However, the costs already incurred from the project will need to be recovered and replacement capacity may be necessary over time.

Santee Cooper has so far spent a reported $4.7 billion on the project, including interest, and could spend millions more to wind down construction. This amount is a fraction of the estimated $11.4 billion it would have needed to complete the project.

We expect Santee Cooper and its wholesale customers to recover all of the Summer project costs through higher electric rates. The public power systems have rate-setting flexibility as independent rate-setting authorities and maintain competitive wholesale and retail rates.

Toshiba agreed to pay $2.17 billion to satisfy its guaranty of obligations under the engineering, procurement and construction contract. Santee Cooper is due to be paid $967 million of this amount beginning in October 2017 and ending in September 2022. While this would reduce ratepayer recoveries, the certainty of payment hinges on the resolution of the Westinghouse bankruptcy and Toshiba’s financial wherewithal.

Over the long term Santee Cooper will need to replace the supplies projected to be produced by Summer with other capacity and/or energy purchases. Expenditures should be manageable as demand growth continues to moderate and the costs of alternative capacity and energy decline.

However, if Santee Cooper decides to operate with slimmer margins, higher leverage or less cash to limit rate increases and ease the financial burden on its retail ratepayers, this could weaken leverage and debt service metrics to a degree resulting in rating downgrades.

Suspending work on Summer has raised investor interest in the status of the only other U.S. nuclear plant under construction — The Vogtle Electric Generating Plant — where the cost of completion is expected to exceed $25 billion. A decision on the Vogtle plant's future is expected over the next few weeks. Westinghouse is also Vogtle's main contractor. The public power issuers on Vogtle are Oglethorpe Power Corporation rated 'A', Municipal Electric Authority of Georgia rated 'A+', PowerSouth Energy Cooperative rated 'A-' and JEA, Florida rated 'AA'. All issuers except JEA hold either a Negative Outlook or a Negative Rating Watch due to construction delays and cost increases.

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Additional information is available on www.fitchratings.com. The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

Fitch: U.S. Public Finance Upgrades Outpaced Downgrades for 13th Consecutive Quarter.

Fitch Ratings-New York-01 August 2017: The second quarter of 2017 marked the 13th consecutive quarter in which U.S. public finance upgrades outnumbered downgrades, according to a new Fitch Ratings report.

Affirmations accounted for 77% of total rating actions in 2Q17, an increase from 74% in 1Q17.

"There were 94 upgrades and 37 downgrades across all U.S. public finance sectors; in the prior quarter, there were 124 and 74, respectively," said Jessalynn Moro, Managing Director of Fitch's U.S. Public Finance group. "Upgrades were driven by the tax-supported sector, accounting for roughly 74% of all upgraded securities in 2Q17."

The upgrades represented 11% of all U.S. public finance rating actions and $40.05 billion in par value. Approximately $21 billion of the Metropolitan Transportation Authority's outstanding transportation revenue bond par value was upgraded in 2Q17, representing 52% of all upgraded par this quarter.

The downgrades represented 4.5% of all rating actions and $34.55 billion in par value.

Healthcare saw an uptick in upgrades and downgrades. Eleven credits were upgraded, an increase of seven from the prior quarter and above the sector's four-quarter rolling average of 6.75. Nine credits were downgraded in 2Q17, an increase of three and slightly above the four-quarter rolling average of 8.5.

Positive Rating Watches increased to 21 from zero in 1Q17. Positive and Negative Outlooks remain unchanged.

For more information, a special report titled "U.S. Public Finance Rating Actions Second-Quarter 2017" is available on the Fitch Ratings web site at www.fitchratings.com or by clicking on the link.

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Additional information is available on www.fitchratings.com

Fitch Focus on Munis: Public Pensions (States Use Financial Engineering to Lower Contributions).

Read the report.

31 Jul 2017 12:00 AM EST

Investors Raise Bets Against Bond Insurers.

Short interest rises as consolidation is questioned

Investors are poking holes in a popular bet on the U.S. bond insurance business.

Shares of Assured Guaranty Ltd. and MBIA Inc. rallied in July, driven higher by investor expectations the bond insurance industry would continue to consolidate, said CreditSights analyst Josh Esterov. But other investors are questioning the rally. Short interest, a measure of negative bets, on Assured and MBIA rose by 18% and 16%, respectively, over the same month to roughly $400 million, according to financial analytics firm S3 Partners LLC.

The two are monoline insurance companies that guarantee billions of dollars of U.S. municipal bonds and structured finance products. Bond insurers, an often-forgotten category of U.S. financial stocks, sell policies that depend on the strength of their balance sheets. Their most problematic exposure at the moment is Puerto Rico, which has asked them to cover billions of dollars in shortfalls on municipal debt obligations.

The rising short bets correlate to deteriorating conditions on the island. Early in July, Puerto Rico's federal financial supervisors placed its public power monopoly under what amounts to bankruptcy protection, exposing MBIA and Assured to losses on more than $2 billion in utility debt.

Meanwhile, MBIA's efforts to win market share evaporated in late June when S&P Global Ratings cut the company's credit rating, forcing it to stop writing new municipal bond policies. It sparked a somewhat counterintuitive stock rally as investors took the downgrade as a potential catalyst for MBIA to seek a merger partner, Mr. Esterov said.

Assured has shown a desire to consolidate the sector before, striking deals in recent years to acquire CIFG Holding Inc., Radian Asset Assurance Inc. and MBIA's U.K. business. Normally, buying MBIA would remove another source of competition. The S&P downgrade, though, "did that for them," said William Bonawitz, research director at PNC Capital Markets.

MBIA told shareholders it had "reluctantly, but prudently and appropriately, ceased for now our efforts to actively pursue writing new insurance policies" but would "retool in a manner that continues to protect the interests of all of our policyholders."

The Wall Street Journal

By Andrew Scurria

Aug. 1, 2017 6:58 p.m. ET

Write to Andrew Scurria at Andrew.Scurria@wsj.com

MSRB Releases Second Quarter Muni Market Stats: Total Number of Trades Up Nearly 8% from Same Period One Year Ago.

View the statistics.

Why Fears About Muni Bonds are Unfounded.

Municipal bonds are as resilient an investment as the U.S. has ever devised. Periodically, some fleeting crisis rips 10% or so from the value of muni bonds, which pay interest that is generally exempt from federal income taxes. Then, as sure as the sun rises in the east, prices stabilize and a powerful recovery ensues. Those of us who have chronicled this uniquely American success story for decades know how dumb it is to sell munis short (literally and figuratively).

This time around, the Republican zeal for tax-cutting and a GOP electoral sweep sent muni prices plunging post-election. The idea: Lower tax rates would diminish the relative attractiveness of tax-exempt interest.

But, as always, reality sets in. Political dysfunction means cuts in individual tax rates are becoming unlikely this year–at least, that's what the smart men and women who follow the bond market believe. Even so, "changes in individual tax rates have negligible impact on demand," says Ashton Goodfield, a tax-exempt fund manager for Deutsche Bank. Savers who have been content to collect reliable tax-free income for many years have little incentive to sell their bonds and trigger capital gains taxes.

Quick comeback. Municipals began to turn around last December, and the rally has continued this year. So far in 2017, munis show total returns that equal or beat those of most high-grade taxable bonds. Moreover, in the first half of 2017, only five of 208 Standard & Poor's muni indexes were in the red, and three of those involved Puerto Rico and the Virgin Islands, which are serious trouble spots but irrelevant to the big picture.

Investors would do better to focus on the $3.8 trillion of solvent state and local debt in circulation instead of on the trifling sums north of San Juan that are in or threatening to go into default. In addition, many experts, including George Friedlander, of Court Street Group Research, and Duane McAllister, of Baird Funds, point to the continued scarcity of high-quality tax-exempts. Muni bond issuance declined 15.4% in the first quarter of 2017 compared with the first quarter of 2016. Vastly more bonds are maturing or being redeemed before maturity than localities can match with new debt.

Anywhere you look, muni returns are healthy. So far in 2017, the sector leaders among revenue bond issuers are life care (nursing homes and continuing care communities for seniors), up 4.7%; toll roads, up 4.5%; and higher-education facilities, up 4.3%. State by state, the trends are also sound. S&P's State General Obligation index returned 2.7% in the first half, but GOs of prosperous and high-tax states, such as California, Colorado and New Jersey, gained more than 3%. Despite the run-up in prices, yields (which move in the opposite direction) remain generous. A Merrill Lynch index of munis with 12- to 24-year maturities currently yields 2.8%, equivalent to a taxable yield of 5.0% for someone taxed at the top federal rate.

If you have money to invest, consider buying newly issued school, highway and water authority bonds rated triple-B or better. Shares of closed-end muni bond funds that trade at discounts to net asset value (or right at net asset value) are another option. Among mutual funds, Fidelity Intermediate Municipal Income (symbol FLMTX), a member of the Kiplinger 25 , is a solid choice. It yields 1.8%, equivalent to a taxable 3.2% for someone taxed at the top federal rate.

Some commonsense guidelines always prevail. Don't buy bonds from impoverished cities and counties or anyplace losing population. Debt backed by prisons and grandiose retail-an--entertainment districts is also dicey. Otherwise, try as I might to find cause for concern, I just cannot yet. And I'm not sure that I ever will.

By Jeffrey R. Kosnett, Senior Editor, Kiplinger's Personal Finance

August 01, 2017, 12:00:01 AM EDT

UBS On Its Own For Debt Bonds Defense, Insurers Say.

Law360, New York (July 31, 2017, 5:02 PM EDT) — Insurers asked a Puerto Rico federal court Friday to shut down a $20 million suit by a UBS AG unit seeking coverage for claims UBS caused investors billions of dollars in losses by manipulating Puerto Rico's municipal debt bond market, citing an exclusion tailor-made for exactly those claims.

XL Specialty Insurance Co. had sold UBS Financial Services Inc. of Puerto Rico a $10 million financial services liability primary policy in 2012 covering the years 2013 to 2014, alongside two $5 million excess policies issued by Axis Reinsurance Co. and Hartford Fire Insurance Co.

The policies were issued in the wake of a string of scandals over UBS' allegedly deeply flawed and conflicted practices surrounding the bank's $10 billion closed-end funds holding Puerto Rican municipal debt, which came to a head in 2011.

"Not surprisingly, UBS found itself shopping for new insurance in 2011," the insurers said Friday. They eventually agreed to issue the Swiss banking giant's subsidiary new policies, but included a purportedly iron-clad exclusion for claims "in any way involving" the closed-end fund debacle.

UBS has since been hit with another wave of claims over its closed-end funds — the bank is facing $1.9 billion in claims as of last year and has already paid out $740 million to settle some of them, according to an SEC filing — and is trying to defray those costs by seeking coverage under the new policies. Not so fast, said the insurers, citing the exclusion.

"The undeniable ties between the [new closed-end fund claims] and the prior [closed-end fund claims] more than meet the low threshold to trigger the unambiguous language of the specific litigation exclusion," the insurers wrote in Friday's summary judgment bid. "The Insurers are entitled to have the policies' terms enforced according to their plain language."

The claims at issue all stem from UBS' alleged mismanagement of the closed-end funds and a series of allegedly misleading statements UBS made to entice investors to buy into them.

UBS acted as the underwriter for "highly risky" municipal debt bonds then treated the highly leveraged closed-end funds as a "dumping ground" for the bonds, while manipulating the secondary market in the closed-end fund notes to prop up the price of the funds and make them seem liquid, according to court documents.

UBS then continued to portray the closed-end funds as solid investments to both retirees and the island's upper crust, according to court documents, even as the bank internally sounded the alarm bell about the underlying government bonds and began exiting UBS' own positions in them.

Several lawsuits, dozens of Financial Industry Regulatory Authority arbitration episodes, and investigations by the U.S. Securities and Exchange Commission and the U.S. Department of Justice, among others, have dogged the bank since 2009 over its role in the funds.

