
Fitch Ratings: Scale May Translate to Better Ratings for U.S. NFP Hospitals

Link to Fitch Ratings' Report(s): Size and Scale Factor into Hospital Ratings

Fitch Ratings-New York-26 September 2019: Increased M&A activity among U.S. not-for-profit hospitals does not necessarily translate into an instant fix for profitability, according to Fitch Ratings in a new report.

M&A among not-for-profit hospitals is here to stay, driven by the belief that scale is the only way to succeed in a rapidly transforming and innovative sector. "Historically, people went to hospitals out of necessity, not for convenience," said Senior Director Olga Beck. "Now hospitals need to offer a wide array of services with patients demanding that it be adjusted to fit their busy lives."

A recent Fitch analysis of its rated hospitals, however, shows that bigger is not instantly better in terms of profitability over the short term. In fact, profitability at the median level is virtually identical for larger, medium sized and smaller health systems. The same holds true for other key metrics like days cash on hand and net adjusted debt to adjusted EBITDA.

Where size and scale do matter is in a hospital's longer-term financial picture. While not necessarily more profitable than its smaller counterparts, larger hospitals are in a much better position structurally to fend off a future economic downturn. "Increased size and scale absolutely enhance a hospital's stability at virtually every measurable data point," said Beck. "With the tools available to them, Fitch expects that in the long run, large systems should be able to prove their advantages by exhibiting less volatility in times of stress and/or acquiring essentiality with a strong clinical reputation in very high-acuity care that provides them with a broad patient base."

'Size and Scale Factor into Hospital Ratings' is available at 'www.fitchratings.com' or by clicking on the link.

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Fitch 2019 Late Cycle Roundtable: Key Risks for U.S. States in a Potential Downturn

How will potential federal fiscal deterioration affect U.S. states? In this latest installment of the Late Cycle Roundtable series, Katie Falconi, Americas Regional Credit Officer, leads a discussion on how rising budget deficits and public spending could affect U.S. public finance issuers.

Watch the Roundtable.

Hunt for Tax Havens Fuels $47 Billion Stampede Into Muni Debt.

- **Muni-bond inflows are greater than in 54-week record in 2016**
- **'Voracious' appetite as fallout over tax overhaul continues**

Municipal bonds have never been at risk of becoming the next big thing for bubble-chasing investors, like crypto currencies or tech IPOs.

But 2019 has been marked by an unusually large stampede into the $3.8 trillion state and local government debt market because of a motive that's nearly as old as civilization itself: avoiding taxes.

Municipal-bond mutual funds and exchange traded funds have pulled in about $46.9 billion over the last 38 straight weeks. That's the biggest cash haul since 2010 and eclipses the $38.1 billion they picked up during the 54-week stretch that ended in 2016, according to Refinitiv's Lipper US Fund Flows data.

Several factors are helping to feed the demand, including interest-rate cuts that have pushed up the price of outstanding bonds and sent the market to its biggest gain since 2014. But a major reason is the tax overhaul that capped the federal deduction of state and local taxes, which caused some Americans to use their investments as a way to drive down what they owe.

"Munis have become more of a pure investment. It's a tax vehicle for many," said Peter Block, head of municipal bond strategy at Ramirez & Co., who described the appetite for tax shelters as "voracious."

"Clearly it's taking off as a tax strategy for the advisory community," Block said.

While the muni market has weakened recently, it's still delivered returns of about 6.7% this year, and it has fared better than others as prices retreated after August's big rally. The muni market's one-month loss of 0.84% compares with the 0.95% loss for Treasuries and the 0.75% loss for corporate bonds, according to Bloomberg Barclays indexes.

Meanwhile, offerings of new municipal bonds this year haven't kept pace with demand because the tax overhaul did away with a major refinancing tactic and states and cities remain hesitant to run up debt. But for those who do sell, they can lock in borrowing costs near historical lows.

"You have this limited supply of bonds– great for you guys to issue debt," Terry Goode, a senior

portfolio manager at Wells Capital Management, told municipal representatives at a Bond Buyer conference in San Francisco on Tuesday. “And people like me are clamoring for those particular bonds.”

Bloomberg Markets

By Romy Varghese

September 27, 2019, 10:30 AM PDT

— With assistance by Maria Elena Vizcaino

U.S. States Won’t Join Century Bond Club Even If They Want To.

- **California, New York have debt maturities limited by law**
- **Citigroup says even those who could may be ‘uncomfortable’**

The U.S. Treasury is considering whether to join a number of European governments that have embarked on a bond-market experiment by selling debt that doesn’t come due for a century.

But don’t expect America’s state governments to follow suit.

Even if they wanted to put off repaying their debts for 100 years, many states are prevented from doing so because of constitutional or statutory limits that impose a type of fiscal discipline.

In California, the nation’s biggest municipal-bond issuer, the constitution bars the state from selling debt that matures after 50 years. In New York, statute limits that to 30 years. For the most part, Hawaii can’t borrow for longer than 25. Utah and Delaware are capped at two decades. And in Maryland, it’s even shorter: general-obligation bonds have to mature in 15 years or less.

“That’s not an option for us even if we wanted to consider it,” said Christian Lund, Maryland’s debt management director.

That suggests that so-called century bonds will remain a rare presence in the $3.8 trillion municipal-securities market, despite a recent uptick in such sales by universities. Both New Jersey’s Rutgers University and the University of Virginia this year sold bonds that don’t mature until 2119.

Martin Luby, a public finance professor at the University of Texas at Austin’s Lyndon B. Johnson School of Public Affairs, said states are concerned about the injustice of kicking the bill for today’s public works projects to unborn generations. And states typically try to structure bond issues so they’re not still paying off the debt even after the project it financed is no longer in use.

“States don’t want to burden future taxpayers,” he said. “There is also this uncertainty on whether they are going to be able to pay for this asset in 50 years or 100 years.”

Citigroup Inc., one of the biggest underwriters, doesn’t expect a surge of century bond issuance even from governments that may have legal authority to do so, the bank’s analysts led by Vikram Rai said in a note to clients Monday. Rai said “most issuers will be uncomfortable taking such a strident view on duration.”

Tennessee is one of them. The state doesn’t have a constitutional barrier to selling extremely long-

dated debt. But it does have a policy that limits the maturity of its bonds to 20 years after they're issued or a related project is completed, whichever is soonest, unless state officials decide otherwise.

When asked if Tennessee would consider joining the century bond club, John Dunn, a spokesman for the state comptroller, was succinct in his emailed response: "This is an easy one for the state of Tennessee. The answer is NO."

Bloomberg Markets

By Danielle Moran

September 24, 2019, 9:29 AM PDT

— With assistance by Romy Varghese

BondLink Partners with IHS Markit for Muni Bond Transparency.

An alliance between one company that profiles bond issuers and another that facilitates bond sales aims to make it easier for investors to view a government's credit information before buying.

A new partnership between two financial-service companies has proposed to make the municipal bond market more transparent for investors.

According to a news release last week, the partnership is between BondLink, a cloud software company in Boston that builds websites for governments to share information with potential investors, and Ipreo by IHS Markit, a London-based financial data and analytics company formerly known just as Ipreo, before it was acquired by IHS Markit, a competitor, in August 2018. Ipreo by IHS Markit makes software for selling bonds, and through this partnership, potential investors who buy through Ipreo will have access to credit information about issuers via BondLink.

In an email, BondLink co-founder and CEO Colin MacNaught said the partnership could make bond issuers more transparent, giving investors easy access to information they need to evaluate potential bond deals.

"Issuers who focus on their digital presence by taking advantage of integrations like this can attract more investors and gain a competitive edge, and we're proud to partner with Ipreo by IHS Markit," he wrote.

The news release said BondLink also has an agreement with Fidelity Investments to put information about issuers on Fidelity.com.

These relationships could boost the profile of BondLink, which has raised $12 million in seed funding since its launch in 2016 and been used by the states of Florida and Georgia and the city of Chicago.

GOVTECH

BY ANDREW WESTROPE / SEPTEMBER 26, 2019

S&P: Long-Term Credit Challenges Facing U.S. State And Local Governments In Coal-Producing Regions

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- U.S. Coal Production Outlook Looks Bleak
- Environmental: Transitioning To More Renewable Energy Sources
- Social: Weakening Demographic Trends And Workforce Constraints
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For nearly a decade, U.S. coal production has been on the decline. Global efforts to stem emissions of carbon dioxide from fossil fuels and the availability of cheap alternative renewable energy sources will limit future growth of coal production. In S&P Global Ratings' opinion, reliance on coal-related revenue and economic activity, absent diversification, may result in long-term credit deterioration for some U.S. government entities.

Analyzing the credit impact of declining coal production involves our assessment of environmental, social, and governance (ESG) factors. S&P Global Ratings has a long record of incorporating ESG factors into its analysis of public finance entities. (For more information, see our report, "Through The ESG Lens: How Environmental, Social, And Governance Factors Are Incorporated Into U.S. Public Finance Ratings," published Oct. 10, 2018, on RatingsDirect.) In our state government analysis, we assess the effects on the coal industry as the U.S. transitions to more renewable energy sources, the weak demographic trends of coal-reliant areas, and management's ability to address the resulting fiscal effects of this decline.

Continue reading.

Bond Interest Rates Dropped for Public Hospitals Under ACA, Study Finds.

Public hospital borrowing costs significantly decreased under the ACA, according to a study cited by Yahoo Finance.

The study, released by University of Illinois at Chicago's Government Finance Research Center, found that short and medium-term yields on municipal hospital bonds have dipped 39 basis points [relative to a control group of nonhospital bonds] since the U.S. Supreme Court upheld the federal health law in 2012, the Yahoo report stated. This means public hospitals saved $3 million per bond issue on interest rates.

Dermot Murphy, co-author of the study and a UIC associate professor of finance, told Yahoo Finance investors originally were skeptical.

"For all they knew, the ACA might be repealed next month," he said. "After the Supreme Court ruling in 2012, however, investors got a shot of confidence that the [legislation] was more likely to remain the law of the land."

After the 2012 ACA decision, investors were more confident, leading to lower interest rates for

municipal hospital bonds, the study found. According to Yahoo Finance, the study also found that bond yields dropped another 17 basis points in states that expanded Medicaid under the ACA.

“Political uncertainty surrounding the ACA still remains a concern for municipal bond investors in the long run, even if legal uncertainty was significantly reduced following the Supreme Court ruling,” Mr. Murphy said.

Becker’s Hospital Review

by Kelly Gooch

September 27th, 2019

Everyone Is Running Up Debt Except America’s States and Cities.

- **Amount of muni debt owed drops for the fourth straight quarter**
- **Contrasts with rising debt of federal government, households**

America’s states and cities may be the only ones that aren’t running up their credit cards.

The outstanding debt of U.S. state and local governments shrank for the fourth straight quarter in the three months ended in June, dropping by $14.6 billion to about $3.8 trillion, according to Federal Reserve Board figures released Friday. That stands in contrast the federal government, households and businesses, all of which stepped up their borrowing.

States and cities have paid down their debt since 2010
The figures underscore the fiscal restraint that has reigned in the nation’s statehouses since the Great Recession, which forced governments to cut jobs and slash spending to make up for the massive budget shortfalls they were left with when the economy collapsed. Even with the interest rates on municipal bonds at the lowest since at least the early 1960s, states and cities have been hesitant to borrow and are saving for the next downturn instead. As a result, the municipal-securities market is smaller than it was in 2010.

That has been a good thing for bondholders, with the subdued pace of new debt sales providing a tailwind for the market. While the pace of borrowing typically picks up in the last few months of the year, Bank of America Corp. analysts said Friday that it shouldn’t cause any trouble: investors will receive about $42 billion in interest and principal payments through the end of October, roughly enough to buy all the new bonds that will be sold.

Bloomberg Markets

By William Selway

September 20, 2019, 10:31 AM PDT

Local Muni Dealers Die Off as Wall Street Lands Most Deals.

- **Number of muni underwriters has dropped by more than a third**

- **Declining fees, new regulations seen spurring drop since 2010**

The small-town bond dealer is a dying breed.

Spurred by declining fees, mergers and regulations ushered in after the financial crisis, the number of banks underwriting U.S. state and local government debt has shrunk by more than a third in a little less than a decade, according to data compiled by Bloomberg. This year, there were 101 firms that handled at least one municipal-bond deal, down from 152 in 2010.

The steep drop illustrates how increasing competition is reshaping the $3.8 trillion municipal-securities market, presenting a challenge to regional firms as the business becomes increasingly consolidated in the hands of Wall Street's biggest banks. Such local underwriters were heavily affected by changes inaugurated by the Dodd-Frank law, which curbed the ability of banks to pitch debt deals to their clients, as well as the steadily eroding fees — or spreads — that states and cities pay to issue new bonds.