By the time UBS negotiated its new batch of insurance policies with XL Specialty, Axis and Hartford in 2012, UBS had put some of those claims behind it, while others were ongoing and still others were yet to be filed.

UBS settled an investigation with the SEC in 2012, for example, agreeing to pay a total of $27 million and sign a cease-and-desist order. The same year, two proposed class actions were filed in federal court against the bank and some of its senior managers in Puerto Rico.

Then the island's entire debt market took a nosedive in 2013, roiled by media reports of Puerto Rico's precarious economic and financial situation. The event marked the beginning of the island's yearslong slide into quasibankruptcy under the Puerto Rico Oversight, Management and Economic Stability Act.

UBS has said that the 2013 Puerto Rican bond market crash also “provides both a temporal and causal break” between the earlier closed-end fund claims and the ones that continued to pour in after the crash.

In a deposition taken in the current coverage dispute, which UBS filed in 2015, the bank testified that the post-2013 claims “resulted because customers lost money in the market crash, and UBS did not cause the market crash,” the insurers’ motion said.

However, the insurers said the crash is irrelevant since the post-2013 claims still reference the bank’s alleged misbehavior with its closed-end funds. The insurers also pointed to UBS’ successful dismissal of one proposed class action against the bank last year, Fernandez v. UBS AG, as proof that UBS does not even believe its own argument.

The bank got Fernandez — filed in 2014 — dismissed mainly by arguing that the investors’ claims were barred by the statute of limitations, since the investors should have known about the problems with the closed-end funds after suits began appearing in 2009. The Fernandez case is one of several that UBS is seeking coverage for under the 2013 policies.

“Given its prior, successful arguments to the contrary, UBS is now judicially estopped to assert that the [currently disputed suits] and [pre-2013 suits] are unrelated,” the insurers said.

Neither side responded Monday to requests for comment.

UBS is represented by Jaime E. Toro-Monserrate and Nayda I. Perez Roman of Toro Colon Mullet Rivera & Sifre PSC and Michael I. Verde, David L. Goldberg, Tenley Mochizuki and Philip A. Nemecek of Katten Muchin Rosenman LLP.

XL Specialty is represented by Kimberly M. Melvin, Cara Tseng Duffield, John E. Howell and Karen L. Toto of Wiley Rein LLP. Hartford Fire is represented by Douglas M. Mangel, Joshua E. Holt and Joshua D. Weinberg of Shipman & Goodwin LLP. Axis is represented by Michael R. Goodstein and James M. Young of Bailey Cavalieri LLC. The insurers are also represented jointly by Francisco E. Colon-Ramirez of Colon Ramirez LLC.

The case is UBS Financial Services Inc. of Puerto Rico et al. v. XL Specialty Insurance Co. et al., case number 3:15-cv-03099, in the U.S. District Court for the District of Puerto Rico.

By Ryan Boysen

–Editing by Edrienne Su.

Rising Costs, Declining Revenues Forcing Smaller Firms to Exit Municipal Finance Business, MUFG's Head of Public Finance Says.

NEW YORK, Aug. 1, 2017 /PRNewswire/ — Increased costs as an “unintended consequence” of regulatory reform are leading many small U.S. broker-dealers and financial advisors to abandon the municipal finance business, according to Kevin Dunphy, Managing Director and Head of Public Finance at Mitsubishi UFJ Financial Group, Inc. (MUFG).

Dramatically declining fees paid to underwriters and lower municipal bond issuance are other key reasons that small broker-dealers and financial advisors will continue to exit public finance, Mr. Dunphy added.

Mr. Dunphy made his remarks on July 18 in New York during the inaugural session of MUFG Explores, an issues-oriented series in which MUFG subject matter experts meet with journalists to discuss current newsworthy topics and trends.

“One of the biggest impacts of regulatory reform that I see – really as an unintended consequence – is the demise of the small municipal finance firm,” Mr. Dunphy said.

“These firms suffer disproportionally because the increasing regulatory costs consume a greater share of their revenue, significantly reducing profitability.

“Further, when you combine the increasing regulatory costs with declining underwriting spreads and lower issuance, firms’ margins are under severe pressure. The expectation for lower issuance will increase competition for the remaining deals and make matters even worse for these small firms.”

As the smaller firms struggle to effectively compete with their larger, deeper-pocketed rivals, a number of U.S. municipalities are in danger of losing their most knowledgeable and reliable financial experts, Mr. Dunphy noted. Many of these firms have particular expertise in local markets, leaving some municipalities without access to the bankers that best understand their history and the intricacies of their needs.

“New compliance requirements decrease the amount of time bankers and advisors can spend with their clients,” he said. “Ultimately, it will be the municipalities that bear the cost of regulations in the form of increased costs or rates, and the lack of supply.”

Mr. Dunphy has more than three decades of experience as a municipal banker, including 18 years at Bank of New York as the founder and Head of its Public Finance and the Government Banking Divisions. He joined MUFG in 2010.

How will we pay for infrastructure needs?

At the roundtable, Mr. Dunphy also discussed the need for infrastructure spending. “While it is refreshing to hear the new administration talk about infrastructure investment plans,” he said, “I am still waiting to understand how we will pay for it.”

Mr. Dunphy noted that legislators’ promises to upgrade the nation’s bridges, roads and tunnels have been largely more talk than action. “Over the years, Washington has kicked the can down the road and, as a result, America’s infrastructure is in dire need of repair, replacement, and new projects,” Mr. Dunphy said.

MUFG, one of the world’s largest financial institutions, is one of the biggest lenders in the public finance sector. Providing credit and complete banking services to governments, public authorities, and not-for-profits, MUFG has extended more than $11 billion of credit to public clients.

Muni Defaults Are Down this Year, But Dollar Volume is Way Up.

The par amount of bonds in default is up to $35.4 billion in 2017 from $20.1 billion at this point in 2016, mainly due to Puerto Rico.

For muni investors concerned about the default rate can breath a sigh of relief.

Even though Puerto Rico's woes are a huge hit in dollar terms, the number of issues in default are quite a bit lower than the past two years, according to a new report from Matt Fabian's Municipal Market Analytics.

Issues in default number just 29, down from 37 last year and 36 the year before, he reports Friday.

But the par amount of bonds in default is up to $35.4 billion from $20.1 billion at this point in 2016. That's "driven entirely by there being more and larger Puerto Rico issuers defaulting this year than last," Fabian writes.

Outside of Puerto Rico, trends look a lot better. He writes:

> Away from Puerto Rico, default and impairment trends remain favorable. Over the last twelve months, only three municipal sectors—retirement projects (+8 more), local GOs (+2), and local multifamily housing (+1)—are showing an increase in payment defaults versus their three year average (Fig. 10). For retirement, the increase is driven by the two large networks of retirement projects (i.e., Brogdon and ALF) that each have multiple related bond issues in default. For local GOs, the increase is more a function of exceptionally low prior default experience than a material degradation in credit quality now. Local multifamily housing is only showing a slight increase.

The iShares National Muni Bond ETF (MUB) is has returned about 4% year-to-date. The 12-month yield is 2.2%.

Barron's

By Amey Stone

Aug. 4, 2017 11:48 a.m. ET

Ohio Hospital Deal Leads U.S. Municipal Bond Sales Next Week.

NEW YORK (Reuters) – Ohio is set to price the biggest negotiated municipal bond deal next week, with a $1 billion offering for the Cleveland Clinic Health System that follows a recent credit upgrade of the growing hospital network.

Sold through the Ohio Higher Educational Facility Commission, the refunding deal includes $840 million in tax-exempt bonds and $160 million that are taxable, according to the preliminary official statement.

Cleveland Clinic Health System Obligated Group (CCHS) runs 13 hospitals and 21 outpatient health centers in Ohio. It also operates a hospital in Florida as well as clinics in Las Vegas, Canada and United Arab Emirates and plans to expand domestically and in Europe, according to bond documents.

S&P Global Ratings on Wednesday boosted ratings for multiple CCHS bonds, including raising its long-term rating of series 2013A hospital revenue bonds to AA from AA-minus with a stable outlook, on its prospects for expansion.

On the same day, S&P assigned a AA long-term rating to the new bonds, which will pay to refund existing debt.

“The rating action reflects our view of CCHS as it continues to implement a strategic plan that will expand the system in the markets in which it operates in Ohio and Florida, while moving forward with a project for a new private hospital in central London,” S&P analyst Brian Williamson said in a report.

Moody’s assigned a rating of Aa2 to the bonds with a stable outlook.

The yield spread of AA-rated healthcare bonds over the MMD AA yield curve has narrowed to 14 basis points as of Aug. 3 from 23 basis points at the start of the year, Thomson Reuters data shows.

The deal, priced through lead underwriter JP Morgan, is among $7.5 billion in municipal bonds and notes set to be issued in the upcoming week.

AUGUST 4, 2017 / 1:51 PM

by Laila Kearney

Meet Your New Landlord: Wall Street.

Big investors transform suburban neighborhoods by buying up single-family homes and renting them out

SPRING HILL, Tenn.—When real-estate agent Don Nugent listed a three-bedroom, two-bath house here on Jo Ann Drive, offers came immediately, including a $208,000 one from a couple with a young child looking for their first home.

A competing bid was too attractive to pass up. American Homes 4 Rent, a public company that had been scooping up homes in the neighborhood, offered the same amount—but all cash, no inspection required.

Twelve hours after the house went on the market in April, the Agoura Hills, Calif.-based real-estate investment trust signed a contract. About a month later, it put the house back on the market, this time for rent, for $1,575 a month.

A new breed of homeowners has arrived in this middle-class suburb of Nashville and in many other communities around the country: big investment firms in the business of offering single-family homes for rent. Their appearance has shaken up sales and rental markets and, in some neighborhoods, sparked rent increases.

Continue reading.

The Wall Street Journal

By Ryan Dezember and Laura Kusisto

July 21, 2017 10:30 a.m. ET

Bloomberg Brief Weekly Video - 7/27

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

Watch video.

Bloomberg

July 27, 2017

Tobacco Bondholders Shrug Off FDA News While Cigarette Stocks Are Hit Hard.

- **Government seeks to cut nicotine to non-addictive levels**
- **Shares in Altria, BAT and Imperial Brands hit hardest**

Tobacco shares tumbled after the Food and Drug Administration said it will seek tougher regulations on nicotine levels to curb addiction, threatening to further winnow the customer base for an American industry that's been shrinking for decades.

Marlboro maker Altria Group Inc. sank the most since 2008, Imperial Brands closed in London at the lowest since November, and U.S.-listed shares of British American Tobacco Group headed for the worst day in three years. Together, the three purveyors of tobacco products shed almost $30 billion in market cap after the FDA announcement.

"Concern among investors is clear and not misplaced if the strictest reading of this announcement proves accurate," Cowen analyst Vivien Azer wrote in a note to clients.

She also cautioned that there remain "unknowns," joining a handful of other investment banks advising clients that the share slump is likely overdone.

The selling came as the proposal caught investors in the $130 billion American tobacco industry off guard. If enacted, the rules would represent one of the most sweeping federal efforts to reduce smoking since Congress required cigarette packages to carry health warnings in 1965.

Judging by the reaction in the corporate and municipal bond markets, the chances that cash flows will be interrupted seem relatively thin — at least for now.

There were only a handful of trades on Friday in the $86.5 billion market for debt backed by payments from tobacco companies, in junk-rated issues. The largest, a $2.5 million block of Buckeye Ohio Tobacco Settlement bonds with a 5.875 percent coupon and maturing in 2047, saw its yield climb four basis points to 6.11 percent.

Debt backed by the leading cigarette makers showed little reaction, with some of Altria's bonds, which are rated A-, posting small gains at midday.

“A lot of these guys are investment grade,” said Ken Shea, a Bloomberg Intelligence analyst who follows tobacco companies. “I doubt immediate cash flows will be impacted by today’s news.”

Research departments at leading banks suggested the stock selloff presented a chance to buy. Jefferies analyst Owen Bennett says the proposal is a “positive” for future growth as it could lead to more demand for vapor cigarettes and potentially induce cities to lower tax rates from current levels.

Sales of cigarettes have already been in decline, even as taxes on the products rise. The industry’s cigarette sales volume dropped an estimated 4.5 percent last quarter, Altria reported earlier this week. The average state excise tax was $1.74 per pack last quarter, compared with 19 cents for the same time last year, according to Altria.

“We do not believe these moves are justified,” Citigroup analyst Adam Spielman said in a note to clients Friday. “The FDA’s track record is of moving extremely slowly. So far these are proposals for discussion only. There is no time line for implementation. Equally we find it hard to believe the Trump administration or the current Congress would be supportive, given their public record on regulation.”

Bloomberg Markets

By Tatiana Darie and Oliver Renick

July 28, 2017, 9:30 AM PDT July 28, 2017, 10:31 AM PDT

— With assistance by Bailey Lipschultz, Jennifer Kaplan, and Charles Clark

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Reinvestment of EB-5 Funds in a New Project Can Maintain the "At-Risk" Requirement: Ballard Spahr

One of the more popular topics among EB-5 project owners and practitioners in recent years is the requirement that investors’ funds remain “at risk” as a bona fide “investment.” Complications arise regarding maintenance of the at-risk requirement, however, when project owners have the opportunity for an early exit through the sale, recapitalization, or refinancing of the project. The importance of this rule has only increased as EB-5 investments from China have been affected by a visa quota backlog.

Historically, the U.S. Citizenship and Immigration Services (USCIS) prohibited the repayment of EB-5 funds before it adjudicated the investor’s Form I-526 (Immigrant Petition by Alien Entrepreneur), and also during the period of “conditional residency,” when an investor’s Form I-829 (Petition by Entrepreneur to Remove Conditions on Permanent Resident Status) is reviewed and decided. USCIS had not expressly prohibited a sale, refinancing, or recapitalization or the redeployment of the EB-5 funds in an at-risk investment prior to I-526 and I-829 approval. Nevertheless, USCIS previously had not provided definitive authorization regarding redeployment of funds until June 14, 2017, when it updated its policy manual, giving some much-needed direction on this issue, as discussed below.

Maintaining the “At-Risk” Requirement

Congress requires the presence of “risk” to validate that a bona fide “investment” occurred. Each EB-5 investor must contribute capital to a “new commercial enterprise” (NCE), which has potential for upside gain as well as downside risk. Consequently, in no event would a project return capital to the NCE before I-526 and I-829 approval in the event of a sale, recapitalization, or refinancing, out of concern that doing so would remove risk, even if the NCE redeployed the funds.

Because of the EB-5 program's popularity, USCIS' adjudication times of I-526 and I-829s have grown from a few months six years ago to 18 months or more currently. Further, visa backlogs have resulted as more investors apply in a particular category or from one country than are available, which further increased the adjudication time and, thus, the time the investment must remain at risk. As a result, the probability of an "early exit" has become more common and accepted. Indeed, practitioners prepare for this possibility by inserting language in the definitive EB-5 loan documents, operating agreements and the private-placement memoranda permitting the NCE to grant permission to the job-creating enterprise (JCE) in the event of a bona fide sale, recapitalization, or refinancing.

Redeployment After a Sale, Refinancing, or Recapitalization

Permitting the project owner to make an early exit and reinvest the EB-5 capital had led stakeholders and legal practitioners to structure such transactions as carefully as possible as well as to advocate for USCIS to allow repayment to the NCE or provide guidance regarding redeployment by the JCE. Many stakeholders and EB-5 practitioners took the view that the adjudication backlog and the needs of project owners called for USCIS flexibility in terms of redeploying funds, provided that the project had created the jobs as provided in the NCE's business plan.

DRAFT Policy Memorandum 602-0121

To that end, on August 10, 2015, USCIS issued "DRAFT Policy Memorandum 602-0121, Guidance on the Job Creation Requirement and Sustainment of the Investment for EB-5 Adjudication of Form I-526 and Form I-829" (Draft PM). The document was very promising on several points, including recognizing that jobs—once created—are deemed established. The Draft PM stated specifically that the "USCIS will not require that the jobs still be in existence at the time of the Form I-829 adjudication in order to be credited to the petitioner." Further, under the heading "Material Changes," USCIS acknowledged that changes to projects may adversely affect an investor's eligibility; however, flexibility was warranted depending on when the change occurred relative to the investor's residential status in the United States, whether job creation occurred, and whether the change was material. The Draft PM separated its analysis between investors who have not obtained conditional lawful permanent resident status and investors who have obtained conditional lawful permanent resident status.

Investors Who Have Not Obtained Conditional Lawful Permanent Resident Status. Regarding investors who have not obtained conditional lawful permanent resident status, material changes occurring after the filing of a Form I-526 will result in the petitioner's ineligibility. However, non-material changes that occur after the approval of the Form I-526 would not result in the petitioner's ineligibility. A change in fact is material if the "changed circumstances would have a natural tendency to influence or are predictably capable of affecting the decision." The Draft PM stated that if the NCE undertakes the commercial activities presented in the business plan and creates the requisite number of jobs, then "the [NCE] may redeploy the capital into another 'at-risk' activity by expanding to a new location or a new industry without causing the petition to be denied or revoked." For the first time, USCIS approved redeployment of the investment into an "at-risk activity" for the remainder of the sustainment period, but no one relied on it to repay the NCE because the guidance was only contained in a draft memo. Nevertheless, the Draft PM gave stakeholders and practitioners some confidence when a JCE redeployed funds because it strongly hinted at USCIS flexibility regarding redeployment.

Investors Who Have Obtained Conditional Lawful Permanent Resident Status. The Draft PM indicated that USCIS will continue to permit an investor who has been admitted to the United States on a conditional basis to remove those conditions when circumstances have changed—provided that the Form I-526 was filed in good faith.

USCIS Policy Manual Changes Through Policy Alert 2017-01

On June 14, 2017, USCIS updated its policy manual to provide further guidance regarding the job creation and at-risk requirements for Form I-526 and Form I-829 petitions by issuing Policy Alert 2017-01 (the Policy Alert). The Policy Alert builds on prior guidance for adjudicating I-526 and I-829 petitions regarding job creation and the requirement to sustain the EB-5 investment during the conditional residence period. More importantly, the Policy Alert incorporates the Draft PM into the policy manual.

The Policy Alert includes these three highlights:

- An investor must continue to be eligible for the EB-5 visa classification throughout the adjudication of his or her Form I-526 and until receipt of conditional permanent resident status by making an investment that remains "at risk."
- An investment must remain "at risk" throughout the two-year period of conditional permanent residence to be eligible for removal of conditions on his or her permanent resident status.
- Further deployment of an investor's capital may be used to meet the capital at-risk requirement under certain circumstances.

The policy manual sets forth the following at-risk requirements in cases of reinvestment of EB-5 funds:

- The investor must have placed the required amount of capital at risk for the purpose of generating a return on the capital placed at risk.
- There must be a risk of loss and a chance for gain.
- Business activity must actually be undertaken.

Once the job creation requirement has been met, the capital is properly at risk if it is used in a manner related to engagement in commerce, which the policy manual described as the exchange of goods or services "*consistent with the scope of the NCE's ongoing business*." (Emphasis added).

The phrase "consistent within the scope of the NCE's ongoing business" is not well defined in the policy manual, but it does offer an example of an NCE whose scope of ongoing business was to loan pooled investments to a JCE for the construction of a residential building. The NCE, upon repayment of a loan that resulted in the required job creation, may redeploy the repaid capital into similar loans to other entities.

Similarly, the policy manual authorizes the NCE to reinvest the repaid capital into certain new issue municipal bonds—such as for infrastructure spending—provided that investments are within the scope of the NCE in existence at the time the petitioner filed his or her Form I-526. The policy manual does not address whether investment in new issue municipal bonds must occur in the primary issuance of the bonds or whether an NCE may invest in municipal bonds through a secondary market. Likewise, the policy manual does not explain how narrowly it would interpret an NCE's scope of ongoing business. In the above example, if the NCE redeployed the investments to a mixed-use residential building or single-family residential units instead, it is not clear whether doing so would be too far of a departure from the NCE's scope of ongoing business. Ballard Spahr will continue to monitor these issues and circulate additional updates.

Ballard Spahr's EB-5 Group brings together attorneys experienced in securities, private equity, business and finance, real estate, tax credits, and corporate law to assist clients with utilizing the EB-5 Program to accomplish their goals. The EB-5 Program has led to more than $15 billion of foreign investment in the United States and more than 220,000 jobs.

Ballard Spahr LLP

July 24, 2017

Despite Federal Infrastructure Cuts, EPA's WIFIA Water Loan Program Holds Promise.

More than six months into the Trump presidency, uncertainty still surrounds any potential federal infrastructure plan. Instead, the only formal movement is from Congress, where the annual appropriations process includes proposed eliminations or significant cuts to major programs within the U.S. Department of Transportation (DOT), Environmental Protection Agency (EPA), and many other agencies.

Despite these rollbacks, though, there is one nascent infrastructure effort that continues to gain bipartisan support and is setting new precedent for federal, state, and local collaboration: the Water Infrastructure Finance and Innovation Act (WIFIA) program.

Initially enacted by Congress in 2014, the WIFIA program represents a new type of federal credit assistance program designed to provide low-cost loans and loan guarantees to eligible borrowers for a range of water and wastewater projects across the country. WIFIA, in turn, not only represents an innovative tool that can unlock additional investment, but it also serves as a useful model for federal leaders to consider as they experiment with more cost-effective financing strategies across all types of infrastructure in years to come.

Continue reading.

The Brookings Institute

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

July 24, 2017

Second Quarter Municipal Market Statistics Show Active Trading in Puerto Rico Bond.

The Municipal Securities Rulemaking Board (MSRB) today released municipal market statistics for the second quarter of 2017, showing the total number of trades increased nearly 8 percent while par amount traded decreased more than 9 percent from the same time period one year ago. Also down from the previous year is the number of continuing disclosure documents received, which totaled over 38,000 in the second quarter of 2017, approximately 1,200 fewer than the number received in the second quarter of 2016.

Among the most actively traded securities was a general obligation bond from the Commonwealth of Puerto Rico, which had the most trades in the second quarter of 2017, while the most actively traded security in terms of par amount was a Gulf Opportunity Zone Bond from the Industrial Development Board of the Parish of East Baton Rouge, Louisiana, Inc.

View the 2017 second quarter statistics.

See all MSRB market data publications.

Messer Co-Authors Bill to Reduce Infrastructure Costs for Local Governments.

Washington D.C. — Indiana Republican congressman Luke Messer is shepherding a measure through the House that would ease a federal banking regulation that cuts local government's ability to invest in infrastructure.

The regulation discourages financial institutions from holding municipal bonds, which many local entities rely on to fund infrastructure projects. The regulation also makes it more expensive for units of government to finance projects.

House Resolution 1624 would revise the regulation to encourage financial institutions to work with municipalities to make infrastructure improvements more affordable.

"This burdensome federal regulation is making it more difficult and costly for Hoosier communities to build new roads, bridges, hospitals and schools," said Messer, who serves on the Financial Services Committee. "Our bipartisan bill is a commonsense solution to save taxpayer dollars, and ensure the federal government isn't standing in the way of local investment and growth. I thank Congresswoman Maloney for serving as a co-sponsor and for her hard work on this important legislation."

The measure was authored by Messer and New York Democrat Carolyn Maloney.

Municipal Market Indicators Now Available on EMMA.

Washington, DC – The Municipal Securities Rulemaking Board (MSRB) announced today that for the first time, a free municipal market yield curve and multiple indices are available on the MSRB's Electronic Municipal Market Access (EMMA®) website. The new tools can help investors and others assess the general level and direction of municipal bond interest rates, and compare relative yields of specific municipal securities.