The firms that have dropped out in the last decade include Sterne Agee Group, Stone & Youngberg and Cain Brothers, all of which were acquired by rivals. Another, William Blair, shut down its municipal bond business in 2017.

"You have lower spreads, lower volume of issuance, more profitable business elsewhere and new regulations of municipal advisers that have kept broker dealers from knocking on the door of issuers," said Bart Hildreth, a public finance professor at Georgia State University and former member of the Municipal Securities Rulemaking Board. "All of that is making this business more concentrated. The smaller regional firms are being bought up, so that's leading to the consolidation of the industry, which is lowering the number of broker dealers."

The underwriting business is dominated by the 10 biggest banks, which handle about three quarters of new bond offerings, the data shows. And the top 20 manage nearly 90% of the total, leaving only a small share for the lower-tier firms. Since January, there are 27 managers that have handled five or fewer deals, and nine that have underwritten just one.

At the same time, the average fee has dropped to $4.95 for every $1,000 of bonds sold, down from $6.26 in 2010.

The shift in the municipal bond business mirrors one in the broader financial industry, which has steered more work to big mutual funds and banks with the broadest reach.

"The firms that thrive have the best primary issuance platform and distribution capabilities — you kind of have to have the full gamut in my opinion to really have a thriving platform," said Devin Ryan, an equity analyst that covers banks at JMP Securities. He expects the trend of consolidation in the municipal market to continue as "economies of scale and economies of diversification" win out over smaller, regionally-based businesses.

Those pressures are already driving some consolidation. Stifel Financial Corp. in August agreed to buy George K. Baum & Co., a regional underwriter, after previously buying First Empire Securities, a firm based in Hauppauge, New York. In 2012, Raymond James bought Morgan Keegan to bolster its business in the Southeast.

Of the 20 firms that were in the market last year but haven't underwritten a deal so far this year, 10 managed only a single issue in 2018. The handful of firms that managed more than five deals last year but have since done zero, include Neighborly Securities, a startup that has since shifted its focus to Internet broadband.

In the public finance market “there is an ecosystem of many smaller regional players that, in my opinion, there will be far fewer of them over the next decade than there are today,” said Ryan, JMP’s equity analyst. “It can still be quite a good business. But it is a business that is absolutely consolidated, and I would expect that you will probably continue to see that especially on the smaller end of the market.”

Bloomberg Markets

By Danielle Moran

September 17, 2019, 4:00 AM PDT Updated on September 17, 2019, 7:12 AM PDT

— With assistance by Sowjana Sivaloganathan

Muni Bonds Face Climate Change. And Investors Are Ignoring the Risks.

The municipal-bond market has long been considered a haven: U.S. investors could buy bonds issued by states, cities, counties, and agencies and enjoy steady, tax-free income and rock-bottom default rates. More recently, overseas investors—particularly those combating negative yields at home—have been drawn to U.S. munis for their positive yields and a currency that’s rising against theirs.

But there’s a long-term risk looming in this $3.8 trillion market: Climate change raises the credit risk of an issuer by damaging its assets and tax base. Within a decade, absent efforts to curb emissions, according to BlackRock, more than 15% of the S&P National Municipal Bonds index will come from metropolitan issuers that probably will suffer climate-related losses of 0.5% to 1% of gross domestic product a year.

Probable losers include the Gulf Coast, the South Atlantic seaboard, and Arizona. Florida tops the list of danger zones; BlackRock estimates that Miami eventually could lose up to 4.5% of GDP a year.

Continue reading.

Barron’s

By Leslie P. Norton

Sept. 20, 2019 4:19 pm ET

Muni-Bond Sales Surging as Yields Tumble to Lowest Since 1960s.

- **August, September are busiest months since Dec. 2017’s record**
- **Valuations have retreated from record highs as pace picks up**

U.S. state and local governments are selling bonds at the fastest pace since the record-setting flood in December 2017, seizing on a slide in interest rates that has pushed their borrowing costs to the lowest in more than half a century.

The volume of new debt sales in September is poised to rival or exceed the $38 billion that was issued in August, which was the busiest month since governments rushed to the market before President Donald Trump's tax law pulled the subsidies from a key refinancing tactic. Governments have sold about $28 billion of long-term debt in September, a 33% increase from the same period a year ago, and more than $10 billion is already scheduled to be offered over the next week, according to data compiled by Bloomberg.

"Thanks to back-to-back-to-back big weeks of new issue volume, September borrowing is on track to be the biggest single month of issuance since December 2017," Patrick Luby, senior municipal strategist at CreditSights, wrote in a note to clients Monday.

The increase is a welcome shift for money managers and underwriters who had seen the pace of debt sales slow over the past two years, and it comes as the Bond Buyer 20 Index, a key measure of yields, holds at its lowest since at least 1961.

With cash steadily flowing into municipal-debt mutual funds every week since January, the dearth earlier this year pushed tax-exempt bond prices to record highs relative to Treasuries. But those valuations have since weakened, in part because of an anticipated pick up in the pace of new sales over the next few months.

"The calendar is clearly building," said Jeffrey Lipton, head of municipal research at Oppenheimer & Co. "We are at a point right now where issuers are looking at these very compelling low rates and we are approaching the end of the year."

Bloomberg Markets

By Danielle Moran

September 23, 2019, 10:29 AM PDT

Muni Market Not Immune From Illiquidity Fears, Says Bond Star.

The municipal bond market has proven a haven for some investors seeking solace from the more difficult areas of the wider fixed income universe but it is not immune from all its problems.

Citywire A-rated manager David Hammer, who runs several municipal bond funds at Pimco, said liquidity in the municipal bond market has declined in recent years. He said this is exacerbated by the increased use of daily liquidity funds.

'So there's a growing mismatch between the available liquidity and investors that might demand that liquidity. As a result, during outflow cycles in the muni market, what we've experienced are overshoots where valuations' prices really overshoot fundamentals.'

Further pressure has come in the form of outflow cycles, which are largely driven by mass market concerns. 'Back in 2010 and '11 following Meredith Whitney's proclamation on 60 Minutes that there would be billions of municipal defaults caused an outflow cycle.

'In 2013, after the fed-induced taper tantrum, that coincided in the muni market with a down grade of Puerto Rico and also Detroit filing for bankruptcy, so we saw a prolonged outflow cycle,' he said.

His colleague Rachel Betton highlighted how similar pressure was exerted on munis during the 2016 Presidential election in the US. The combined fears of lower taxes and higher interest rates forced many investors to axe muni exposure, she said.

'In these sell-offs, most muni funds have to raise cash to meet redemptions. We don't see outflow cycles going away. In fact, we think they are probably becoming more common and potentially more severe,' she added.

One way municipal bond managers could capitalise on market opportunity, the pair said, is through the use of interval funds. These strategies are less liquid but are aimed primarily at longer-term investors who are aware of how they function during market downturns.

'That puts us as portfolio managers in a better position to take advantage of these outflow cycles, make opportunistic purchases, and create long-term value for investors that expect to be allocated to the muni market for a prolonged period of time,' Hammer added.

On a three-year basis, Hammer has returned 9.8% in US dollar terms across a total of nine funds. The average manager in the Bonds – US Dollar Municipal sector returned 8.5% over the same timeframe.

By Chris Sloley

18 Sep, 2019

Muni-Bond Investors Embrace Higher-Risk Issuers.

High-yield municipal funds rake in $14 billion as investors flock to lower-rated deals

Investors are flocking to riskier corners of the traditionally safe municipal bond market in a search for yield.

They are buying hundreds of millions of dollars of debt issues from unrated and below-investmen--grade borrowers such as energy projects and upstart charter schools.

It is a shift within a part of the bond market commonly considered almost as safe as Treasurys. Municipal-bond payments are often backed by taxes or revenue from essential services. The bonds are known for low default rates and prized by investors for stable returns and interest payments that are typically tax-free.

Continue reading.

The Wall Street Journal

By Gunjan Banerji and Heather Gillers

Sept. 21, 2019 9:50 am ET

Fitch Rtgs: U.S. LPCs Experience Drop in Liquidity Metrics, But Maintain Healthy Operations in FY18

Link to Fitch Ratings' Report(s): 2019 Median Ratios for Not-For-Profit Life Plan Communities

Fitch Ratings-New York-19 September 2019: Volatile equity markets and increased capital spending pressured liquidity metrics for U.S. life plan communities (LPCs) in fiscal 2018, while core operations remained solid, according to Fitch Ratings in a new report.

2018 median ratios for Fitch's investment-grade LPCs show solid core operating performance, though it is trending lower (5.9% in 2018 from 7.2% in 2017). Lower rated LPCs also saw net operating margins fall for the second straight year to 3.8% in 2018 from 5.1% in 2017. Days cash on hand also fell for investment-grade LPCs.

Meanwhile, capital spending has increased dramatically for the sector as a whole this year with the still-strong housing market fueling demand and higher occupancy rates for independent living units. 'Fitch expects LPCs to continue to plan and pursue renovation and expansion projects in 2019,' said Director Ryan Pami. While capital spending is up, the same cannot be said for realized gains. Less than expected returns dampened the excess margin to 2.1% from 3.3% YoY.

Fitch upgraded ratings on four LPCs, downgraded five and affirmed all of its other rated entities during the first half of 2019. Fitch envisions continued operating stability by and large through the remainder of 2019. That said, 'increased leverage and project risk from expansions or campus repositioning projects will continue to drive negative rating actions for LPCs,' said Pami. 'Furthermore, pressure on the post-acute care census in skilled nursing facilities could hamper operating performance.'

'2019 Median Ratios for Not-For-Profit Life Plan Communities' is available at 'www.fitchratings.com' or by clicking on the above link.

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Fitch Ratings: Pre-Recession Peak Enplanements Not Just for Large U.S. Airports Anymore

Link to Fitch Ratings' Report(s): Enplanements Grow Across All U.S. Hub Sizes (Pre-Recession Enplanement Levels No Longer for Large Hubs Only)

Fitch Ratings-Austin-16 September 2019: Enplanement levels for U.S. airports are now at their highest in over a decade, though the improvement is more striking for smaller hubs that had tougher hills to climb following the recession according to Fitch Ratings in a new report. Still unknown however, is if this improvement is sustainable for smaller airports in the longer term.

Enplanement levels are up after another record-breaking year in 2018 with enplanements reaching one billion, up nearly 5% from 965 million in 2017. While large airports were able to more easily shrug off recessionary headwinds, small and medium hub airports across the U.S. generally exhibited higher volatility during the 2008-2009 downturn and took longer to recover to pre-recession levels. Nearly all small and medium hub airports are now growing beyond pre-recession levels with only a few outlier smaller airports that are not yet realizing a full recovery.

Growth at some small and medium hubs has accelerated in recent years thanks in large part to new air services introduced by ultra-low cost carriers such as Spirit, Frontier and Allegiant Air. That said, 'sustainability of operations for these ultra-low cost carriers is more uncertain than for legacy carriers and is potentially more dependent on yield and route profitability,' said Jeffrey Lack, Director at Fitch Ratings.

Deciding to add service to a new or underserved market may not translate into permanent gains for some of these ultra-low-cost carriers. This is true even in markets with proven demand. 'Small airports will need to plan very cautiously once airport incentives are eliminated, though the smaller market share for these ultra-low-cost carriers nationwide limits this risk for airports,' said Lack.

'Enplanement Growth Across All U.S. Hub Sizes' is available at 'www.fitchratings.com' or by clicking on the link.

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Fitch Rtgs: U.S. Fiscal Weakening Could Hit Public Finance, Financial Credits

Link to Fitch Ratings' Report(s): The Coming Storm: Effects of U.S. Fiscal Deterioration on Key Sectors

Fitch Ratings-New York-18 September 2019: Low borrowing costs have helped to temper political concerns over rising federal budget deficits and debt in recent years. However, Fitch Ratings believes that public finances could emerge as a greater issue for U.S. policymakers in the event that borrowing costs rise or if the deficit increases sharply during a future downturn. In that scenario, elected officials could feel pressure to cut spending, which could pose a challenge to segments of the U.S. economy that rely on federal outlays. This in turn could broadly influence credit quality in a number of sectors, including U.S. public finance, financial institutions, and industrials.

Long-term U.S. federal debt projections have increased in recent years, despite the economy benefiting from a record long economic expansion. U.S. general government debt is already the highest among 'AAA'-rated sovereigns, and Fitch's debt sustainability analysis indicates that it could exceed 120% of GDP by 2028. This estimate is based on gradual increases in borrowing costs, widening primary deficits, and average growth just below the U.S.'s 2% potential growth rate. Federal spending will be challenged by these worsening fiscal dynamics.

Transfers to states and local governments represented 18% of total federal expenditures in 2018. These transfers stand out as being among the largest potential casualties of reduced federal spending and uncertainty related to federal policy decisions remains a key risk for state credit profiles.