"Municipal yield curves historically have not been widely or freely available to investors that purchase municipal bonds or municipalities that issue them," said MSRB Executive Director Lynnette Kelly. "The MSRB is bridging that gap by adding third-party yield curves and indices on the EMMA website to dramatically expand access to these important benchmarking and analytical tools."

The EMMA website now provides a daily yield curve from the Associated Press (AP) and historical index data for five different indices from Standard & Poor's (S&P). Access yield curves and indices on EMMA. More curves may be added over time. "We continue to explore partnerships with additional market data providers to enhance EMMA with more yield curves, indices and other interactive tools that help facilitate decision-making in the municipal market," Kelly said.

The addition of these third-party market indicators follows other similar, recent enhancements to EMMA, including the addition of a calendar that displays upcoming bond offerings and an economic calendar.

The MSRB's EMMA website is the official source of data and disclosure documents on more than one million outstanding municipal securities. The MSRB operates the EMMA website in support of its mission to protect investors, state and local governments, and the public interest by promoting a fair and efficient municipal market.

Market indicators, including the AP yield curve and S&P indices available on EMMA, are useful tools for evaluating bond prices and yields, measuring market direction and performance, and determining pricing on new bond issues. Read more about understanding yield curves and indices in the MSRB Education Center.

Date: July 24, 2017

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U.S. Infrastructure Renewal: Who Should Pay the Bill?

In recent years, pessimism about the U.S. infrastructure has been growing, notes Wharton real estate professor Gilles Duranton, a specialist in urban and regional development, transportation and local public finance. "More and more, it is said that the overall infrastructure is old and decaying, that bridges collapse and roads are full of potholes. Water poisons residents in some places like Flint, Michigan; electricity is not always reliable; airports and seaports are under strain; cellphone coverage is piecemeal."

How accurate is that picture? Although that image is sometimes exaggerated, "there is some truth to this," Duranton asserts.

From left-wing progressives to right-wing libertarians, nearly every faction in the American political spectrum agrees that the infrastructure in the U.S. desperately needs a rapid upgrade — not just as a mechanism to generate job growth but as a tool to improve the country's competitiveness. Yet when the Trump administration laid out its promised vision for a $1 trillion, multi-year national infrastructure plan on May 23, the plan sparked controversy about what kind of infrastructure deserved top priority, and how to finance it.

Continue reading.

Wharton

July 25, 2017

[Transportation Deals Lead $8.9 bln of U.S. Muni Sales Next Week.]

July 28 (Reuters) – The Bay Area Toll Authority plans to sell $1.1 billion of San Francisco Bay Area Toll Bridge revenue bonds, the largest bond deal of $8.9 billion municipal bonds and notes expected to come to the U.S. municipal market next week, according to preliminary Thomson Reuters data.

The Bay Area Toll Authority operates toll collections and finances improvements for seven state-owned bridges in the San Francisco Bay Area. The authority's traffic and toll revenue has steadily increased since 2010, according to bond documents.

Next week's issue will pay to refund the authority's outstanding bonds. The deal is divided into $550 million of senior bonds and $550 million of fixed rate subordinate bonds.

A number of other transportation-related bonds top the calendar next week. The Washington Metropolitan Area Transit Authority plans to sell $496.5 million of gross revenue transit bonds. Georgia's Metropolitan Atlanta Rapid Transit Authority plans to issue $252.8 million of sales tax revenue bonds. And Illinois' Regional Transportation Authority plans to sell $188.4 million of general obligation refunding bonds.

Among the notes slated for next week, the Commonwealth of Massachusetts plans to issue on Wednesday $1.5 billion of general obligation revenue anticipation notes with a maturity of June 2018.

Overall, municipal bond sales next week will be made up of $5.17 billion of bonds from the negotiated calendar and $1.69 billion from the competitive calendar.

(Reporting by Robin Respaut; Editing by James Dalgleish)

[Denver Wants to Create an Office for Public-Private Partnerships, and City Council Fears Being Cut Out of the Process.]

Denver Mayor Michael Hancock wants to create an office within city government that will screen, vet and shepherd public-private partnerships related to major city projects, like the redevelopment of the National Western Center and the Denver Center for the Performing Arts — and other projects the city might not even have anticipated yet.

Under the proposal, City Council would get to set the broad parameters of deals, but contracts would be finalized at the administrative level.

The effort is causing major concerns among some City Council members about what authority they'll give up if the idea goes forward. That concern is only exacerbated as they debate the contract for the Great Hall renovations at Denver International Airport, a public-private partnership that will see Ferrovial and its development partners get paid as much as $1.8 billion over a 34-year period for a $650 million to $770 million project.

Continue reading.

Denverite

Author: Erica Meltzer

Erica Meltzer covers government and politics. She's worked for newspapers in Colorado, Arizona and Illinois and once won a First Amendment Award by showing up in the wrong place at the wrong time. She served in the Peace Corps in Paraguay and can swear fluently in Guarani. She gets emotional about public libraries. Contact Erica Meltzer at 303-502-2802, emeltzer@denverite.com or @meltzere. View all posts by Erica Meltzer

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Tobacco Bond Prices Weaker after U.S. Proposes Cigarette Nicotine Cut.

NEW YORK, July 28 (Reuters) – Tobacco settlement bond prices, part of the high-yield U.S. municipal bond sector, fell on Friday along with a drop in share prices for U.S. and UK tobacco companies after Washington D.C. proposed cutting nicotine levels in cigarettes.

The proposal announced by the head of the U.S. Food and Drug Administration (FDA) is a major regulatory shift to move smokers toward potentially less harmful e-cigarettes.

In response the S&P Municipal Bond Tobacco Total Return Index, a broad measure of tobacco settlement bond sector performance which also includes some investment-grade paper, fell 0.71 percent on Friday.

Municipalities have sold bonds backed by money from U.S. tobacco companies under a 1998 master settlement agreement to compensate 46 states, Washington and Puerto Rico for the cost of caring for sick smokers.

While the average yield of the bonds in the index only rose about 2 basis points to 5.00 percent, "directionally this could be the start of the sector letting some air out of the balloon," said James "J.R." Rieger, Head of Fixed Income Indices at S&P Dow Jones Indices.

Year-to-date, the index has returned 15.24 percent, he said. Tobacco bonds also make up nearly 16 percent of S&P's broader high yield muni bond index, which lost 1 basis point on Friday because of the cheapened tobacco sector.

Sales of conventional cigarettes in the United States has seen a steady decline in recent years, while the increasing popularity of e-cigarettes has intensified the financial pressure on these bonds which analysts have said for years are susceptible to default.

“Following the FDA’s announcement to cut nicotine in cigarettes to non-addictive levels, tobacco bonds were traded/quoted at cheaper levels this afternoon,” analysts at IHS Markit told Reuters on Friday.

“Based on discussions with market participants combined with observed trade and quote data, tobacco bond levels were cut between 10-15 basis points versus their evaluated levels yesterday. We saw bids primarily in the Ohio Buckeye space being quoted cheaper by 10 to 15 bps,” they said.

Among the more actively traded municipal tobacco settlement bonds, with deal sizes above $1 million which typically indicate institutional investors where commissions are smaller, prices on the 5.125 percent 2024 Buckeye Ohio bonds fell in the wake of the FDA news.

According to Municipal Securities Rulemaking Board data, a $2 million trade in the 2024 Buckeye bonds crossed at a price of 95, showing a yield of 6.027 percent. That is down from a similarly sized trade on July 21st that priced at 96.75, with a yield of 5.703 percent.

Reporting By Stephanie Kelly and Daniel Bases; Additional reporting by Hilary Russ in New York

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CPS Buys Short-Term Relief with Bonds that will Carry Costs for Decades.

Chicago Public Schools’ latest long-term borrowing deal will buy the district a bit of financial breathing room through 2019 but comes at an immense cost to future generations.

By the time the $500 million loan is paid off, children now entering kindergarten will be in their mid-30s and the school district will have spent $850 million in interest costs alone — making the total expense of the bond issue a whopping $1.35 billion.

And only a small fraction of the money from the long-term bonds issued in July will be used for school construction or classroom improvements, which budget experts say should be the primary use for long-term debt. CPS is using the biggest chunk of the loan to reimburse itself for failed bond market deals the district previously covered with cash. Another large portion will be used to shave a few hundred million dollars off old debts — even as it extends those debts as much as 25 years.

In addition, the deal commits an enormous sum of state aid to bondholders through 2046, even as state funding remains at the center of an ongoing battle in Springfield. If state aid is ever not enough to cover bond payments, CPS has pledged to turn to property taxes to pay for the loan.

The loan adds to the mountain of interest costs CPS has taken on to deal with its ongoing cash crisis and lack of adequate reserves. The bonds were issued not long after the district took out short-term loans to cover delayed state grants that the Tribune reported cost CPS $70,000 a day in interest and cannot be repaid until the end of September at the earliest.

The district will pay what are high interest rates for a government bond of 6.75 to 7 percent. The deal is structured in a way that allows the district to avoid any significant principal payments on its new debt for the first 20 years. That exacerbates the cost of an already expensive financial maneuver.

Bobby Otter, budget director for the Center for Tax and Budget Accountability a nonprofit government research organization, said the district's continued use of debt to cover short-term budget gaps indicates the severity of the system's financial predicament.

Otter said his organization considers the CPS' recent borrowing "bad public policy and bad public finance."

"They are not getting the benefit of what you normally would when you bond out something," he said. "A new school building is probably the best example. You bond it out, but then the school is there for decades, and students and families are able to use it for that time. So the public good is there for a long time. In this, the public good is really only being used for a year."

Otter explained that as the payments on the bonds kick in, more money will be required to pay for these long-term debt costs soaking up resources from the classroom. Although CPS is granted a bit of breathing room, eventually the district will have to come up with more funds from the state and local taxpayers to afford the payments on the debt, he said.

An accounting loophole allows CPS to use $229 million from the long-term bond proceeds to recoup bond market losses paid for in previous years. In addition, the district will reimburse itself for $31 million in capital expenses previously paid for out of cash accounts. Finally, the loan will cover $200 million in old debt costs that date back as far as 1996.

Paying off the cost of old bonds by issuing new debt that extends the life of the old debt and increases long-term costs is a practice referred to as "scoop and toss." The method has long been used by various Chicago governments to cover up operating deficits.

Another expense of the borrowing are upfront discounts to initial buyers totaling $33 million, typically handed out to help increase demand for what the market considers risky bonds. The district also paid $6.7 million to consultants, bankers and lawyers.

Civic Federation President Laurence Msall described the costs of the district's bonds as "frightening," while comparing the district's financial tactics to easing "a portion of the credit card bill by taking out a second or third equity loan on the home."

"It's an enormously expensive way of operating," Msall said.

"The district has few options, if it is going to continue to operate and open the schools in September, than to seek creative borrowing techniques," he said. "But that doesn't mean there should not be the articulation of both a Plan A and a Plan B. … CPS desperately needs a long-term financial strategy."

Responding to questions about the district's borrowing practices, CPS replied with a statement saying it "will continue investing in students' education, because these students only get one chance at a good education."

"Along with downstate and suburban superintendents, we're supporting historic reform that will remove the stain of Illinois' worst-in-the-nation school funding system and put hundreds of districts on a stronger path in the future," CPS spokeswoman Emily Bittner said.

The district did not respond to questions about fiscal plans for the coming years outside of its support for a new state funding formula that includes payments similar to other districts to cover its burgeoning pension costs.

Bittner confirmed the future interest payments totaled $850 million but noted that, "dollar tomorrow is worth less than a dollar today," and that the inflation-adjusted cost of the interest on the loan was $405 million "on a present value basis."

The long-term loan comes at a pivotal time for CPS. District principals received budget plans last week that count on money from a state education funding bill that Republican Gov. Bruce Rauner has promised to veto and amend in a way that the administration says would reduce state funding to CPS by $145 million. Amid that uncertainty, district officials need to come up with an overall operating budget by the end of August.

Laurel Patrick, a spokeswoman for the governor's office, told the Tribune in an emailed statement that the governor understands that CPS pays for its teacher pensions while other school districts do not, but said Rauner does not believe state taxpayers should pay for legacy pension issues that occurred because of past CPS financial mismanagement.

"This is not about 'the governor versus Chicago,'" Patrick wrote in the statement. "Illinois is close to making historic change that will help poor children in Chicago and throughout the entire state of Illinois."

Rauner's threat to veto additional funding for CPS comes as the district is looking at another big budget hole.

Documents from the $500 million bond sale that closed July 13 told investors the district faces a deficit of $544 million. CPS also disclosed it expects to pay $99 million in "net salary and benefit increases" compared to its recently completed budget year. Members of the Chicago Teachers Union are set to receive a 2 percent across-the-board pay bump as part of their latest contract. Another $45 million in additional expected costs are related to health care, transportation and energy costs, and non-CTU salary increases.

To pay for these cost increases and to finance its ongoing budget deficits, the district continues to use debt practices that Mayor Rahm Emanuel has pledged to wring out of the city's budget.

Since 2012 the city has undertaken a plan to phase out the use of "scoop and toss" refinancing and to end its reliance on debt to pay its annual operating costs. However, no such reforms have taken hold at CPS.

Otter said the only way out of the cycle of borrowing to make ends meet seems to be more money from the state. But there remain questions as to whether the proposed long-term funding mechanisms in Springfield will be put into place.

Given that, Chicago's school leaders are digging deeper into more expensive sources of emergency cash.

Bad bets on toxic debt wiped out the last of the district's reserves nearly three years ago. With its latest bond issuance, CPS is using federal accounting rules to repay itself for losses from the termination of those deals in 2015 and 2016.

The bets CPS made were in the form of swap contracts. Swaps are agreements between the bond issuers, in this case CPS, and banks where each party makes a bet that various market indexes will go lower or higher than the amounts it has already pledged to pay to bondholders. The district, which bet mostly on higher interest rate environments than occurred, was on the losing side of these agreements. When the district's bond ratings dropped to junk status, it was disqualified from the deals. Based on the terms of the deals, CPS had to pay the negative value of the swaps contracts — $233 million — once they were terminated by the banks.

The termination payments sapped the remaining reserve funds after the district used nearly $1 billion from those funds in previous years to balance its budgets. Since then, school leaders have had to rely on costly short-term loans to paper over its budget gaps from year to year and cover periods before property tax payments are received.

By using bond proceeds to recover its losses, the deal triples the already eye-popping tab of the district's swaps losses. The district will not make any principal payments on the loan for 25 years while racking up interest costs of roughly $449 million by the time the debt is retired in 2046. Once the loan is paid off, the total cost of the bad swaps bets to the district, including interest and termination payments, will total $682 million.

The bond deal also finances a continuing "scoop and toss" strategy by using more borrowed money to repay $200 million in current loans and interest, stretching the life of those debts for decades. This will free up just under $100 million immediately, with the remaining savings coming through 2019. Again, these debt-based budget methods come at a huge cost. The scoop and toss adds nearly $300 million in interest through 2042 to debts and interest that would otherwise have been retired by 2020.

Some of the bonds costs being scooped and tossed are from debt originally issued in 1996 as part of a major school construction initiative undertaken shortly after CPS saw its ratings increase to triple-A that year. Those bonds were extended through scoop and toss loans in 2008, 2010 and 2016. Adding another layer of refinancing this year leads to a dizzying cycle of interest compounding on interest at an even higher rate.

The school district is currently rated as a junk credit at the bottom of the "B" level by all three major bond rating houses.

Msall repeated, the district has turned to the capital markets because of its own unwillingness to focus on its existing revenue plus instability at the state level.

"As the debate continues in Springfield as to whether there will be a rewriting of the school aid formula or whether the schools will receive their state appropriations this year, the immediate issues, which this borrowing demonstrates, is that CPS is paying an enormous penalty — an enormous cost for not having a long-range plan, for not having a plan that ratings agencies, borrowers or the general public can rely on as to what the Chicago Public Schools will do next," he said.

That raises the prospect, he said, of determining whether CPS should again fall under state financial oversight, referring to the Chicago School Finance Authority that was established when the district lost access to the capital markets during its 1980 fiscal crisis. However, despite the current bleak outlook, the school district says it expects to continue borrowing — albeit at an exorbitant price.

The district acknowledged its plight in a disclosure to investors associated with the deal.

"Although the Board believes that it has the capacity to borrow both in the short-term and the long-term credit markets, there can be no assurance as to the terms on which the Board will continue to be able to procure such funding, whether the Board's existing statutory borrowing authority will provide sufficient borrowing capacity, or if market access will continue to be available to the Board," the district said in bond documents.

by Juan Perez Jr. and Peter Matuszak

July 31, 2017

Chicago Tribune

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Let’s Talk Municipal Finance – Municipal Lease Purchase Agreements.

In the last installment of Let’s Talk Municipal Finance, I discussed municipalities and governmental entities that issue bonds, a form of municipal debt. An alternative to incurring municipal debt and less onerous option for a municipality that is, for example, looking to purchase a new piece of equipment, is a municipal lease purchase agreement.

Like ordinary lease purchase agreements, municipal lease purchase agreements require payments for a set number of years to lease a piece of equipment. While some agreements are strictly lease agreements with no option to purchase, more commonly the agreements provide an option to purchase the equipment outright for a nominal price at the end of the term. While a municipality may enter into a lease purchase agreement without a vote of the residents, the allocation to pay the annual lease payments is included as a line item on the annual budget approved by the residents. In addition to the annual appropriation, the agreement must also be duly authorized by the municipality, which commonly means certain resolutions or ordinances must be adopted by the municipality’s governing body authorizing entrance into the agreement by certain officers of the municipality.

Since payment of the lease is subject to annual appropriation in the municipal budget, municipal lease purchase agreements must contain a provision allowing for termination in the event that the residents fail to approve the appropriation for the following year’s annual principal and interest payments. This allows the municipality to terminate the lease without penalty. Lending institutions are willing to enter into municipal lease purchase agreements because interest on the annual lease payments is tax exempt as a result of factors such as the municipality’s status as a governmental unit and the use of the equipment being purchased for a municipal or public purpose.

Municipalities must also consider, however, that the administrative costs of issuing a municipal lease purchase agreement are often greater than those of issuing a bond, primarily because the process is less standardized. The municipality must negotiate individually with a lending institution. Further, the municipality’s legal counsel must review and draft documents and governing body authorizations that are acceptable to the municipality’s chosen lending institution and necessary to issue the opinion of legal counsel, which opines on issues such as due authorization and tax matters. For these reasons, if you are considering entering into a municipal lease purchase agreement, it is best to retain legal counsel at the very beginning of the process to ensure each of the documents and authorizations conforms to the necessary requirements.

JD SUPRA

BY: Preti Flaherty

July 20, 2017

William Blair Exits Muni Bond Business.

One of Chicago's biggest financial firms is getting out of the municipal bond business, an industry where the city once was a national leader.

William Blair said in a statement that as a result of exiting the business, it is cutting 40 employees, or about 3 percent of its workforce.

The firm's leadership decided the business "did not align with its core businesses and did not adequately complement the firm's existing platform of products and services," the statement said, noting that muni bond sales and trading accounted for less than 3 percent of revenue last year.

Chicago once was crowded with muni bond players, including Nuveen, First Chicago and Harris Bank, but the industry is increasingly dominated by a handful of major Wall Street banks that compete fiercely, especially when bond issuances flag, as they have this year. Today, William Blair is one of the smaller competitors, even among remaining Chicago-area firms, though it had been trying to expand nationally in recent years.

"The intensity of the competition in the public finance business has narrowed the profit margins in the industry and made it more difficult for smaller investment banks to produce the level of margins that they can get in other lines of banking," said Richard Ciccarone, CEO of muni bond research firm Merrit Research Services in Chicago.

William Blair had been in the muni bond business for more than 50 years and as recently as last year was announcing additions, hiring muni bond bankers in Ohio, for instance, as it sought to build up its national presence. The privately held, employee-owned company had 11 offices across the country serving its muni bond business, including one opened in Los Angeles in 2014.

TOUGH MOVE

Moving into other, larger markets outside the Midwest was probably difficult because William Blair would have faced more competition from big national firms and other regional players, said Michael Belsky, executive director of the Center for Municipal Finance at the University of Chicago's Harris School of Public Policy.

"Profit margins on municipals have continued to decline, and the business may not be as strong relative to other sectors where (William Blair) is active, such as wealth management and corporate finance," Belsky said.

Bank of Montreal, parent of Harris Bank, also dropped out of the muni bond market last year with a sale of its Chicago-based business to Piper Jaffray.

William Blair's share of the muni bond market had declined so far this year to about a third of 1 percent, from about two-thirds of 1 percent last year, ranking it sixth among regional players and dropping it below Mesirow Financial, which has about half a percent, according to a Bloomberg ranking, based on fees for long-term muni bonds.

BIG PLAYERS REMAIN

The biggest player in the region is Robert W. Baird, with a 2.5 percent share, followed by Loop Capital Markets, and a rising Ziegler in third place, according to rankings. Bank of America Merrill

Lynch is the biggest nationwide this year, as it was last year, with 15 percent share.

In the statement, William Blair CEO John Ettelson said the firm will remain in the related fixed-income sales, trading and underwriting business.

William Blair, which has nearly $1 billion in annual revenue, has grown in recent years in its merger and acquisition advisory and investment management businesses. As of the end of March, the firm oversaw assets of about $84 billion for institutional, high-net-worth and mutual fund clients.

William Blair's decision to leave the muni bond market was reported yesterday by Bond Buyer.

CRAIN'S CHICAGO BUSINESS

By LYNNE MAREK

July 19, 2017

Fitch Releases U.S Public Finance and GIG Transition and Default Study.

Fitch Ratings-New York-19 July 2017: The positive rating trend for U.S. public finance, which began in earnest in 2014, continued through 2016, according to a new Fitch Ratings study. Upgrades continued to outpace downgrades, mirroring the year-earlier pace. However, actions, both upgrades and downgrades, increased year-over-year.

The share of U.S. public finance security ratings upgraded reached 9.3% in 2016, which exceeded the 3.7% upgraded in 2015. Meanwhile, downgraded security ratings (4.2%) topped the 1.6% downgraded in 2015.

Fitch recorded a single U.S. public finance security rating default in 2016 – Puerto Rico's GO bonds. The resulting U.S. Public Finance annual default rate was 0.03%.

The report also includes information on Global Infrastructure and Project Finance (GIG) transition and default performance. Overall, GIG security rating activity was positive in 2016 with total upgrades nearly doubling downgrades. GIG securities affected by upgrades (6.5%) exceeded downgrades (3.4%).

The new study provides transition and default analysis on the performance of U.S. public finance and GIG in 2016 and over the long term period. The report provides summary statistics on the year's key rating trends.

The full report, 'U.S. Public Finance and Global Infrastructure and Project Finance 2016 Transition and Default Study' is available at 'www.fitchratings.com'.

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Fitch: "Healthy" Rest of 2017 Awaits U.S. Transportation Infrastructure Sector.

Fitch Ratings-New York-17 July 2017: The outlook for U.S. transportation infrastructure remains quite healthy for the rest of this year despite a lack of clarity around the Trump administration's plans for beefing up infrastructure spending, according to Fitch Ratings in its midyear outlook report.

Fitch views near-term U.S. economic trends favorably with modest 2.1% GDP growth this year even amid slower-than-expected first-quarter growth and fiscal easing. Low fuel prices should keep travel costs affordable, while large transportation enterprises will still need to borrow debt at least for the foreseeable future in order to help provide congestion relief and serve ongoing infrastructure renewal needs. Longer term, however, in just what manner U.S. economic and fiscal policies materialize make the outlook more uncertain.