Healthcare – primarily for the Medicaid program – comprises the largest portion of federal transfers to state and local government. It also is a major factor contributing to the variation in states' dependence on federal transfers as a source of revenue. Even though Medicaid is a mandatory congressional appropriation, meaningful changes to its funding structure cannot be ruled out over the long term, which could reduce overall federal Medicaid funding and raise fiscal burdens on states that choose to offset federal declines.

State operating budgets are structured to fund services provided by lower levels of government rather than the state government offering those services directly. This acts as a key source of financial flexibility for states but also a key risk for local governments and related public enterprises. Higher education has typically been targeted by states experiencing fiscal challenges, as cuts to state support for public universities through the Great Recession and its aftermath underscore. School districts also stand out in this area, given their high reliance on state funding, which usually accounts for more than 50% of total state-to-local transfers.

The effect of longer term federal deficit reduction on state and local government ratings would depend on the extent of the cuts, the types of functions targeted and the flexibility Fitch expects specific governments to have to counteract federal action. To maintain ratings, state and local governments would need to demonstrate their ability to manage through a federal deficit reduction in a manner that retains an appropriate level of financial flexibility.

Federal budget decisions are expected to be less of a direct risk for government-sponsored enterprises, such as Fannie Mae and Freddie Mac and those belonging to the Federal Home Loan

Bank System and the Farm Credit System. Federal loan programs channelled via private-sector U.S. financial institutions would be at risk to the extent that a downturn increases net subsidy costs to the government. While income from this activity is negligible for large and diversified lenders, it may be more significant for smaller institutions.

For analysis of how U.S. federal fiscal deterioration could affect credits across a range of sectors in U.S. public finance, financial institutions and corporates, see Fitch Ratings' report: "The Coming Storm: Effects of U.S. Fiscal Deterioration on Key Sectors".

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Pensions, Recession Pose Risks to State and Local Governments.

Tom Kozlik, municipal strategy and credit head at Hilltop Securities, discusses pension funding liabilities for state and local governments and how a recession could impact state governments. He speaks with Bloomberg's Taylor Riggs on this week's "Muni Moment" on "Bloomberg Markets."

Watch video.

Bloomberg Markets Muni MomentTV Shows

September 18th, 2019, 10:54 AM PDT

First ‘High-Tech Census’ Raises Stakes for Local Government.

Much of the discussion about the 2020 U.S. Census has been dominated by President Trump’s push to add a citizenship question, as well as critics who say he’s doing so to undermine the count. But officials across the country are also grappling with conducting a Census in a country and world that have drastically changed in the past decade due to an acceleration of technology and new online threats.

Basically, when the 2020 U.S. Census arrives next spring, it will be seeking to accurately count a vastly different country than the one it surveyed 10 years ago.

The reference day used for the Census will again be April 1, as it has been since 1930, and the geographic space the Census covers will be the same. So too will the people, for the most part. What has changed since the federal government took its last sweeping decennial count of the population, however, is the way society engages with, shares, uses and values information.

The United States has counted its citizenry every 10 years since 1790, collecting data that includes age, gender, ethnicity and address, among other fields. Once the count is finished, the information is used by the federal government to plan how to best serve residents in a number of ways, including funding for health care, education, transportation, employment services and more. It is also used to help determine where to build vital infrastructure such as schools, roads and hospitals. Then there’s political representation: Census data helps determine how many congressional seats certain areas get to represent them at the state and federal levels.

Funding and political representation have been at the forefront of recent conversations about why the Census matters. But what is perhaps less talked about is how the modern value of data — and the way local and state governments use it in tech and innovation offices — has made getting an accurate count all the more important.

Unlike 10 years ago, we now live in a world in which more local governments are using data to guide their decisions. Some of the actual data in that equation is often derived from the Census, increasing the stakes for communities this time around.

At the same time, the public’s relationship with willingly surrendering data has become fraught. Hacks and data breaches are common, and the national climate is one in which many people are more reticent to share the exact information the Census seeks. At the same time, experts say bad actors online may be using the Census as a point of attack, warning about everything from foreign powers launching misinformation campaigns to petty criminals setting up fake websites to steal personal information for financial gain. Meanwhile, younger generations like millennials are all but unreachable via traditional methods of correspondence like phone, mail or door-to-door visits.

What this all adds up to is a far more complicated — and more high-stakes — environment for the U.S. Census Bureau to work within. But there are ways that local, county and state governments can assist. They are, after all, far more knowledgeable about the people being counted in their communities than their federal counterparts.

What it comes down to, experts say, is understanding how the count will be taken, why it matters and what needs to be done to reach people and ensure they will be counted.

THE ‘FIRST HIGH-TECH CENSUS’

When it comes to understanding how the count is taken, it is perhaps most important for local and state governments to realize there has been a major change for 2020: For the first time ever, residents can fill out the Census online. For whatever reason, however, this has been misconstrued by some to mean that all citizens will be required to do this, and that the old methods — mail, phone and in-person visits — have been abandoned. Terri Ann Lowenthal is a nationally recognized Census expert who was the staff director of the U.S. House of Representatives Census oversight subcommittee from 1987 to 1994. She also covered the Census Bureau for the 2008 Obama Presidential Transition Team. This year, she is advising many state and city Census support efforts.

Within that work, Lowenthal has identified frequent misgivings over the idea that this will be the nation’s first fully digital Census, misgivings that she says are perhaps unfounded, owing to vague terminology.

“I think the term ‘digital Census’ suggests to many people that the response part of the Census will be done only online,” Lowenthal said, “and that in fact has created a lot of worry at the community and local government level. The Census Bureau itself never used the term ‘digital Census.’”

Lowenthal instead uses the phrase “first high-tech Census,” meaning that Internet response is now an option for filling out the survey, but it is by no means the only way to respond. As a result, concerns at the local level that the Census will leave behind residents without access to the Internet are unfounded. Misunderstanding aside, Lowenthal says there are advantages to this high-tech Census.

“No one argues with the need to modernize the Census,” Lowenthal said. “I find it ironic that people could buy Girl Scout cookies online before they could respond to the nation’s decennial Census online. Technology makes the Census more cost effective. Responding online is the least expensive way to gather data, and the Census Bureau is using technology not only to collect data, but also to prepare for the Census. … It has to know where every housing unit is, because the Census doesn’t just count people — it has to put them in the right location.”

Things like satellite imaging, construction permit databases for residential housing and other new data sets that have been collected or digitized in the past decade all stand to make the Census Bureau’s work easier by giving them a better idea of where people live. The Census also has new access to administrative records that can help them count people who don’t respond, although that is far from ideal. That all is the upshot of technology.

Conversely, having an online option to answer the Census creates potential for phishing attacks in which criminals trick the public into surrendering personal info. It also opens the country up as a whole to disinformation campaigns from foreign actors seeking to disrupt our political processes by fouling up the count.

“There is significant concern among local officials — and understandably so — that social media will be a conduit for rapidly spreading false information about the Census,” Lowenthal said. “For example, in relation to who should respond and how Census data can and cannot be used.”

Local governments can help the Census Bureau here by drowning out falsities with accurate information, and by designing messaging campaigns with their own communities in mind that will effectively tell people the things they must know to stay safe and get counted correctly.

WHY THE COUNT MATTERS

The other focus of local governments when it comes to messaging, experts say, should be making sure their communities know why it is so important to get accurate Census data.

The idea that the Census is important because it influences funding and representation is perhaps an over-simplification. Andrew Reamer is a research professor at the George Washington Public Policy Institute at The George Washington University in Washington, D.C. He is a nationally recognized expert in what Census data is used for, and specifically how it affects funding.

Reamer said that it is very rare for the Census data itself to directly influence exact dollar amounts for funding. What happens is that for the next 10 years, other data sets that are derived from the Census actually dictate these things. This also has the potential to vary by state, with some states' federal funding allocation written into state law based on Census-derived data. What also might be unknown to most folks — both in government and within communities — is that Census-derived data influences private-sector decisions.

"Businesses use data derived from the Census to find out where to locate operations," Reamer said. "Target and Starbucks never locate a new operation without looking at the Census data. They have to understand how many people live in an area, what are their characteristics, how much money they have. If you're Target, you don't have cookie-cutter stores. Data will affect what you have inside, how you market, and how you advertise."

For some, it might be enough to learn that if they don't fill out their Census, the state highway authority might not have enough federal funding to repair roads. For others, however, it might ultimately be more effective to stress that not responding to the Census could determine whether or not they have a Starbucks at the end of their block that they can walk to.

This all comes back to the idea that state and local governments know how best to reach the people in their areas, or, failing that, know how to recruit volunteers and staff who can. In fact, across the country, many state and local government leaders are doing their best to support the federal Census Bureau by acting as conveners, and by working with nonprofits and other groups who know the people even better than they do.

SUPPORTING THE COUNT

San Jose, Calif., Mayor Sam Liccardo understands what's at stake for his city with the Census, estimating that for every person missed, his community could lose roughly $2,000.

As a leader of a city that consists of 40 percent residents born in another country, he also understands the challenges of crafting messaging for specific communities. This has been a focus of the city hall's work there to support the count, as has working with groups outside of government.

"We're doing some customary things and some unorthodox things," Liccardo said. "I think cities throughout the country are finding ways to message in multiple languages, to find trusted third parties such as churches and nonprofit organizations that can communicate the importance of the Census in their communities, and engaging many partners to ensure that we're all working together."

Some of the unique things that San Jose has been doing include working with partners to create a texting app that can help locate residences that aren't on the map. This is technology that helps partners like nonprofits and faith-based organizations take to the streets and identify signs of unorthodox housing situations, such as families living in garages, accessory dwelling units or other makeshift homes within a community affected by the soaring cost of living in Silicon Valley. With the

texting app, San Jose has been able to geolocate these units on the map. They can then use that data in the future to better organize Census support efforts.

Part of the city's work with community groups includes clearly communicating that data being gathered for the Census won't be used for other governmental purposes. "We have a lot of distrust to overcome as a result of the actions in Washington," Liccardo said.

San Jose is also leveraging unique partnerships with tech businesses in the area, including a particularly interesting one with Niantic, the company that makes the popular augmented reality game, Pokemon Go. In the past, Niantic has hosted events within Pokemon Go that require players going to a special area in the city to find rare Pokemon, areas that just so happen to be where they can also register to vote. That effort was a success in San Jose, and Liccardo says something similar may be helpful to spark engagement again for the Census, especially with the often-elusive millennial generation.

"Nobody ever thought Pikachu would be a partner of local government," the mayor said, "but we go where the people are."

San Jose is just one example, but it speaks to the idea that local government and the groups it works with are well-suited to help the Census by leveraging their intimate knowledge of communities to get the word out, emphasizing why this is important while helping to drown out misinformation campaigns. While the modern era is an increasingly complex one for a federal agency tasked with accurate data collection, there are also new cost-efficient tools that can be leveraged to help. The more that local governments embrace and understand that now, well in advance of the actual count, the better off their communities will be not just on April 1, but in the following decade that depends on Census data.

GOVERNING.COM

by Sarah Anderson

SEPTEMBER 17, 2019 AT 3:01 AM

S&P Credit FAQ: How To Say Goodbye To LIBOR Without Creating Market Chaos

Just like the nail-biting countdowns of yore (Y2K anyone?) there is a new date to be skittish about: Dec. 31, 2021. After that date, the London Inter Bank Offered Rate (LIBOR)–one of the more popular reference rates to calculate interest payments on a host of financial instruments–will likely disappear. The clock is ticking, and with roughly $400 trillion of financial contracts using LIBOR (cumulative of all major currencies) currently outstanding, the stakes associated with this transition are high.

Working groups across regions have formed, and although many countries have already determined the planned replacement for their local interbank offering rate (IBOR), a slew of issues remain.

We believe institutions we rate will need to prepare their transition for the end of LIBOR over the next year and a half. In the Q&A below, S&P Global Ratings explains the dynamics of replacing LIBOR, including the operational and credit issues that may arise during the transition.

Continue reading.

S&P Fifteen Largest U.S. City Pensions See Modest Gains In 2018, But Recession Risk And Rising OPEB Cost Challenges Persist

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Since the Great Recession, municipal defined-benefit pension plans have taken center stage as one of the key sources of long-term credit risk in what has historically been a remarkably stable, low-risk asset class. The 2008 financial crisis and subsequent economic downturn led to steep declines in asset values for U.S. municipal pension funds, followed by a period of inconsistent and often below-target investment performance. S&P Global Ratings believes that these issues have frequently been exacerbated by underfunding, where many municipalities continue to contribute less than actuarially recommended rates to their pension funds and where states have often failed to update statutory formulas in a timely manner to better align with actuarial recommendations. As funding levels have consequently been pressured, so too has the post-recession economic recovery been among the weakest in history, creating more acute budgetary pressure directly related to pension and other postemployment benefits (OPEBs) for many local governments, while focusing market attention ever more sharply on the risks that postretirement obligations pose for local government budgets and credit quality.