Growth in passenger traffic at U.S. airports remains solid though it will level off somewhat in the coming months. “Large-hub airports are still the strongest performers in the aggregate, though smaller regional airports are now showing stronger performance as well,” said Seth Lehman, Senior Director. Volume growth should continue to mirror that of GDP for U.S. ports for rest of the year. That said, “shipping company mergers, changing alliance structures and fluctuating freight rates will shift volumes, which could alter contractual protections for select ports,” said Emma Griffith, Director.

The growth outlook is more moderate for U.S. toll roads for the second half of 2017. Inflationary toll increases should lead to stronger revenue growth, with much of the greenfield development still emanating from managed lanes. “Toll roads still face political risk, including federal funding uncertainty and state tolling opposition,” said Tanya Langman, Director. A more cautious growth trajectory remains in the cards for public private partnerships (P3s) as well. More state and local governments are exploring P3 financing models, though “there remains a scarcity of funding and a lack of understanding around the P3 structure, meaning most infrastructure needs will continue to be financed via more traditional means,” said Scott Zuchorski, Senior Director.

Fitch's ‘2017 Midyear Outlook: U.S. Transportation Infrastructure’ report is available at ‘www.fitchratings.com‘.

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Bloomberg Brief Weekly Video - 7/20

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

Watch video.

Bloomberg

July 21, 2017

Washington Outsiders Learn Hard Way That Swamp Is Alive And Well.

- **Bond advisers went to capital to promote infrastructure idea**
- **Six-figure lobbying bills and proposed donation prompt 'pivot'**

Larry Kidwell and Robbi Jones didn't agree on the 2016 election. But the two financial advisers found common ground over President Donald Trump's pledge to rebuild America's aging highways, bridges and airports.

In the weeks following Trump's victory, they decided to go to Washington to push a bold idea for funding the president's infrastructure program: The federal government could package some $2 trillion in student loans and other debt it keeps on its books and sell it to Wall Street investors. They hope to profit, too, as advisers on the transactions.

"This is something that I think Donald Trump would understand in two-tenths of a micro-second," said Kidwell, a Republican from Brentwood, Tennessee. He's known Jones, a Houston Democrat, for years through their work in the municipal bond business.

Instead of quick results, the pair have gotten a sobering lesson in the slow, tedious and expensive way Washington works. The out-of-towners have been eagerly embraced by Washington pros touting Trump connections, but after seven months they have little to show for their efforts except for some meetings and a six-figure lobbying bill.

Kidwell and Jones, who have spent decades helping state and local governments finance sewer systems, hospitals and other major projects, thought their experience could help provide a market-based fix for a big problem. They were also motivated by the notion that Trump was draining the swamp, ushering in a new era that would empower small-business owners like themselves.

"We thought it would be easier," Jones said.

Tough Sell

In reality, it's no simple task to get any idea into the hands of congressional leaders and top White House officials, and even harder to persuade them to get behind it. Kidwell and Jones's notion would seem a particularly tough sell, since it calls to mind the disastrous securitized mortgages that fueled the 2008 financial crisis. Some lawmakers would certainly be wary of giving private investors control over government loans and enriching the big banks that would handle the deals.

The proposal "seems catastrophically stupid, and it seems ripe for abuse," said Kevin DeGood, director of infrastructure policy at the left-leaning Center for American Progress. "I don't see it going anywhere."

In January, Kidwell and Jones hired K&L Gates lobbyist Daniel Crowley, a former general counsel for House Speaker Newt Gingrich, to help them make contacts in the capital. Crowley and Kidwell knew each other from the 1990s when they were in the leadership of the Young Republican National Federation.

Crowley, an equestrian and fox hunting enthusiast, added another six of his firm's lobbyists to the project, including two ex-congressmen, according to federal filings. They charged $20,000 a month.

$1 Trillion

The K&L Gates team wrote talking points for Kidwell and Jones and set up meetings with lawmakers, congressional staff and administration officials.

The pitch went like this: The government directly lends money to students, farmers, veterans, small business owners and others. Those loans could be pooled and sold to pension, hedge and mutual funds. Even at a discount, because the loans are considered riskier, sales could raise about $1 trillion, Kidwell and Jones estimated. That would be enough to pay for Trump's infrastructure plan without adding to the national debt or raising taxes.

They'd also install safeguards to protect borrowers, such as giving them a chance to pay off their loans at a discount before the debt is sold. And while the idea may seem novel, it isn't entirely new. In the late 1980s, Congress passed legislation requiring the sale of various government loans to pay for some of President Ronald Reagan's tax cuts.

'No-brainer'

"This is one of those ideas that is literally a no-brainer, it just needs oxygen and room to grow," said Jones.

Over the course of several months, Kidwell and Jones have met with officials from the Office of Management and Budget, leadership aides in the House and Senate, senior staff of the budget committees and outside interest groups. While many saw the benefits of packaging and selling the debt, they had different ideas about how the proceeds should be spent. Often it had nothing to do with infrastructure.

One lawmaker, for example, thought it would be a good way to get the government out of the student loan business; others thought the plan could be used to fund tax cuts. Kidwell and Jones also met with Grover Norquist, the anti-tax crusader, who was very enthusiastic but told them they should use the money to pay down the national debt, they said. Norquist declined to comment. In all, they've had about a dozen meetings across Capitol Hill, but nobody has signed on.

"We had no problems getting to see people. We had no problems informing people," Jones said. "We ran into problems identifying a champion."

'Loss Leader'

In an interview, Crowley said the firm had made significant progress for Kidwell and Jones. He said he understands their frustration, but pushing such an ambitious proposal through Congress and the administration could easily take two years. Still, he said he thinks it's a great idea and is optimistic they can get it done.

"These things take a while to socialize, particularly big ideas coming from Main Street like this," he said. He said the $20,000 monthly fee was more than reasonable, and with all the hours the firm has logged, the account is "clearly a loss leader for us."

To generate interest in the idea, Crowley counseled his clients to form a coalition with like-minded firms.

Crowley called it "Great Again," an acronym for Government Refinancing Enabling Alternative Transactions And Generating American Income Now, and gave it a star and stripes logo. The full name was so long it didn't fit on the lobbying registration form.

Kidwell and Jones tried to persuade Wall Street's biggest banks and the Securities Industry and Financial Markets Association to join their group. The firms, they said, privately endorsed the idea but took a pass on becoming part of the Great Again coalition, concerned their public support would be politically damaging.

Other potential champions were available, but at a cost.

Think Tank

A think tank called the Alliance for Innovation and Infrastructure was willing to educate lawmakers and administration officials on the plan. The backing, it noted in a three-page proposal in June, would include “a well-written white paper, a roundtable discussion at the U.S. Capitol and strong media outreach.”

The document touted the think tank’s chairman Brigham McCown and his work advising Transportation Secretary Elaine Chao. It said he was one of the “core infrastructure policy architects” for the Trump transition, “frequently quoted by all Tier-1 media outlets.” The proposal, which was written on the group’s letterhead, suggested a $125,000 donation to fund the work. Kidwell and Jones haven’t taken up the offer.

In an interview, McCown said the memo was prepared by an outside contractor and it wasn’t approved by anyone at the organization before it was sent to Kidwell. The non-profit doesn’t take donations in exchange for work, McCown said. “We don’t do pay-to-play white papers.”

Making Changes

Now, after seven months in Washington, Kidwell and Jones say they’re frustrated but not giving up. They are making some changes.

They told Crowley and the K&L Gates team to stop billing them at the end of May. Kidwell said he is re-evaluating the arrangement. Jones last week formally cut ties with the firm.

Meanwhile, the two have been getting advice on alternative approaches from Michael Williams, a Democrat who has deep roots in the bond industry. Williams, who’s not formally lobbying on their behalf, has told them to be open to Congress using their idea for other policy initiatives, like tax reform, that could come before an infrastructure deal.

“It’s a great idea, but there are a lot of great ideas that have never been implemented in D.C.,” Williams said. “They need to be flexible.”

Kidwell and Jones have also ditched the Great Again coalition and the attempt to align with Wall Street firms. They’re going it alone for now, relying on their small business bona fides and on-th--ground expertise.

“There’s obviously been some learning as we go along here,” Kidwell said. “We’re pivoting.”

Bloomberg Politics

By Robert Schmidt

July 21, 2017, 1:00 AM PDT

The Biggest Loser From Full Employment? Government.

Unemployment is low. State and local budgets are tight. Expect shortages of public servants.

There’s room to quibble about whether the U.S. has reached “full employment.” Yes, the unemployment rate is and has been low. But labor-force participation remains subdued, and some measures of wage growth are stunted.

If the U.S. is not at full employment, it's certainly getting closer. That's worse and worse news for government, as it will struggle to hire and retain workers.

For a variety of reasons, the government employment cycle lags behind the overall cycle. Partly that's because government revenue rises after the private sector heats up, not simultaneously. Income taxes are paid only after companies have hired workers. Before corporate profits can be taxed, they have to be earned. Tax revenue from capital gains can flow into the public coffers many months after assets have been sold.

Tax revenue from ordinary economic activity is volatile as is, but the unusual nature of the nationwide housing downturn in the 2008 recession had a profound impact on local tax streams. The run-up in housing prices during the boom years led to higher appraised values and increased property tax revenue for municipalities to spend. The bust led to lower appraised values and budget deficits that had to be closed, in many cases via spending cuts and layoffs, as the private sector was going through the worst recession in 80 years. While home prices have recovered to varying degrees around the country, appraisals often occur with a multiyear lag, which has constrained local budgets during the economic recovery.

The financial accounting of when tax revenue is earned and can be spent is one thing, but the governing philosophies of politicians during this economic cycle are another. Elected officials who came into office in the aftermath of the great recession were mostly focused on shoring up budgets. In part this was because the electoral wave in 2010 following the recession was dominated by austerity-focused Republicans, but it affected Democrats as well. Big city mayors, who tend to be Democrats, had to balance their budgets, and it's hard to get people to agree to tax hikes to fund services when unemployment is high. Rainy day funds needed to be built up, and in some cases, pension costs needed to be addressed.

Even though that 2010 electoral wave was seven years ago, it continues to be a powerful movement. Eighteen governors currently in office were elected in 2010. Most of them are term-limited in 2018, but until then … it's difficult to get people who came into office promising to cut spending to then turn into stimulus mavens late in their tenures.

In the same way that overhiring during the boom years came back to bite governments, underhiring now is going to increasingly lead to pain when governments are inevitably forced to catch up. Government payrolls didn't hit bottom until January 2014, nearly five years after the technical end of the recession. They are back to their level from December 2007, when the recession began. By comparison, over that same time frame, private sector payrolls have increased by 8 million workers.

While it would be nice to think that government has gotten dramatically more efficient over the past decade, the combination of tight budgets and recession-scarred governing mentalities means that public sector employment is short of where it needs to be to return to pre-recession levels of service. To get North Carolina back to prerecession student-to-teacher ratios, the state would need to hire more than 5,000 teachers.

Funding isn't the only obstacle to a recovery in government services. The labor market is also newly tight. Atlanta Mayor Kasim Reed noted it was much easier hiring police officers when the local unemployment rate was 10.5 percent.

For the country as a whole, to get the ratio of private sector to public sector workers back to its December 2007 level, we would need to hire an additional 1.6 million public sector workers. That won't be quick; to increase government employment by 1.6 million in the 1990s took eight years.

Every month that passes in which government doesn't start to address its hiring shortfall means that more teachers and police officers retire and aren't replaced. It means quality government workers who are desired by the private sector become more tempted to leave their government jobs for higher pay elsewhere in a tight labor market. And it means fewer people bother to apply for government jobs during a period with lingering hiring freezes and compensation packages that haven't caught up with where we are in the economic cycle. If politicians think voters are upset by debt and deficits, wait until we have widespread shortages of police officers and teachers.

Bloomberg View

By Conor Sen

July 18, 2017, 4:00 AM PDT

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

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Local Governments Using a Software That Russia May Be Using for Espionage.

Local and state government agencies from Oregon to Connecticut say they are using a Russian brand of security software despite the federal government's instructions to its own agencies not to buy the software over concerns about cyberespionage, records and interviews show.

The federal agency in charge of purchasing, the General Services Administration, this month removed Moscow-based Kaspersky Lab from its list of approved vendors. In doing so, the agency's statement suggested a vulnerability exists in Kaspersky that could give the Russian government backdoor access to the systems it protects, though they offered no explanation or evidence of it. Kaspersky has strongly denied coordinating with the Russian government and has offered to cooperate with federal investigators.

The GSA's move on July 11 has left state and local governments to speculate about the risks of sticking with the company or abandoning taxpayer-funded contracts, sometimes at great cost. The lack of information from the GSA underscores a disconnect between local officials and the federal government about cybersecurity.

Interviews suggest that concerns in recent months from Congress and in the intelligence community about Kaspersky are not widely known among state and local officials, who are most likely to consider purchasing the Russian software. Those systems, while not necessarily protecting critical infrastructure, can be targeted by hackers because they provide access to troves of sensitive information.

U.S. intelligence chiefs in May told a Senate panel that they wouldn't use the company's software during a broader hearing investigating Russia's alleged meddling in the U.S. presidential election. It was not the first time Congress had heard that message: A former U.S. official told The Washington Post that congressional staff was advised by law enforcement in late 2015 to stop meeting with Kaspersky representatives over national security concerns.

“People need to know that they can trust software updates,” said Joseph Lorenzo Hall, chief technologist at the Center for Democracy and Technology, a digital advocacy group. About the GSA’s decision, he said: “We need more public information.”

In the weeks since Kaspersky’s delisting, The Post found that it continues to be used on government computers in jurisdictions ranging from Portland, Ore., to Fayetteville, Ga., where an official said they have a year-to-year contract.

[View Full Story From The Washington Post.]

GOVERNING.COM

July 24, 2017

[States Get Creative on Pension Funding.]

The latest plans in California and New Jersey have observers asking: creative solution or accounting gimmick?

Most states have enacted some type of reform over the past decade to shore up their pension funds for the future. But such changes have typically done little to make a dent in the liabilities that governments already have on the books.

As those liabilities increase, states and localities are turning to more creative solutions to ease the burden.

California and New Jersey are moving forward with plans that would boost respective pension assets, dramatically decrease unfunded liabilities and reduce payouts for the immediate future. But critics of the plans say the two states are doing nothing more than moving numbers around on paper.

In New Jersey, the state is pledging its lottery — which an outside analysis determined was valued at $13.5 billion — as an asset to state pension funds. The action would reduce the pension system’s $49 billion unfunded liability and improve its funded ratio from 45 percent to about 60 percent, according to State Treasurer Ford Scudder. The roughly $1 billion in annual lottery proceeds, which currently go to education and human services, among other programs, will now be divvied up among state pension funds. The largest share — nearly 78 percent — will go to the teachers’ pension fund.

Although unions grumbled about the plan, it passed with little public debate as lawmakers were preoccupied by budget negotiations. Gov. Chris Christie and Scudder have hailed the lottery legislation as a foolproof way to immediately boost the health of the pension fund. But others have been less enthusiastic about the plan.

Municipal Market Analytics’ Matt Fabian dubbed it an accounting scheme, noting it also places a roughly $970 million burden on New Jersey’s general fund budget to pay for the programs formerly covered by the annual lottery proceeds. “We believe that, at best,” Fabian wrote, “this transaction delays honestly confronting the pension liability problem."

The move hasn't impressed credit rating agencies, either.

In recent years, they have repeatedly lowered New Jersey's rating in part because of its increasing unfunded pension liabilities. "It's not a cash infusion," says S&P Global Ratings analyst David Hitchcock. What's more, he says, the state runs the risk of assuming its assets "are better than what they really are."

The ratings agencies have a more positive view of California's proposed pension funding plan.

Developed by Gov. Jerry Brown and State Treasurer John Chiang's offices, California will borrow $6 billion from its Surplus Money Investment Fund to pay down a portion of its $59 billion unfunded pension liability. The surplus fund account typically earns less than 1 percent interest because it is invested for very short periods so that it can be quickly accessed for payment. Brown and Chiang say the money in the surplus fund could be put to better use in the state's pension fund, where it can be invested for the long-term and earn a higher interest rate.

The state is making its full pension payment this year in addition to depositing the loaned money. That will result in a nearly $12 billion boost to the fund this year. The cash infusion would immediately help lower the state's annual pension bills. California would pay back its surplus fund — plus interest — over the course of a decade.

Moody's Investors Service has called the idea a credit positive one because it "suggests the state will aggressively counter a projected rise in its unfunded pension liabilities." Some governmental organizations, such as the California Budget and Policy Center, have also offered positive reviews, comparing the move to a refinancing of debt without the risk and exposure associated with owing money to bondholders.

But David Crane, a frequent critic of Brown and a Stanford University public policy lecturer, is skeptical the $6 billion infusion into the state's pension system will generate the 7 percent annual earnings that officials project. In addition, given the recent income tax revenue shortfalls, he cautions that the surplus fund may be needed before the state has paid it back. "Circumstances change and the state's principal responsibility is to provide services," he wrote in an op-ed.

With both of these approaches, much of their success depends on how well the pension investments perform. But no matter how that plays out, more governments are likely to follow with their own creative funding solutions.

"There's always going to be a temptation when budgets are strained to look for a way to reduce pension funding," says Hitchcock. "When a government tries to do so as a gimmick as opposed to real reform or real pension funding, [it's not] seen as a positive."

GOVERNING.COM

BY LIZ FARMER | JULY 19, 2017

[The Week in Public Finance: Alaska Downgraded, Low Income-Tax Revenues and Congress Meddles in Online Sales Taxes Again.]

A roundup of money (and other) news governments can use.

BY LIZ FARMER | JULY 21, 2017

GOVERNING.COM

Back in the Black, Without the Feds to Thank.

Cities that faced bankruptcy not long ago have made remarkable recoveries — all on their own.

When the Great Recession created a wave of bankruptcies, the federal government responded by bailing out large for-profits and quasi-federal corporations, such as Fannie Mae. But there was no such help for insolvent cities or counties. Nevertheless, from the nation's smallest troubled cities, such as Central Falls, R.I., to large, iconic ones, such as Detroit, there have been remarkable fiscal recoveries. Today, for the first time in a generation, no U.S. city or county is in bankruptcy. This is a testament to the tenacity of state and local leadership.

Look at what's happening in Detroit. Four years ago, it was the nation's largest-ever Chapter 9 municipal bankruptcy. Now Jamie Dimon, J.P. Morgan chairman and chief executive, says the giant financial institution will expand its initial investment in the city to a total of $150 million by 2019 — some two years ahead of schedule. Dimon credited the bank's decision — and the city's economic progress — to strong collaboration between civic, business and nonprofit leadership.

What Dimon is talking about is that city leaders, the governor and state legislators had worked with foundations and the private sector to cobble together a "grand bargain" to stabilize the city pension plans, to negotiate repayment plans with city creditors and to work with three counties to set up a new regional water and sewer authority. The state also provided continuing fiscal advice and oversight via a financial review commission.

In New Jersey, Atlantic City has experienced a reprieve. It had teetered on the edge of bankruptcy after a 50 percent drop in the city's casino revenues. In 2014, nearly half of the casinos closed, with a loss of 10,000 jobs, which in turn triggered a massive spike in home foreclosures that imperiled the city's fiscal outlook.

But the state came to the city's aid. Working together, city and state officials took steps to "make the changes which have long been discussed: reducing costs and modifying service levels and workforce size in order to meet the city's needs today given its new and evolving economy," says Marc Pfeiffer, the assistant director of the Bloustein Local Government Research Center in New Jersey. While solutions to many long-term problems are still a challenge, the city has started to recover: Casinos are turning profits; the city's credit rating has been upgraded; and plans have been announced to renovate and reopen defunct properties, such as the Trump Taj Mahal hotel and casino. In addition, Stockton University broke ground on a satellite campus, and a luxury apartment complex, the first to be constructed in Atlantic City in decades, is underway.

From a governance perspective, Pfeiffer notes, the steps toward recovery were effective in part because the state managed to keep negotiations far from the public spotlight — perhaps depriving the public of critical information, but ultimately facilitating fiscal progress by avoiding what was once deemed certain municipal bankruptcy.

From Central Falls to California's San Bernardino to Alabama's Jefferson County, troubled localities are back in the black. This emergence is doubly remarkable in that these cities and counties had to recover without the help of a federal governance scheme — namely general revenue sharing and oversight by an advisory commission of federal and state leaders that was initiated by President Richard Nixon and passed by Congress in 1972. Congress has long since disposed of those initiatives — they petered out in 1987. Today local governments are left to sink or swim on their own. The whole idea of federalism no longer appears to be a topic of interest in Washington. The task of recovery from fiscal catastrophe has fallen on those who serve at the local level. They have taken responsibility and moved their cities or counties forward.

Governing.com

By Frank Shafroth | Columnist
Director of the Center for State and Local Government Leadership at George Mason University

July 2017

Municipal Market Snapshot.

Read the Snapshot.

Hutchinson, Shockey, Erley & Co. | Jul. 17

The Benefits of Private Financing for Public Works.

President Trump has announced the outlines of an ambitious $1 trillion agenda to rebuild America's crumbling roads and bridges, outdated water systems and dilapidated public buildings. While the general goal of investing in infrastructure has broad bipartisan support, Mr. Trump's call for relying heavily on private financing has come under fierce criticism. As consultants and advocates for such public-private partnerships, we believe those attacks are wrongheaded.

Critics assert that public-private partnerships enrich investors at taxpayers' expense, are more expensive and less accountable, lead to public bailouts and do little to help rural areas. But this ignores strong evidence to the contrary in states like Pennsylvania, New York, Florida, Colorado, North Dakota and California.

The private sector is already involved in building our infrastructure, but usually with public funds. President Trump would allow private investment in those projects for a good reason: private funds increase accountability. As a partner in a public project, the private sector is on the hook for cost overruns and delays and may be contractually obligated to pay hefty fines or other penalties when the results are lackluster.

If a project is behind schedule or over budget, private companies pay a hefty fee and make up the difference, since they financed that project. If a project isn't maintained and operated according to strict standards throughout the contract, the private sector could pay substantial fines. The same is often not true of purely publicly financed projects.

There is a widespread perception that most public-private transportation projects sell off assets or give private companies the authority to collect tolls. But this is not usually the case. Of the 18 public-private transportation projects advanced since 2010, only eight involved transferring toll or revenue risk to the private sector. Most projects involve contracts that pay companies based on performance, not toll collection.

In 2015, an official from the Congressional Budget Office testified that there is “little evidence that public-private partnerships provide additional resources for roads.” But this assertion ignores the ways private financing increases fiscal discipline and accountability by shifting the risk of cost increases, delays and revenue performance from the public onto private investors.

La Guardia Airport, often mocked for its antiquated facilities, is today completely overhauling its central terminal, thanks to a public-private partnership. Almost 80 percent of the $8 billion design and construction costs will be paid for by private financing and existing passenger fees. The risk of cost overruns or construction delays is transferred from the Port Authority to a private consortium.

Project owners of such partnerships estimate that their projects have saved taxpayers on average about 25 percent, including on the construction of the PortMiami Tunnel and the expansion of Denver’s mass transit system. A public-private partnership is on track to deliver the Interstate 4 highway expansion in Florida with an estimated $1.4 billion in savings, faster than originally projected.