In this year's annual survey of the 15 largest American cities, S&P Global Ratings continues to see a picture that is decidedly mixed in terms of where the largest cities stand with respect to their pension and OPEB liabilities. Primary fixed costs—covering pensions and OPEB as well as debt service payments—are generally high and in many cases poised to rise considerably in the coming years due to poor pension funding levels, actuarial assumptions and methods that defer meaningful funding progress into the future, and movement toward the adoption of more conservative actuarial assumptions that revise funding levels downward and require higher employer contributions. We expect that cities with poorly funded pension plans will continue to struggle with cost pressures, as rising pension payments compete for the dollars needed to fund priority services and infrastructure investment. On the other hand, we continue to observe many cities that are proactively addressing their pension and OPEB liabilities through meaningful reforms that, though often more costly in the short term, will better position them in the long run to meet their obligations without impairing their fiscal health.

This year, we take stock of some of the key trends we have traditionally focused on in our survey of the largest U.S. cities' pensions—cost trends and affordability, funding levels, and ongoing pension reform efforts—while highlighting some new themes that we think deserve emphasis, including what we expect will be greater focus on OPEB obligations; the potential effects of a recession on funding

levels and costs; and the quantitative measurement of funding progress, enabling a more precise pinpointing of funding shortfalls and the risk of cost acceleration.

Continue reading.

Oklahoma Pension Fund Cyber Attack Shows Rising Risk for Munis.

- **Hackers stole $4.2M from law enforcement retirement system**
- **Cybersecurity readiness can affect credit ratings, S&P says**

Oklahoma has joined the ranks of state and local governments struck by hackers, fueling concerns about the escalating risk of such attacks on municipalities.

The Federal Bureau of Investigation is probing the cyber theft of $4.2 million from the Oklahoma Law Enforcement Retirement System, the pension fund for highway troopers, state agents, park rangers and other officers. The fund has recovered some of the money and told retirees benefits would remain intact. But the hack illustrates the state's vulnerability to bigger attacks that could carry far larger financial risks.

"Your ability to pay debt is based on trust, if the trust isn't there, it's going to be hard for everyone," said Geoffrey Buswick, an analyst for S&P Global Ratings, who has written about the risk these attacks pose for public entities. "If you have your head in the sand when it comes to cybersecurity, we're going to look at that for our rating."

The Oklahoma hack is the latest in a series of cyber breaches that show how exposed municipalities across the country are to online crime, a risk factor that rating companies are paying closer attention to as these incidents become more common. So far in 2019, municipalities have reported 73 ransomware attacks, up from 54 in 2018, according to data collected by a researcher at Recorded Future, a cybersecurity company.

Public pensions are already under stress from an uncertain investing environment and, in many cases, the growth of unfunded liabilities. State and local government retirement plans have between $1.6 trillion and $4 trillion less than what they need to cover all benefits that have been promised, depending on the interest rate used to value liabilities.

Money is constantly moving in local governments' servers to pay vendors, contractors or employees among other recurring transactions, making them a lucrative target for hackers.

In May, Baltimore residents faced disrupted services after hackers penetrated the city's systems in the second such cyberattack in less than two years. Moody's Investors Service called the incident "credit negative," citing "significant out-of-pocket expenses" expected after such a breach. Even so, Moody's didn't expect the city's financial position to be materially affected.

Greenville, North Carolina suffered a cyber attack in April, and hackers hit Atlanta in March 2018, costing the city an estimated $17 million to fix, which was about 2.6% of its budget, according to Boston-based Breckinridge Capital Advisors.

The Oklahoma pension fund, which has almost 1,500 retirees, was attacked after an employee's email account was hacked, according to the Oklahoman newspaper. Duane Michael, the fund's executive director, told the newspaper that the money was illegally diverted.

Michael told the Oklahoman that his employees are getting training to prevent another breach. Jake Lowrey, a spokesman for the Oklahoma state agency that manages the hacked email account, declined to comment.

While the hackers took a small fraction of the Oklahoma pension's $1 billion in total assets, the theft still leaves a negative impression, according to S&P's Buswick. There's no clear-cut solution to avoid hacks, he said. Instead, it's a matter of governments identifying their weak spots, planning a reaction and determining a process for recovery.

S&P hasn't downgraded an entity based solely on cybersecurity concerns yet, Buswick said. But in April, the agency lowered its outlook to negative on Princeton Community Hospital in West Virginia after the impact of a 2017 cyberattack was reflected in its unrestricted reserves.

Moody's rates Oklahoma Aa2, or the third-highest level of investment grade, and S&P has an equivalent AA on the state. The $4.2 million loss from last month's hack isn't likely to drive a credit decision for such a large borrower, Buswick said.

Still bondholders are paying attention. While the cyber risks are hard to assess in a "meaningful" manner, they're part of investment analysis, said Matthew Stephan, the senior analyst for municipal market research at Columbia Management LLC. Protocols for these scenarios aren't always outlined for investors or written about in analysts' reports, he said.

"We kind of treat it like a low probability event -- like a 500-year weather event," he said, noting that the incidents don't typically affect the long-term price of bonds.

Other firms, like Breckinridge, include cybersecurity as part of its environmental, social and governance analysis.

"The market has become aware, investors have become aware, the media has become aware of cybersecurity issues," said Andrew Teras, a senior analyst for Breckinridge. "It's just one element of many that we're looking at but that's true of anything. We think it's very material — we consider it, and we know is a risk."

Bloomberg Cybersecurity

By Maria Elena Vizcaino

September 13, 2019, 6:36 AM PDT

How Louisiana Responded to Its Recent Ransomware Attacks.

Through quick response and an existing cyberthreat response system, the state managed to stave off what could have been a much more disastrous attack that would have affected twice as many communities.

In July, after a large-scale ransomware attack struck school districts throughout Louisiana, Governor John Bel Edwards issued a first-ever statewide emergency declaration related to a cyberincident.

The attack — which state CIO Dickie Howze describes as a "single, coordinated" one — infected five separate districts and could have brought down more than half a dozen others were it not for

officials' quick response.

That response, largely coordinated by the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP), was something of a first for Louisiana and included the deployment of emergency personnel and resources, as well as coordination with other state, federal and private-sector professionals.

Chief among the constellation of partners making up GOHSEP was the state's IT department, the Office of Technology Services (OTS), which worked alongside other state partners like the National Guard and State Police to pursue solutions during the crisis.

Now, several months after the attacks, the state is still recovering. Speaking with Government Technology, Howze reflected on this tactical outing, revealing that Louisiana's response efforts prevented even more widespread damage that could have taken place.

"A total of 12 districts were targeted," said Howze. "We were successful in preventing encryption — in other words, we found — ransomware in existence in seven other districts. And by following [our] procedure we were able to unplug and clean, therefore preventing those districts from becoming encrypted."

After an initial forensic analysis by the Louisiana State Police fusion center determined that the attacks were, indeed, ransomware, Edwards' emergency declaration specifically authorized OTS and other state agencies and groups to respond and send resources to affected communities, Howze said.

Containment — the act of identifying, isolating and circumventing the downstream spread of malware — is a critical task in cyberevents, experts say. Thus, after the initial confirmation of infection, a critical maneuver for OTS was the development of a containment task list directed at potentially affected systems. This six-phase plan, created in a little more than 24 hours by the state's CISO Dustin Glover, starts with a simple directive: "Unplug your computer," Howze said.

"The way ransomware works, they infiltrate and they don't encrypt until they have crawled the network to gain access to as many devices as they can gain access to and then they flip the switch and encrypt," Howze said. "So we felt it was in the state's best interest to put this out there and say, 'Hey, immediately do the following, and check yourself out.'"

At the same time that the containment list was being developed, OTS was helping channel people and resources towards the affected communities, while coordinating with partners like the Louisiana National Guard, the FBI, and private-sector helpers like Microsoft. The Guard supplied many of the resources that OTS was authorized to use, while public- and private-sector officials alike helped inspect and analyze affected systems, Howze said.

In large part, such a coordinated response would not have been possible were it not for the prioritization of cybersecurity by the Edwards administration.

Two years ago, Edwards formed the Cybersecurity Commission — a public-private partnership made up of cyberprofessionals dedicated to developing and advancing a statewide defensive posture. The commission, which brings together a wide assortment of academic, professional and government figures, works together with OTS and other state partners in the event of a cyberattack.

At the same time, Edwards also created emergency support function 17 — meant to be deployed in the event of a critical cyberincident — which activates OST and other partners as part of GOHSEP.

So while July's attack was large in scale, the response by state authorities may have helped make it a smaller event than it could have been. A recent report by Moody's Investor Service used the incident as a case study for how statewide emergency declarations are strategic ways to cut down on fallout.

Looking towards the future, the governor has asked Howze and others to survey communities throughout Louisiana in an attempt to identify potential vulnerabilities and work towards improving the state's overall defensive posture. In today's threat environment there's a lot to look out for, Howze said.

"We continue to invest in our environment; we continue to diligently manage and monitor," Howze said. "We deal with millions of attempts a day … For lack of a better term, it's still a full-court press for us."

GOVTECH.COM

BY LUCAS ROPEK / SEPTEMBER 20, 2019

Should Cities Ever Pay Ransom to Hackers?

Some say paying hackers to release hijacked data encourages more attacks. Others say it can be the responsible thing to do.

Cities across the U.S. face a growing threat from ransomware, where cybercriminals infiltrate computer systems and hijack data, vowing to delete critical files unless they receive payment.

It is difficult to say exactly how many such attacks have taken place in recent years, as there is no centralized agency that tracks them and many go unreported. But research firm Recorded Future says it has tracked 71 ransomware attacks against state and local governments so far this year, compared with 54 in 2018. (The firm counts a recent coordinated attack in Texas affecting 22 municipalities as a single incident.)

Once hackers have control of a city's files, local leaders have a decision to make: Do they pay the bounty in the hopes of resolving the problem quickly, or forge ahead with the time and expense of a disaster-recovery effort?

The Federal Bureau of Investigation advises against paying hackers, saying it only encourages more attacks, and the U.S. Conference of Mayors in July adopted a resolution opposing ransom payments.

But some security professionals say there may be times when municipalities have few options other than to pay, especially if the systems taken hostage are critical to public health and safety and can't be restored quickly.

Craig Shue, an associate professor of computer science and cybersecurity at Worcester Polytechnic Institute in Worcester, Mass., says there are cases where paying a ransom is reasonable. Frank Cilluffo, director of Auburn University's McCrary Institute for Cyber and Critical Infrastructure Security, says it is always a bad idea.

YES: Sometimes, the benefits of paying a ransom outweigh the costs
By Craig Shue

Some cybersecurity experts oppose the payment of ransomware demands under any circumstance, saying it serves only to embolden hackers and spur more attacks. While those are credible concerns, there are clear cases where paying a ransom is the responsible, even morally ethical, thing for a local government to do.

When deciding what to do, municipal leaders need to look carefully at the costs and benefits and then take whatever action yields the greatest benefits to all. Under such a utilitarian analysis, to ethically pay a ransom, municipal leaders must be without any better options. Further, the benefits from the payment must meet or exceed the harm that paying a ransom incurs. Importantly, this analysis must include the harm to society, such as the risk that paying a ransom could fund more ransomware development or acts of terrorism.

Companies that have to send employees to potentially dangerous locations, where abduction is a real risk, often perform similar calculations. Sometimes those calculations lead them—or the individuals themselves—to purchase kidnap-and-ransom insurance, recognizing that in some circumstances the best option may be to pay a ransom to preserve human life.

So under what circumstances might paying a ransom be a rational decision for a city or municipality?

Local governments manage information that is vital to keeping people safe. Losing control of data related to water safety, fire risks, emergency medical services or law enforcement could have immediate and significant consequences. If a local government must make a small ransom payment to save a person’s life or many people’s lives, or to protect public health, one could argue the benefit may outweigh the cost.

Local governments also keep vital records such as birth certificates, property deeds and court documents that citizens may need to prove identity, ownership of property or even child custody. Given the great harm associated with the loss of this data, attempting to recover the records quickly though a ransom payment may be the most ethical thing for local leaders to do.

Then there is data that local governments need to continue operating. If a municipality’s financial records are encrypted in a ransomware attack, the government may not know what debt it owes or what funds it is entitled to collect. While trying to reconstruct these financial records from outside sources, the government may not be able to function. The cost of a ransom payment, in comparison, might seem small.

Unfortunately, hackers often set deadlines for ransoms to be paid, which may force leaders to make decisions with limited or imperfect knowledge. There also is the risk that paying the ransom won’t work—that is, the payment won’t result in the data being unlocked or it will lead to a demand for more money. But the alternative—simply banning ransomware payments outright—ignores the nuances of ransom decisions and eliminates flexibility for decision makers.

I agree with those who say that local governments should do everything in their power to be better prepared in case of an attack. For instance, some local governments have joined in a pledge to not pay ransomware demands. Such promises tell government employees that they must take appropriate precautions to ensure they can achieve their missions without ransomed data, through system backups or other disaster-recovery approaches. In effect, the city decides to treat the ransomware attack as equivalent to the attacker irrevocably deleting the data.

All local leaders should aspire to and achieve such a standard, as no-ransom pledges may discourage some attackers who specifically target local governments for payment. But the reality is that not all

cities and towns have the resources to secure their data fully or rebuild their servers if attacked. System backups are complicated, requiring information-technology experts, and some local governments don't have IT people on staff and can't afford to hire them.

It isn't illegal to pay ransom in most cases, but local leaders should report such demands to law enforcement. They also should be transparent with their citizens; however, it may be prudent to decrypt ransomed data before public disclosure to avoid price increases or other demands from the ransomer.

Every organization hopes to avoid being the recipient of a ransom demand. But rather than simply condemn ransom payments universally, we owe these leaders advice on how to make rational, ethical decisions.

NO: Paying a ransom will only encourage more hackers to attack in the future
By Frank Cilluffo

From the early days of our republic, history has shown that paying ransom is a bad idea.

Consider the case of the Barbary pirates, when countries would make payments known as "tributes" to guarantee safe passage for ships through the Mediterranean. The practice gave rise to a vicious circle, wherein one payoff would simply spur another attack and demand, instead of securing passage. President Thomas Jefferson thus ended the payments after his inauguration in 1801, and set a precedent: Ransom wouldn't be paid because it encourages more attacks and strengthens criminal groups.

The same logic holds true for ransomware demands today and is why states and local governments shouldn't pay.

Already this year, dozens of local governments in the U.S. have fallen victim to ransomware, and the magnitude of the threat underscores why it must be eliminated altogether. This can only be done with a unified front across all sectors. While paying ransom is enticing as a quick fix, allowing institutions to forgo costs associated with system repair, it doesn't get at the root of the problem—and may exacerbate it if systems are left insecure and vulnerable to more hacking. Compounding the problem is that only one-quarter of all ransomware attacks are reported, which inhibits law enforcement from fully assessing and responding to the problem.

Not paying ransom is comparable to the strategy used in terrorist hostage situations. International commitments forbid governments from making payments to terrorists because it encourages more kidnappings and higher amounts in the long run. It also finances international terrorist organizations, thereby increasing terrorist threats everywhere. Similarly, evidence points to ransomware payments going to state sponsors of terrorism, like North Korea and Iran, which then plow earnings back into their operations to improve and refine malware.

Paying ransomware demands therefore directly sabotages U.S. national security by funding our adversaries to perpetrate more sophisticated attacks—a gift that keeps on giving.

Like terrorism, ransomware endangers lives by threatening systems that exist to protect us. But even in the toughest of cases, local governments have to stand firm. Otherwise, we provide cybercriminals with an incentive to keep doing what they are doing, with the result being that many more lives may be lost or placed in jeopardy. What's more, paying ransom doesn't guarantee the return of the captured data. In fact, only about half of those who fell victim to attacks in 2017 were able to recover their data after paying the demand. A Kansas hospital in 2016, for example, paid the

requested ransom—but then received an order for more money instead of the decryption key.

So, what can we do? Most important, local governments should focus on prevention and resilience. The best strategy for institutions is to act now to improve cybersecurity—before an attack occurs—thereby making the ransomware debate irrelevant. Establishing system backups and updating and patching software are both easier and cheaper than paying off criminals. In several notable cases, such as the attacks on San Francisco's MTA and the city of Sarasota, Fla., ransom payments weren't even considered because data and information systems were properly secured beforehand. This should be every organization's goal.

It is also important for cities and states to communicate with law enforcement, as officials can facilitate the adoption of measures to be used both before and (if necessary) after an attack. The FBI increasingly has succeeded at identifying ransomware actors and indicators, which enables officials to pinpoint vulnerabilities and help organizations deter hackers. But this can only happen if ransomware incidents are reported.

Establishing mechanisms through the Department of Homeland Security that provide aid and funding to local and state governments for cybersecurity and resiliency efforts would help support victims and alleviate the pressure to pay. Designating ransomware operators as transnational criminal organizations would provide officials with more tools and authority to prevent, deter and punish offenders.

While it's understandable for institutions to want to quickly regain access to data to maintain continuity of operations, it is essential to derail and deter the growing cycle of attacks through a unified front. This is a national emergency and we need to treat it like one.

Technology and the means to perpetrate crimes may change, but human nature remains consistent. From old crimes to new ones, the same thing holds true: Ransom and ransomware wouldn't exist if we didn't pay.

The Wall Street Journal

Sept. 17, 2019 10:02 pm ET

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Mr. Cilluffo is the director of Auburn University's McCrary Institute for Cyber and Critical Infrastructure Security. Email him at reports@wsj.com.

How Two Smaller Legacy Cities Are Adopting Green Infrastructure.

Climate change has raised temperatures and intensified flooding across New England. Providence and Worcester experiment with strategies to alleviate the worst effects.

As rain sheeted across the 150,000-square-foot roof of a transit facility in one of the most flood-prone neighborhoods in Worcester, Massachusetts, things looked ominous. But instead of posing a threat, that stormwater slithered into a jumble of purple coneflower, Joe Pye weed, Russian sage, and other flood- and drought-tolerant plants growing between the complex and nearby Quinsigamond Avenue.

The transit facility, built on a remediated brownfield, represents a $90-million investment for this small city. Green infrastructure elements like that rain-absorbing bioswale were considered a must, according to William Lehtola, chair of the Worcester Regional Transit Authority Advisory Board: “We want to provide the best possible environment for the city and our customers and employees,” he said. “Not just in our buses, but in our facilities too.”

As smaller legacy cities such as Worcester and nearby Providence, Rhode Island, continue the grueling work of rebounding from the severe economic and population losses suffered since their manufacturing heydays, the green approach is gaining traction. Despite challenges ranging from financial constraints to deteriorating infrastructure, many legacy cities have realized that investing in — and, in some cases, mandating — green infrastructure yields multiple benefits. Projects such as rain gardens, bioswales, urban farming, and tree planting, whether introduced on a small scale or implemented citywide, are an effective way to revitalize public spaces, manage stormwater, improve public health, and deal with the impacts of climate change, from increased heat to floods.

Continue reading.

NEXT CITY

by Cyrus Moulton

Sep 16, 2019

The City of Detroit Bankruptcy.

A crippling general obligation (GO) debt, the highest unemployment rate among major U.S. cities, increased crime rates, property abandonment issues and a constant population decline led the City of Detroit to file for Chapter 9 bankruptcy in 2013. As a matter of fact, Detroit became the largest city in the U.S. ever to file for protection under Chapter 9.

In this article, we will take a closer look at the causes that led the City to go bankrupt and how the problem may be widespread throughout the United States.

To learn more about the provisions under Chapter 9, click here.

Continue reading.

municipalbonds.com

by Jayden Sangha

Sep 18, 2019

Morgan Stanley Robot Learns by Reading Unreadable Muni Documents.

- **Morgan Stanley runs official statements through a new program**
- **Too few words show risks of a default for some sectors**

They're longer than classics like Henry David Thoreau's "Walden" and modern hits like J.K. Rowling's "Harry Potter and the Prisoner of Azkaban" but nowhere nearly as engaging.

Yet each week, American state and local governments crank out the doorstops by the dozens, creating a dismal stack of soporific homework for money managers studying whether or not to buy their bonds.

So Morgan Stanley, one of Wall Street's biggest investment banks, experimented with farming out the job of reading 120,000-word bond prospectuses to robots, seeing if the results could yield a sort of CliffsNotes that may separate the signal from the noise.

Strategists Michael Zezas and Mark Schmidt ran 150 official statements through a machine-learning program. They said it revealed some patterns that could help investors avoid credit-rating downgrades or defaults without reading through hundreds of pages of reports.

They focused on bonds issued by local agencies that are backed by riskier projects like continuing-care retirement centers, hospitals and speculative real estate developments. That's where doing close research is most important because local governments almost never default on their own bonds. Here's some lessons:

More words, better odds: Official statements for continuing-care retirement centers that didn't default averaged 20,194 words longer than those that did, they found. The tendency also held true for so-called dirt bonds sold for real estate projects.
Executive bios: Speculative developments tend to rely on the word "Mr." to highlight the management of the project, since the riskier deals need to play up their executives' skills as a key selling point.
Boring is better: Higher-quality debt tended to have more references to the financial statement than defaulted or downgraded debt. The more "boring" the documents, the better, the strategists said.

It was Morgan Stanley's first time using natural language processing on municipal-bond issuers' official statements, Zezas said in an email. The bank reported the results to clients to show how Morgan Stanley takes a quantitative approach to its research.

He said they used relatively new techniques and principles outlined by a Stanford University professor, who experimented with it as a way to sift through the huge amounts of information involved in modern political affairs.

Zezas said the bank plans to further test its conclusions. Their next step is to gather more official statements, get more data and solicit feedback from clients. The bank said the findings could help analysts when they are asked to provide a quick take on a new bond deal, not serve as their computerized replacements.

"We don't recommend cursory credit analysis," Zezas and Schmidt said in their report to clients. "However, sometimes a simple rule-of-thumb can help."

Bloomberg Markets

By Amanda Albright

September 16, 2019, 6:07 AM PDT

— With assistance by Jeremy R Cooke

Corporate and Municipal CUSIP Request Volume Bounces Back in August.

NEW YORK, NY, September 12, 2019 – CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for August 2019. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found increases in CUSIP request volume across most major asset classes in August.

Read Report.

Falling Yields Unleash Flood of Muni 'Century Bonds'

Universities, state and local governments rush to lock in ultralow rates for decades

U.S. state and local governments, along with universities, are joining companies in a dash to issue debt and lock in low rates, sometimes for up to 100 years.

Rutgers University funded various capital projects by selling roughly $300 million in debt this week that doesn't mature for a century. The New Jersey-based school adds to a list that includes the University of Virginia and University of Pennsylvania, which have also sold so-called century bonds in recent weeks.

"The market presented UVA with a historic opportunity," said Jennifer Wagner Davis, the school's executive vice president and chief operating officer.

Continue reading.

The Wall Street Journal

By Gunjan Banerji

Sept. 13, 2019 5:30 am ET

When Wall Street Flips Municipal Bonds, Towns and Schools Pay the Price.

A Journal analysis of trading data suggests new bonds often are underpriced, which means taxpayers will pay more in interest

When the West Contra Costa Unified School District in California needed money to repair and upgrade deteriorating classrooms, it hired Piper Jaffray Cos. to sell $191 million of municipal bonds.

As far as school officials knew, the March 2016 sale went off flawlessly, enabling the district to refinance older debt and tackle tasks such as removing asbestos and upgrading science labs.

However, within a day of the initial sale, the original buyers sold, or "flipped," $35 million of the district's bonds for a profit of $306,000, a Wall Street Journal analysis of trading in the bonds found.

Continue reading.

The Wall Street Journal

By Tom McGinty and Heather Gillers

Sept. 12, 2019 11:41 am ET

Moody's: Cyberattacks Could Cause Significant Financial Disruption for Hospitals.

Cyberattacks pose a greater fiscal and credit risk to nonprofit hospitals than any other sector of municipal finance due to the increasingly interconnected nature of hospital operations and information technology.

Hospitals with strong risk management strategies will be better positioned to respond to these operational and financial disruptions, according to a report from Moody's Investors Service.

Small hospitals face the biggest risk, because many lack the necessary cybersecurity resources and will be less able to absorb any financial impact, according to report authors Jennifer Barr, a Moody's analyst, and Lisa Goldstein, Moody's associate managing director.

According to the assessment, the not-for-profit hospital sector's overall cyberrisk is high. Other sectors that have high overall cyberrisk are banks, securities firms and market infrastructure providers because they also rely heavily on technology for their operations.

Data breaches have become a reality for healthcare organizations due to the value of protected health information. In the most critical cases, these data breaches endanger revenue, posing a material risk to financial performance.

To date, Moody's-rated hospitals, representing $250 billion in rated debt, have had sufficient financial resources to absorb the impact of a cyberattack. So far, those impacts have been limited to paying fines when patient data are compromised, with minimal disruptions to operations.

But that could change as cyberthreats evolve and become more sophisticated. Security incidents that result in operational disruptions, like ransomware, present the greatest risk to hospitals, and those disruptive attacks are on the rise, according to Moody's.

Such attacks compromise patient care and expose hospitals to financial losses and lawsuits. Connected medical devices such as insulin pumps, defibrillators and cardiac monitors as well as hospitals' electronic medical record (EMR) systems are points of potential infiltration. Efforts to improve interoperability between organizations, devices and vendors will likely increase this risk, Moody's said.