We believe public-private partnerships can help rural America and would urge skeptics to consider that in Pennsylvania, 558 deficient rural bridges are being replaced at least 10 years early through a $1 billion public-private project. In Merced, Calif., the University of California system is doubling the size of its campus — which mostly serves rural students — with a $1 billion public-private project. And in Fargo, N.D., a public-private partnership is working with the Army Corps of Engineers on a $2 billion project to alleviate flooding.

Criticism of these projects has also been directed at a few projects that have gone bankrupt, as evidence that they hurt taxpayers. One such project, the South Bay Expressway in San Diego, earned lower-than-projected revenue because of the Great Recession and the Southern California housing market collapse. But no state funds were used for the project, and taxpayers were largely protected in the bankruptcy. The regional authority purchased the rest of the project for significantly less than the private partner’s construction cost.

We simply can’t waste billions of dollars on delays and cost overruns if we are to deliver more than $4 trillion in much-needed infrastructure repairs and expansion. Business as usual is simply not an option. Projects like the Big Dig in Boston (which was an estimated $12.4 billion over budget) are occurring every day at taxpayer expense. It costs more to build new transit systems in the United States than in most other developed nations.

Critics of partnerships have one fact right: Private financing can never fully replace the need for federal and state funding. Private investment, however, can help leverage limited but essential public dollars into successful projects that are completed ahead of schedule, at lower cost and with greater accountability.

When Congress begins considering an infrastructure plan, members should seriously explore President Trump’s idea of using private financing as a catalyst. Private funds are not going to single-handedly solve our nation’s huge infrastructure needs, but they must be a critical piece of the equation.

THE NEW YORK TIMES

By MARY E. PETERS and SAMARA BAREND

JULY 17, 2017

Mary E. Peters, the secretary of transportation from 2006-09, is the principal in Mary Peters Consulting Group. Samara Barend, is a senior vice president at AECOM, an engineering and construction firm.

New Public Finance Funding Sources Spark Transparency Concerns.

WASHINGTON- A decreased reliance on bonds to finance capital investments has created a need for more municipal market research tools to analyze alternative forms of public financing, according to industry experts.

New issue bonds fell 25% between 2005 and 2016 in nominal dollars, according to the Mergent Fixed Income database presented at the Brookings Institution's sixth annual municipal finance conference Monday.

Daniel Bergstresser, associate professor of finance at Brandeis University's International Business School, noted that despite a "significant" decline in new issuance during the last decade, municipalities are still undertaking major capital projects through other funding sources like public-private partnerships and bank loans. He said as a result risk exposure can often be challenging to gauge for state and local governments because of municipal market participants not having adequate access for differing financing strategies due to less disclosure requirements.

Brandeis University professor Daniel Bergstresser spoke at the Brookings Institute's Municipal Finance Conference Monday.

"We're not comfortable that there is total transparency with the risks issuers are taking on," said Bergstresser, who co-authored a paper about changes in the municipal market since the Great Recession with Martin Luby, an assistant professor of public afairs at the University of Texas at Austin's Lyndon B. Johnson School of Public Affairs. "We think it's important for academics to keep a focus on transparency in this changing world."

Bergstresser also noted during the conference how the economic downturn in 2008 has decreased the floating rate bond market, with fixed rate debt rising from 78% of the market in 2007 to around 90% today.

Colin McNaught, CEO of BondLink and former Massachusetts assistant state treasurer for debt management, urged public finance experts to examine in dollars how issuers could have capitalized on floating rates given how low interest rates have stayed in recent years.

"That is billions of dollars of mispricing," he said.

The Bond Buyer

By Andrew Coen

Published July 18 2017, 11:14am EDT

Howard County Courthouse P3.

Key project features

Howard County, Maryland ("County") is implementing a public-private partnership for the design, construction, and operation of a new courthouse. A bidding process would be used to secure a private consortium to execute a single P3 Contract with County covering the required services. A combination of public and private financing would fund design and construction costs. The County issued a Request for Expressions of Interest "EoI" which indicates a procurement schedule leading to statements of interest being submitted in September, with short-listed respondents being selected in October, to receive an RFP in November.

Background

Located halfway between Washington D.C. and Baltimore, the County is a bedroom community for those cities and is also a major commercial center for the region. It is one of the state's fastest growing counties; since 1983 its population has increased over 140%. It is the third wealthiest county in the nation. The County's general obligation bonds are rated "AAA" by Moody's Investor's Service, Aaa by S&P Global Rating and "AAA" by Fitch Ratings.

Courthouse Status

The existing County courthouse is over 170 years old and cannot accommodate a cost effective expansion. The project would provide a modern and secure circuit courthouse to meet current and future judicial requirements. The estimated capital costs of the project are US$138,730,000.

Schedule

In 2016, a Circuit Courthouse Program of Requirements and master plan were established. Project research and analysis was undertaken by the Spending Affordability Advisory Committee, a group comprised of Howard County citizens, organizations, and government officials.

In March 2017, the approval of Resolution No. 27-2017 confirmed support of the project from the Howard County Council and County Executive.

General obligation bond issuance has been approved to cover anticipated milestone payments, as well as procurement and preparatory costs. Financial, legal, and technical advisors have been contracted.

Following the issue of the RFP in November (as indicated above) the schedule will be as follows:

— Dialogue with the top three shortlisted bidders will be used to further develop the RFP Proposal Responses in November to December 2017

— Interim submittals due in January 2018

— Final proposals due in April 2018

— Selection of preferred proposer in September 2018

— Commercial and financial close in November 2018

County Powers

Howard County is a charter county with express home rule powers granted under Maryland law. Its charter was adopted under Article XI-A of the Maryland Constitution, which is known as the Home Rule Amendment. Under the Express Power Act (now codified at Article 10 of the Local Government Article of the Maryland Code), the General Assembly has endowed charter counties with a wide array of legislative and administrative powers over local affairs. Maryland courts have characterized the Express Powers Act as an expansive grant of authority and liberally construed these powers. The Express Powers Act explicitly grants the power to establish and maintain courthouses and confers broad powers over county property. Under the County Charter, the County may enter into multi-year contracts for services.

The P3 Contract is likely to be subject to annual appropriations to avoid being characterized as debt. Given the County's stellar credit a "subject to annual appropriation" clause in the P3 Contract should not impair the bankability of the project. The Court has already entered into equipment leases with these clauses.

Since general obligation bond financing is part of the proposed delivery model, the P3 Contract term would be limited to 30 years to comply with the IRS management contract rules applicable to tax-exempt debt.

P3 Evaluation Process

The County's Spending Affordability Advisory Committee evaluated alternative delivery methods (including a conventional County procurement of design and construction services) using a comparison of life cycle costs in order to determine the optimal value for money. The Committee balanced costs, risks, and completion certainty, among other factors.

The Committee singled out several advantages of a P3 over conventional approach. A long-term P3 contract structure incentivizes lowest life cycle costs by allowing the P3 developer to make trade-offs with a long-term, lifecycle cost interest in mind. Conventional contract structures (often using a series of contracts) instead focus competition on lowest capital costs and are likely to result in higher lifetime costs.

Contractual structure allows for innovation through output-based specifications which permit more creative solutions than conventional contract structures, which stifle innovation through input based specifications.

Transferring risks to the private sector is likely to lead to better risk management by the private sector than conventional contract structures which leave risks with the public sector.

It was recognized that the cost of private financing in the selected model is inherently more expensive than general obligation bonds, so general obligation bond proceeds will fund a significant part of the capital costs.

The Committee concluded that the selected delivery model provides incentives for the private partner to "achieve cost savings, improve quality, and effortlessly transfer risks." The delivery model provides more cost certainty for the lifetime cash flow. The delivery model provides earlier completion than a conventional procurement.

Hybrid P3 Model

The selected delivery model was characterized as a "Hybrid P3"; it provides for a design, bid, build, operate, and maintain P3 Contract using public and private financing to fund construction costs. The County would issue 30 year general obligation bonds to fund the milestone payment to be made on completion of the project. The EoI states that this payment will be in the order of US$90 million. That milestone payment will only cover part of the construction costs and a selected contractor would fund the rest through private financing. The goal of the private funding is to assure that the contractor have "money at stake" in relation to the whole-life operation of the courthouse.

Once the project is complete and accepted by the County, the indication is that the County plans to take a more or less conventional approach to making periodic availability payments under the P3 Contract to the private contractor, with deductions being made for suboptimal performance (falling short of "non-availability") and larger deductions for non-availability. Under the P3 Contract, "availability" would be expected to be limited to the elements that are the most important to overall provision of the specified services.

The P3 contract is also expected to take a conventional approach to handback requirements consistent with: (1) the specified design life requirements and the useful life standards; and (2) the private contractor having met its contractual obligations for the operating services.

The full Howard County Courthouse EoI can be found here.

Hogan Lovells – Mike Matheou and Edward C. Sledge

USA July 19 2017

INFRA Grant Program Encourages Use of P3s.

The U.S. Department of Transportation (USDOT) has revised and renamed a federal grant program that provides federal financial assistance to highway and freight projects of national or regional significance to support projects that use funding from the private sector or other non-federal sources.

The Infrastructure for Rebuilding America (INFRA) grant program—which provides dedicated, discretionary funding for projects that address critical issues facing our nation's highways and bridges—will use updated criteria to evaluate projects to ensure that they meet economic goals and encourage the use of non-federal funding and innovation in the delivery and permitting processes.

Grants through INFRA—formerly known as Fostering Advancements in Shipping and Transportation for the Long-Term Achievement of National Efficiencies (FASTLANE)—will create opportunities at all levels of government and the private sector to fund infrastructure by using innovative methods to improve the necessary processes for building significant projects, and by increasing accountability for the projects that are constructed.

USDOT is specifically focused on projects in which the local sponsor is significantly invested and is positioned to promptly proceed to construction. Projects eligible for funding may include reconstruction, rehabilitation, property acquisition, environmental mitigation, construction contingencies, equipment acquisition, and operational improvements that affect system performance.

According to a July 5 Federal Register notice, the Fixing America's Surface Transportation (FAST) Act of 2015 authorizes funding of the INFRA program at $4.5 billion for fiscal years (FY) 2016 through 2020—including $850 million for FY 2017 and $900 million for FY 2018. Grants will be awarded by USDOT on a competitive basis to projects that meet statutory requirements.

Under the program, USDOT will distribute grants to large and small projects. Each large project selected for funding will receive at least $25 million; each small project will receive a minimum of $5 million. Ten percent of available funds will be reserved for small projects and 90 percent of available funds will be reserved for large projects each fiscal year of funding.

Ballard Spahr's P3/Infrastructure Group advises on public-sector transactions and public-private partnerships (P3s). Attorneys in the Group resolve legal issues—related to public and project finance, real estate, procurement, public policy, labor relations, bankruptcy, tax, and environmental conditions—that arise in these complex transactions. We have a proven track record of working in partnership with government as well as private concessionaires and lenders to bring projects to fruition.

July 12, 2017

by Steve T. Park and Jayne Mariotti Hebron

U.S. Supreme Court Establishes New Test For Evaluating Property Rights Under The Takings Clause.

HIGHLIGHTS:

- In *Murr v. Wisconsin*, the U.S. Supreme Court addressed "one of the critical questions" in the law of regulatory takings: how to define the unit of property that is the subject of the alleged taking.
- The *Murr* decision arose in the context of Wisconsin's lot merger rules and upheld the Wisconsin Supreme Court's ruling against the common owners of two contiguous lots who were prohibited from using or selling their contiguous lots as separate lots, despite their having been acquired as separate lots.
- In addressing this question, the Court majority articulated a new standard that moves beyond the limitations of state and local law. The majority stated that courts also must consider other factors, such as the land's physical characteristics and prospective value, as well as "whether reasonable expectations" would lead the land owner to expect that its holdings would be treated as one parcel.

Continue reading.

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Article by Charles L Coleman III, David Preiss and Bradley B. Brownlow

Holland & Knight