As the industry continues to push toward digitalization and increased data sharing, the number of infiltration points for cyberattacks will grow.

"Among the biggest risks are attacks against connected medical devices such as insulin pumps, defibrillators and cardiac monitors, which are now entrenched in remote monitoring and require constant updating and patching," the report authors wrote. "The biggest issue for hospitals will be threats that jeopardize patient safety and result in harm or death, exposing hospitals to malpractice accusations and lawsuits."

Ransomware and cyberattacks that compromise hospital electronic health record systems will cause the greatest disruption, affecting hospitals' revenue cycles and disrupting cash flow in the most severe cases, according to the report.

The 2016 ransomware attack at Hollywood Presbyterian Medical Center in Los Angeles had its EMR compromised for several days, resulting in the hospital paying a $17,000 Bitcoin ransom to release the network. The 2017 WannaCry cyberattack on U.K. hospitals resulted in a major IT disruption, causing diversions and delays or cancellations in patient care.

As a result of these threats, hospital management will feel pressured to allocate more resources to protect data and limit system vulnerabilities. Currently, less than 6% of an organization's IT budget is allocated to cybersecurity, according to the Healthcare Information and Management Systems Society. As cyberrisk becomes increasingly important, hospitals will likely increase their investments to shore up cybersecurity programs.

Hospital management teams are developing contingency plans and employing dedicated cybersecurity staff to address threats. Risk management measures include contingency planning, disaster response and obtaining cyberinsurance.

The capacity to take these steps, however, will vary across the hospital sector.

"Small hospitals, particularly critical access hospitals, that lack the resources for a dedicated cybersecurity expert will be more vulnerable. A lack of qualified talent will also remain an industry challenge and require additional investment, leaving less room for investment in other operational areas," the report authors said.

While risk management strategies will help mitigate operational and financial disruptions, malpractice and other legal issues will still be a risk when there is patient harm, Moody's said.

Hospitals remain vulnerable given the overall complexity of their systems and of healthcare delivery as well as the increasing number of attacks.

Fierce Healthcare

by Heather Landi | Sep 12, 2019 3:47pm

Making Sense of Municipal Budgets.

When it comes time to begin the development of your jurisdiction's annual budget, which song immediately pops into your head: "It's the Most Wonderful Time of the Year" or "Don't Cry Out Loud"?

We suspect that the answer to this question will be the same whether asked of staff or elected officials.

For most, the budget process is viewed as an accounting exercise that involves a multitude of spreadsheets, request forms and formulas all leading to a "balanced budget". Oftentimes, the process seems to be cloaked in mystery because no one is quite sure what happens between the time budget requests are submitted and the point at which a draft budget is presented for review. From our experience as a Finance Director and an Elected Official, it felt like a laborious effort that

detracted from our actual job responsibilities andwasted a lot of time and paper. The end result is a final Approved Budget document that is full of numbers and graphs, which often falls short of clearly communicating how resources are being allocated to achieve the goals of the organization and meet the needs of community.

Continue reading.

By NLC Guest Writer on September 11, 2019

How The Wall Street Journal Analyzed Trading and Profit in the Municipal-Bond Market.

The Journal looked at municipal-bond trades from April 2013 through December 2017

To analyze trading in newly issued municipal bonds, the Journal obtained the following data sets:

Trading data from the Municipal Securities Rulemaking Board
This data set includes all municipal-bond trades from April 2013 through December 2017. There were about 28.5 million trades during the period of the analysis.

Each trade record includes:

• The bond's Cusip (Committee on Uniform Security Identification Procedures), a nine-character alphanumeric code used to identify securities including stocks and bonds.

• A description of the bond that typically includes the name of the issuer

• The interest rate paid on the bond, known as the coupon.

• The maturity date, which is the date on which the issuer will repay the face value of the bond to holders.

• The type of trade, denoted by one of three letters. (S = Sale to a customer by a dealer. D = Trade between two dealers. P = Purchase from a customer by a dealer.)

• The face value, also known as par value, of the traded bond.

• The price of the trade.

• The yield to maturity, or annual interest earnings, that the bond buyer would receive, expressed as a percentage and calculated based on the price of the trade and the interest rate and maturity date of the bond.

Continue reading.

The Wall Street Journal

By Tom McGinty

Sept. 12, 2019 11:30 am ET

U.S. Public Power Rating Criteria Update (The First 150 Days)

Read the Report.

The Muni-Bond Market's Best Days May Be Over for Rest of 2019.

- **Supply boost, low interest rates weigh on market: Barclays**
- **'Who wants to be aggressive at current rates?' analyst says**

The best days for the municipal-bond market in 2019 are probably behind it.

A surprise boost in state and local government debt sales this month, low interest rates and investors' desire to lock in the market's biggest returns since 2014 suggest that tax-exempt bonds may lag Treasuries for the remainder of the year, according to Barclays Plc strategists led by Mikhail Foux.

With interest rates not far from a more than half century low, states and cities are seizing on the moment to borrow, creating headwinds for a market that had benefited from a slowdown in new debt sales since late 2017. States and local governments have sold $19 billion of fixed-rated bonds so far this month and plan to issue another $17 billion over the next 30 days, according to data compiled by Bloomberg.

Continue reading.

Bloomberg Markets

By Martin Z Braun

September 10, 2019, 10:32 AM PDT

Oklahoma Pension Fund Cyber Attack Shows Rising Risk for Munis.

- **Hackers stole $4.2M from law enforcement retirement system**
- **Cybersecurity readiness can affect credit ratings, S&P says**

Oklahoma has joined the ranks of state and local governments struck by hackers, fueling concerns about the escalating risk of such attacks on municipalities.

The Federal Bureau of Investigation is probing the cyber theft of $4.2 million from the Oklahoma Law Enforcement Retirement System, the pension fund for highway troopers, state agents, park rangers and other officers. The fund has recovered some of the money and told retirees benefits would remain intact. But the hack illustrates the state's vulnerability to bigger attacks that could carry far larger financial risks.

"Your ability to pay debt is based on trust, if the trust isn't there, it's going to be hard for everyone," said Geoffrey Buswick, an analyst for S&P Global Ratings, who has written about the risk these attacks pose for public entities. "If you have your head in the sand when it comes to cybersecurity,

we're going to look at that for our rating."

Continue reading.

Bloomberg Cybersecurity

By Maria Elena Vizcaino

September 13, 2019, 6:36 AM PDT

Study Points to Past Pay-to-Play in Public Pensions.

The behavior was effectively curbed by the SEC's 2010 rule banning quid pro quo transactions, according to academic research.

At least up until 2010, state political donations by asset management executives appear to have been rewarded with public pension mandates, according to a new paper from researchers at the University of San Diego and University of Arizona.

Donations to a state government official or political action committee were linked to higher levels of government pension fund business in a study of about 22,000 investment advisory firms registered with the U.S. Securities and Exchange Commission between 2001 and 2016. A donor's client base had half a percentage point more government accounts — a number equating to about 390 moremandates for the average firm, according to authors William Beggs, a finance professor at the University of San Diego, and Thuong Harvison, a PhD candidate at the University of Arizona.

"Political donations yield a materially large number of government clients on an absolute number of accounts basis," they wrote. "Since public pension plan allocations tend to be large with regard to asset levels… this suggests that political donations may have a large economic impact on an advisor's fee revenues."

The authors suggested that asset management executives made campaign contributions to "politicians who will gain the authority to appoint trustees to public pension plans in order to win business managing plan assets." These pension trustees typically have final approval over the selection and termination of plan service providers, including asset managers.

According to the paper, the link between donations and pension mandates was most pronounced for firms offering pension consulting services, managers catering to institutional clients, and firms headquartered in states with "a high concentration of public pension plans and a culture of political corruption."

The relationship between political donations and public pension mandates was observed up until 2010, when the SEC adopted a new antifraud rule making it illegal for investment advisors to receive business from government entities within two years after making a related political contribution. The rule went into effect on March 14, 2011, effectively banning pay-to-play practices.

"We find the prevalence of pay-to-play activities declines after the adoption of SEC's rule," the authors wrote. They also observed "a sharp drop" in political contributions made by managers with a significant share of government clients following the rule's enactment.

"The SEC's rule on pay-to-play activities for investment advisors appears to have been successful in curbing the prevalence of this type of quid pro quo activity in the investment management industry," they concluded.

Institutional Investor

by Amy Whyte

September 13, 2019

Fly High With Tax-Free Airport Revenue Bonds.

Summary

- Revenue bonds aren't burdened by unfunded pension liabilities like General Obligations.
- Airport bonds often yield more than GOs.
- Airport bonds are safe and very essential.

With state and local governments becoming more and more entrenched with unfunded pension liabilities, traditional muni investors should look to safer alternatives. We consider revenue bonds the safest, because they offer haven from the pension timebombs. More specifically, Airport revenue bonds, if done right, can add safety to your portfolio without sacrificing yield. Airport bonds can be a much safer alternative to traditional general obligation bonds because they aren't strangled by unfunded pension liabilities. Airports are also extraordinarily essential and usually have very little industry competition. Additionally, airport revs often yield more than their general obligation counterparts.

Major US airports issue bonds to fund ongoing improvement projects. Most of these bond issues are backed by all the diverse sources of airport revenues. They include revenue from airlines, rental car companies, concessions, and passenger facility charges (PFC). Passenger facility charges are the most important. Every airline passenger must pay, so it provides a very stable revenue stream. The fee goes toward the upkeep and maintenance of airports, including bond payments, and is set up and capped according to US federal law.

Continue reading.

Seeking Alpha

by Alexander Anderson

Sep. 10, 2019 11:22 PM ET

Report Recommends Changes to US EPA's General Permit for Industrial Stormwater Discharges Ahead of Reissuance: Squire Patton Boggs

Stormwater permitting requirements for many industrial facilities are set forth in US EPA's Multi-Sector General Permit for Stormwater Discharges Associated with Industrial Activity (MSGP) or state permits based on the MSGP. US EPA last issued the permit in 2015, which expires on June 4,

2020. While the current Administration does not appear to be predisposed to the implementation of more onerous environmental permitting requirements, an EPA-funded report has recommended transformative changes to the MSGP. The Agency's decision whether to incorporate those recommendations into the reissuance of the MSGP will determine whether industrial facilities will need to implement additional stormwater monitoring and control measures in the coming years.

As we previously reported, in late 2016, US EPA had reached a settlement agreement with a group of environmental organizations that petitioned for review of the 2015 MSGP. The environmental groups believed that US EPA issued the 2015 MSGP without considering critical conclusions related to the MSGP that the National Research Council (NRC) had reached in a 2009 report.

Pursuant to the settlement agreement, US EPA agreed to sponsor and fund another report evaluating certain potential improvements for the Agency's next issuance of the MSGP. Earlier this year, the National Academies of Sciences, Engineering, and Medicine released the envisioned report, titled Improving the EPA Multi-Sector General Permit for Industrial Stormwater Discharges (the NASEM Report).

The NASEM Report provides a number of recommendations for US EPA to consider as it finalizes reissuance of the MSGP. For example, the NASEM Report recommends extending coverage of the MSGP beyond facilities that are strictly defined as part of the industrial sector (such as school bus transportation facilities, gas stations, outdoor material storage and handling operations, and timber lots). This idea of establishing permitting for a broader range of stormwater discharges may be legally imposed upon US EPA. US District Courts in Maryland (with the Fourth Circuit appeal being voluntarily dismissed) and California have already held stormwater discharges from commercial, industrial, and institutional sources are broadly required to be permitted or prohibited under Section 402(p) of the Clean Water Act.

The NASEM Report also reviewed existing monitoring requirements in the MSGP and found that they are "particularly dated and have not been substantially updated over time." Accordingly, benchmark monitoring for total suspended solids (TSS), pH, and chemical oxygen demand (COD) or total organic carbon (TOC) is recommended for all industrial sectors. This would replace the less structured visual-only monitoring and would eliminate the current sampling waiver available to industrial dischargers that have met benchmarks for four consecutive quarters.

Additionally, the NASEM Report recommends that new scientific information be utilized for implementing (and periodically reviewing) sector-specific benchmark monitoring for parameters with the potential to affect stormwater from that industrial sector, such as polycyclic aromatic hydrocarbons (PAH), selenium, arsenic, and iron. Generally, under the existing MSGP, a benchmark exceedance is not considered a permit violation unless no corrective action is taken to prevent future exceedances. Yet, benchmark exceedances can be utilized for determining facility-specific stormwater control measures that could be costly for some industrial dischargers.

The NASEM Report also addresses the utilization of stormwater retention and infiltration as a stormwater control measure. The MSGP considers retention and infiltration of stormwater to be a control measure as these divert portions of stormwater that a facility would otherwise discharge to surface waters. Stormwater retention and infiltration is generally favored for most urban runoff (e.g., from parking lots and roofs) as a method for diverting stormwater from municipal sewer systems. However, the NASEM Report points out that runoff from industrial facilities is different because such runoff has the potential to contain contaminants that pose a risk to groundwater upon infiltration. To account for both these benefits and risks, the NASEM Report encourages US EPA to maintain retention and infiltration as a control measure in the MSGP but to also establish site-specific factors designed to ensure groundwater protection. If US EPA takes up this

recommendation, industrial facilities could be subject to monitoring, permitting, or even some type of treatment requirements if retention and infiltration are utilized as a stormwater control measure for the site.

In the Report, NASEM is clear that it does not analyze the financial costs of its recommendations and leaves that work for US EPA when reissuing the MSGP. The settlement agreement for the 2015 MSGP litigation requires that US EPA consider all of the report's recommendations when revising the MSGP making the Report's lack of cost considerations potentially problematic to the regulated community. Under the current Administration, which has prioritized deregulation and minimally intrusive permitting, skepticism about the level of consideration that will be given to the transformative recommendations of the NASEM Report is fair. Facilities permitted under the MSGP will not have to wait long to know whether permitting obligations are going to change, because the settlement agreement requires US EPA to finalize a draft of the next MSGP permit before the end of November 2019. Squire Patton Boggs will continue to monitor and provide updates on this issue.

by Erik D. Lange

September 13 2019

Squire Patton Boggs

EPA Taps Public for Comment on Water Reuse Plans.

Water scarcity is a growing concern for the EPA, as discussed in depth in its National Water Reuse Action Plan issued this week.

The plan outlines ways that the EPA can work with state and local governments to promote water reuse and support research into new technologies. Due to various pressures, 80 percent of U.S. states anticipate water shortages in some parts of their states in the next decade. Over the past several decades, agriculture, industry, and communities have faced water crises and responded through innovative water reuse plans. According to the agency, water reuse can increase water security, sustainability, and resilience.

The drafted plan distributed this month proposes several actions to address a spectrum of issues, and opens the public comment period to identify the most pressing actions to be taken in the near future. The plan seeks to draw business and municipal partners to support the desired effect of water reuse being considered more universally acceptable. The plan suggests that sources of water for potential reuse can include municipal wastewater, industry process and cooling water, stormwater, agriculture runoff and return flows, and oil and gas produced waters. These source waters can be reused after they are treated and determined to be fit for whatever purpose is necessary, including but not limited to use as drinking water.

According to the EPA, these source waters can and should be reused in agriculture and irrigation, groundwater storage and recharge, industrial processes, onsite and non-potable use, saltwater intrusion barriers, and environmental restoration. Although drinking water is not the focus of the plan, it is possible that reclaimed water could be treated and made potable. Drafted in view of the decades-long droughts in California, and the crises wrought by tropical storms and other natural disasters, the EPA's plan demonstrates that it considers water reuse to be an important prong of its current outlook.

by Rosa D. Forrester

September 12 2019

Goldberg Segalla LLP

The Conservation Fund Announces Commencement Of Green Bond Offering.

ARLINGTON, Va., Sept. 3, 2019 /PRNewswire/ — The Conservation Fund (TCF) announced today that it is commencing an offering of taxable Green Bonds (the "Bonds") of approximately $100 to $150 million. The Bonds will be issued by TCF and Sustainable Conservation, Inc., a wholly-owned subsidiary as co-issuer (SCI and, together with TCF, "The Fund"). Proceeds from the offering will be used primarily to increase the scale of its "Working Forest Fund®" conservation initiative, dedicated to mitigating climate change, strengthening rural economies and protecting natural ecosystems by the permanent conservation of at-risk forest landscapes. Goldman Sachs & Co. LLC is serving as sole underwriter of the bond.

"The bond proceeds, combined with significant new philanthropic capital, will allow us to accelerate our efforts to conserve America's essential working forests," said Larry Selzer, CEO of The Conservation Fund. "By combining the power of the marketplace with the passion of philanthropy we aim to make a real difference in our nation's efforts to protect forests, address climate change and lift up rural economies."

"The Conservation Fund's Green Bond Framework is credible and impactful, and it aligns with the major components of the Green Bond Principles," said Heather Lang, Executive Director of Sustainalytics' Sustainable Finance Solutions. "Through its use of green bond proceeds, the Fund is demonstrating a deep commitment to conserve lands and working forests, creating significant environmental benefits."

TCF, a nonprofit organization, was founded in 1985 and is headquartered in Arlington, VA. Working with public, private and nonprofit partners, TCF's mission is to protect America's legacy of land and water resources through land acquisition, community engagement, and sustainable economic development, emphasizing the integration of economic and environmental goals.

The offering is being made pursuant to a preliminary offering memorandum. Potential investors should read the entirety of the preliminary offering memorandum as a basis for making any investment decision with respect to the Bonds.

This press release does not constitute an offer to sell or a solicitation of an offer to buy any securities nor will there be any sales of the Bonds in any state or other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state or jurisdiction.

Forward-Looking Statements

This release may contain statements about future events and expectations that are forward-looking statements. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "intend," "projection" or other similar words. A number of important factors, including factors affecting the Fund's operations and financial condition, could cause actual results to differ materially from those stated in such forward-looking statements.

All forward-looking statements speak only as of the date of this press release even if subsequently made available by the Fund on its website or otherwise. The Fund disclaims any obligation to update or revise any forward-looking statements that may be made to reflect new information or future events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events, other than as required by law.

PR Newswire

Green is Good – Green Bonds Continue Growth.

Green bonds are hot. According to the Climate Bonds Initiative, global green bond issuances in 2019 exceeded $150 billion USD through August and forecasts have increased to $250 billion USD for the year. If these forecasts are met – or the market even comes close – 2019 will easily mark the largest annual green bond issuance to date.

The green bond market matches investors looking to support projects with specific environmental or "green" attributes with borrowers who want to finance those projects. This unique ability to connect market participants during a period of increasing concern for climate-related risks has driven this market's impressive growth over the past decade. In fact, the green bond market continues to attract increased interest and has become one of the most visible examples of the rapid growth and acceptance of environmental, social and governance, or ESG, investing. As the global green bond market continues to grow and develop rapidly, a brief overview of green bond fundamentals is timely for those wanting to learn more about this dynamic market.

A brief history

Emerging in 2007, the green bond market developed on a voluntary and self-regulatory basis. Prior to the advent of green bonds, global bond markets had financed, and continue to finance, substantial investments in projects with environmental benefits. However, the landscape shifted in 2007 when the European Investment Bank issued a €600 million "Climate Awareness Bond" and in 2008 when World Bank issued $300 million USD Green Bonds. The groundbreaking aspect of those transactions was providing investors a product that targets capital to projects with specific attributes. In these cases, the projects had green attributes. And while innovative financing techniques continue to emerge within the green bond market, the overall story is less about new financing vehicles than it is a movement to facilitate purpose-driven investment strategies.

Growing concern for climate-related issues, particularly in Europe, made green bonds an attractive investment opportunity and the market steadily grew and began to receive mainstream acceptance in 2013 and 2014. In an attempt to provide guidance to market participants, the International Capital Markets Association released the first version of its Green Bond Principles in 2014. The Green Bond Principles is one of the most widely referenced set of green bond guidelines, and it sets forth best practices for green bond issues in an effort to increase transparency and legitimacy for the self-regulated market. Another notable institution in the green bond market, the Climate Bonds Initiative, has created a labelling program for green bonds that integrates the Green Bond Principles and conforms to the requirements of the Paris Agreement.

Green bonds have now expanded across global financial markets. From 2007 to 2018, nearly $580 billion of green bonds were issued globally, and growth is accelerating in 2019. And although European issuers continue to lead the way based on volume, green bonds are rapidly growing in the

Americas and Asia.

What is a green bond?

Green bonds are not currently subject to a universal standard or definition. The fundamental characteristic of a green bond is that the bond proceeds are used for projects that possess green attributes. Green bonds raise funds for new and existing projects. In fact, many green bonds raise funds in advance of knowing the specific projects to which the capital will be allocated. In cases such as these, the issuer's framework and criteria for allocating funds is critical. Although some issuers may be reluctant to place overly restrictive parameters around their allocation decisions, more general or ambiguous selection criteria increases the potential for criticism. Thus the "Use of Proceeds" section of a prospectus and restrictions on use in any transaction documents are central to evaluating any green bond.

Issuers decide whether to label their bonds as green. While not required, many issuers seek the additional legitimacy of independent verification or certification and engage third-parties to review the green attributes of the bonds and the anticipated impact of the investment. Other than the targeted use of proceeds and any ancillary services related to verifying and certifying the use of proceeds, green bonds are quite similar to other bonds.

Green bonds finance a broad range of assets with a majority going to energy, building, transportation and water-related projects. Issuers of green bonds include sovereigns, local governments, government-backed entities and financial and corporate entities.

Measuring impact

One of the most scrutinized areas of the green bond market is assessing the environmental impact of green bond issuances. Green bond issuers must determine whether to (i) hire a third party to review the initial bond offering, (ii) undertake any ongoing reporting obligations and (iii) engage third-parties to verify any ongoing reporting obligations. Although generally relatively modest, agreeing to such actions does add to offering expenses and employee time commitments. Offsetting these costs is the fact that verification and continued reporting provide greater transparency and assure investors that funds are deployed as expected and do, in fact, make a positive environmental impact. Verification and continued reporting also reduce the risk of "greenwashing," the practice of using funds from green bonds for non-green purposes. These additional actions also help to promote the integrity of the green bond market and may very well become more common, or even required in certain jurisdictions, as the green bond market continues to mature.

Why issue a green bond?

In addition to the environmental benefits derived from the projects financed, green bonds carry important tangible and intangible benefits for both issuers and investors. For issuers, green bonds:

- diversify an investor base – green bonds are sought by a growing class of investors, several of which have environmental or other investment mandates
- increased demand – green bonds tend to have wider margins of oversubscription than comparable conventional bond offerings
- investor communication – green bonds demonstrate the issuer's commitment to values that investors, not to mention citizens, customers, shareholders and other stakeholders, find important
- price – recent evidence suggests that green bonds may be developing a small pricing advantage, or "greenium," over comparable non-green bonds.

For investors, green bonds:

- meet investment objectives – a growing number of investors have aspirational or mandatory green investment objectives
- financial performance – green bonds offer risk-adjusted returns generally consistent with more conventional bonds
- potential liquidity – green bonds have demonstrated stronger secondary market performance than conventional bonds.

A Look Ahead

As the green bond market continues to mature and attract increasing amounts of capital, regulators in several jurisdictions have moved to shape and align definitions and qualifications to promote legitimacy and consistency. For example, the European Union's Technical Expert Group on Sustainable Finance issued a report in July 2019 including recommendations to create standards and labels for green financial products. The resulting program, if adopted, would create a voluntary, non-legislative EU Green Bond Standard seeking to standardize comparability and credibility of the green bond market.

Not coincidentally, the green bond market's rapid growth is occurring as nations and corporations and seek to reduce carbon emissions. As global pressures for decarbonization continue to increase, we expect that the green bond market will continue to expand and play a critical role in the growth of green finance more generally. As investors increasingly seek the dual promise of positive financial and social returns, green bonds offer a promising method to cater to that appetite.

September 12, 2019

Eversheds Sutherland (US) LLP

BondLink and Ipreo by IHS Markit Form Alliance to Boost Transparency for Bond Investors.

BOSTON, Sept. 16, 2019 /PRNewswire/ — BondLink, the pioneer enterprise software company providing debt management & investor relations software to issuers in the $4 trillion municipal bond market, today announced an alliance with Ipreo by IHS Markit, a leading provider of solutions for municipal bond issuance. The alliance will enable institutional bond investors to access BondLink's issuer credit data using technology from Ipreo by IHS Markit.

"We're proud to align with Ipreo by IHS Markit to enhance transparency between issuers and investors in the municipal bond market," said Colin MacNaught, BondLink CEO & Co-Founder.

"Ipreo by IHS Markit is an incredible technology leader and plays a central role in the new issuance process. Working together, we can make critical issuer data more easily accessible to institutional investors in real-time as they evaluate new bond deals."

"Our product suite drives efficiencies for banks and bond investors during the new issuance process. We're excited to collaborate with BondLink to make issuer data more accessible for investors," said Will MacPherson, managing director at Ipreo by IHS Markit.

In addition to this alliance, BondLink has a data agreement with Fidelity Investments to host issuer

information for retail investors using Fidelity.com to buy municipal bonds. Together, these collaborations facilitate a more efficient bond market by promoting transparency through enhanced technology.

About BondLink

Led by founders Colin MacNaught, CEO, and Carl Query, CTO, BondLink's cloud-based debt management & investor relations platform provides efficiencies to issuers and investors in the $4 trillion municipal bond market. Enhanced investor disclosure and access is supported by market regulators, as well as issuer and investor trade associations. Academic research also shows that better, more accessible disclosure can lead to lower costs for issuers. Headquartered in Boston, BondLink is backed by top investors, including Franklin Templeton Investments, one of the largest municipal bond funds in the country.

To learn more, please visit www.BondLink.com.

Muni Bonds Ride the Wave of the Treasury Market Rally.

Catherine Stienstra, head of municipal investments at Columbia Threadneedle Investments, discusses the impact of low interest rates on the municipal bond market. She speaks with Bloomberg's Vonnie Quinn in this week's "Muni Moment" on "Bloomberg Markets."

Watch video.

Bloomberg Markets | Muni MomentTV Shows

September 11th, 2019, 8:34 AM PDT

Look to Insured Munis for High Quality and Attractive Income.

MacKay Municipal Managers have said that insured municipal bonds are like having a belt with suspenders. What does that mean? Investment-grade municipal bonds are already high-quality investments, with historically lower default rates than similarly rated corporate bonds. When you wrap the bonds in insurance it adds an extra layer of protection so that in the event an issuer files for bankruptcy and can no longer service the debt, the insurance company will step in and pay the coupon and principal. Essentially, there are two entities available to pay back bondholders.

This doesn't mean insured municipal bonds are safer than Treasuries (the two remaining municipal bond insurers writing new business were most recently rated AA), but what they lack in a top-notch rating they make up for in better long-term historical performance and attractive tax-equivalent yield. That yield component will continue to be important now that the Federal Reserve has cut rates and may continue to do so, making the hunt for yield top of mind for investors.

Figure 1 shows how insured municipal bonds have performed compared to Treasuries since the start of 2018. The shaded areas represent time periods that the S&P 500 Index saw significant drawdowns; as expected, during these periods Treasuries outperformed. However, even with four volatile time periods over 19 months, insured municipal bonds still outperformed Treasuries by a

cumulative 300bps, and with generally less drawdown (as shown in Figure 2).

Continue reading.

by SPECIAL TO ETF TRENDS on SEPTEMBER 15, 2019

By Maria Rahni, CFA Product Management, New York Life Investments

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How to Safely Beef Up Bond Returns.

It's easy to see why yield-seeking investors might be demoralized: The rate on 10-year Treasuries, which stood above 3% last autumn, had fallen recently to a mere 1.8%. And things could very well get worse, according to financial advisor Ira Mark.

"It wouldn't surprise me if we retest the low of the [10-year] U.S. Treasury that was hit in July 2016—1.35%," says Mark, Barron's 30th-ranked advisor in New York. But yields of up to 5% are available for those willing to take on a bit more risk, he adds.

A 27-year veteran investor, Mark is unusual among financial advisors in emphasizing fixed income over stocks. He typically recommends that clients use investment-grade bonds or other debt instruments for 75% of their portfolio. For the equity portion, he likes high-quality stocks with a history of increasing their dividends. "It's a slow and steady way to build a portfolio and offer consistent" returns, he says.

Among Mark's favorite investments are high-credit-quality municipal kicker bonds. These bonds typically offer strong yield to compensate investors for uncertainty about their call date. They get their name because the yield received by the investor increases, or "kicks," if the issuer declines to buy them back when their call dates arrive.

Mark recommends essential-service revenue bonds—those issued to pay for tunnels, bridges, airports, water systems, and the like. Consumers can't really opt out of using such infrastructure, and that's a pretty good hedge against the possibility of the bonds defaulting. "I have always told clients that you don't negotiate at the Midtown Tunnel; you pay the toll to go in and out of Manhattan" from New York's borough of Queens, Mark says. "Those tolls pay the debt services on the bonds, and, if need be, they can raise those tolls."

Kicker munis have an unusual price structure that frightens off some individual investors: They're sold for more than their par value, meaning that the issuer pays less than the bonds' face value when repurchasing them. But Mark finds that their returns still can beat those of regular corporates.

Among his current holding is a Port Authority of New York and New Jersey bond that matures in 2040. Rated AA- (Standard & Poor's fourth-highest rating), it will yield 1.75% if held to call in May 2025, and 3.77% if held to maturity. Both numbers factor in the premium-pricing issue. The income is free of local, state, and federal taxes for residents of New York or New Jersey. A North Texas Thruway Authority muni bond, meanwhile, yields 2.20% if called at the start of 2027 and 3.89% if held to maturity.

Mark also likes preferred stock, which generally pays a fixed dividend. Preferreds are higher in the credit structure than common shares; in a bankruptcy, their owners would come just behind bondholders in the pecking order for repayment. Recent issues, including one from Bank of America,

sport yields in the 5% range.

Such high yields compensate investors for taking on interest-rate risk. If rates rise, the value of fixed-income investments, including preferred shares, falls. But global investors have flocked to Treasuries as an alternative to their own countries' even lower-yielding government bonds, and Mark thinks that dynamic could help suppress U.S. rates for several more years.

Aside from their attractive yields, preferreds offer a tax advantage. Most pay "qualified" dividends, which are taxed at a top federal rate of 23.8%—versus the top rate of 37% on income from corporate bonds.

What's more, current supply-and-demand dynamics bode well for preferreds' potential price appreciation. Financial institutions, the biggest issuers, have scaled back issuance over the past several years.

How much of each investment should investors own? Mark recommends using munis for 60% of a fixed-income portfolio, preferreds for 30%, and short-term Treasuries for 10%.

But if kicker bonds and preferreds are so attractive, why own a slug of Treasuries, too? First, Mark says, 30-, 60-, and 90-day Treasuries out-yield most other cash alternatives. Second, they're exempt from state income tax, adding after-tax return for residents of states with income taxes. And third, the easily liquidated paper is "dry powder to take advantage of future opportunities," he observes. For many investors, that's a winning combination.

Barron's

By Steve Garmhausen

Sept. 13, 2019 7:00 am ET

How a Municipal Bond Fund Team Digs Deep for Value.

Investing in the many municipal bonds that finance mundane things like the local sewage-treatment plant can often require more expertise than buying headline-grabbing hot stocks like Facebook or Amazon.com .

With more than 55,000 active muni issuers in the marketplace, John Miller, a co-manager of the Nuveen Strategic Municipal Opportunities fund (ticker: NSAOX), has plenty of work to do.

"These issuers might have several different bond deals outstanding at any given point in time," Miller says. "So, the total number of individual muni bonds is approaching two million." An average bond issuance size is just $25 million, he notes. That means researching individual bonds can be challenging.

Continue reading.

Barron's

By Lewis Braham

Sept. 12, 2019 8:00 am ET

S&P Credit FAQ: Are Covered Bonds Becoming More Sustainable?

Since S&P Global Ratings published its last green covered bond report, the issuance of environmental and social themed covered bonds has steadily risen (see “What’s Behind The Rise In Green Covered Bond Issuance?,” published on June 26, 2018). While growth in the overall sustainable covered bond segment has perhaps not fully met the some market participants’ high expectations, social themed covered bonds have emerged as a new flavor of covered bonds over the past year, as issuers are looking to align their public sector and mortgage loans with broader social objectives.

This credit FAQ describes the recent developments, opportunities, and challenges facing the sustainable covered bond market, the nature of the collateral backing social bonds, and how we measure the social impact. We also consider the benefits of the covered bond structure in enabling environmental and social finance, how the structure supports good governance, and describe how we capture green and social factors and overall environmental, social, and governance (ESG) performance in our credit rating criteria.

- What’s Changed In The Sustainable Covered Bond Market Over 2018-2019?
- What Are The Challenges For Sustainable Covered Bonds?
- Why Has Sustainable Covered Bond Issuance Increased?
- How Suitable Are Covered Bonds As Assets For Sustainable Financing?
- How Do Social Covered Bonds Report Their Impact?
- How Does S&P Global Ratings Consider ESG Factors In Its Covered Bond Ratings?
- How Do Social Factors Influence Credit Risk?
- Related Criteria
- Related Research

Read the full FAQ.

S&P Pension Brief: Credit Effects Of Municipal Pension Plans Approaching Asset Depletion

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- What Could Asset Depletion Mean For Pension Plans?
- How Might Asset Depletion Affect Ratings?
- How Likely Is Asset Depletion And How Can Plans Avoid It?
- Actions Taken To Date
- Related Research

Some public pension plans around the country have raised concerns about whether they might completely run out of money set aside to fund pension benefits. The reasons for such a scenario vary from poor funding discipline, to investments not meeting target rates of return, to newly negotiated benefits, to demographic changes in membership. Having to fully address obligations on a pay-a--you-go (paygo) basis can add volatility and cost to budgets, just as the credit cycle may be turning. Increasingly, these poorly funded plans are addressing the possibility and repercussions of asset depletion.

This Pension Brief addresses S&P Global Ratings' views on the following questions:

- What could asset depletion mean for pension plans?
- How might asset depletion affect issuer credit ratings?
- How likely is asset depletion and what can be done to avoid it?

Sponsor governments have not typically considered plan contributions tantamount to debt and so, in times of budgetary stress, there has been leniency for pension contributions that provide short-term budgetary relief. The actual benefit payments, on the other hand, must be paid out to the members to avoid reneging on plan obligations, so contributions under paygo funding must be paid each year. Typical plan design puts the responsibility and risk on plan sponsors (the employer and any external contributors such as the state) to fund benefits in excess of a fixed employee contribution.

Continue reading.

S&P Credit Conditions: U.S. State And Local Governments Will Need To Keep Their Hands On The Wheel

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- Is The National Economy Floating Over To The Slow Lane?
- Risk Of Recession Is Speeding Up
- Next Stop: ESG
- Mixed Housing Messages Drive Uncertainty And Uneven Trends
- Comparing the Regions: Recurring Themes

The second quarter of 2019 showed ongoing stability in state and local government ratings despite some signs of a weakening national economy such as a slowdown in single-family building permits. S&P Global's economists project GDP growth will slow during the rest of 2019 following first-quarter growth of 3.2%, and are targeting an annual growth rate in 2019 of 2.5%. However, we expect credit quality to generally remain stable, although there may be some areas more susceptible to looming pressures.

We are in the midst of the longest expansion on record, but with slower growth comes the challenge for local governments to provide the services for a changing world when revenues may not be keeping pace.

Continue reading.

S&P Credit FAQ: How The Proposed Global Not-For-Profit Transportation Criteria Could Affect Mass Transit Ratings

On July 30, 2019, S&P Global Ratings published a request for comment (RFC) on proposed updates to its methodology "U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions," published March 12, 2018. The proposed updates, in "Request For Comment: Global Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions," would expand the scope of these criteria to issuers globally and add mass transit

systems in our definition of transportation infrastructure enterprises (TIEs). This article answers frequently asked questions related to the proposed criteria updates.

Continue reading.

S&P Request for Comment: Global Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions

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OVERVIEW AND SCOPE

1. S&P Global Ratings is proposing to publish an update to its methodology "U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions," March 12, 2018. The proposed updates expand the scope of these criteria to issuers globally and include mass transit systems in our definition of transportation infrastructure enterprises (TIEs). As a result of the proposed updates, the new criteria would supersede:

- U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions, March 12, 2018; and
- Mass Transit Enterprise Ratings, Dec. 18, 2013.

2. The proposed criteria would apply to TIEs or projects of an independent authority, a municipality, province, or comparable political subdivision, and whose debt is secured by revenue of the enterprise on a senior or subordinate basis. See Additional Information paragraphs for more details on scope.

3. These proposed criteria provide additional transparency and comparability to help market participants better understand our approach in assigning ratings, to enhance the forward-looking nature of these ratings, and to enhance the global comparability of our ratings through a clear, comprehensive, and globally consistent criteria framework. This proposed criteria article is related

to our criteria article “Principles Of Credit Ratings”, published Feb. 16, 2011.

Continue reading.

BlackRock Says the Key Gauge of Muni Bond Prices May Be Broken.

- **The ratio of muni yields to Treasuries is closely watched**
- **But firm’s strategist says main buyers aren’t driven by it**

The world’s largest money manager says one of the most meaningful measures in the municipal-bond market is starting to mean a lot less.

That’s because a steady influx of cash earlier this year pushed some state and local government debt yields to record lows relative to U.S. Treasuries. In normal times, the decline of that ratio — which is closely watched by professional investors — would signal that the securities had become significantly overpriced.

But Sean Carney, the head of municipal strategy at BlackRock Inc., which oversees nearly $7 trillion in assets, said in an interview that the buy-and-hold investors who dominate the municipal market are more interested in the tax breaks and the protection the securities offer from stock market swings. That may help explain why retail buyers have poured more than $43 billion into municipal-bond mutual funds even as prices hit record highs against Treasuries this year.

“There’s less predictive power to muni-Treasury ratios today,” said Carney, who like others on Wall Street still watches it.

Corporations like banks and insurance companies do pay attention to the gauge, Carney said. But those companies aren’t driving the municipal-bond market rally right now. Some have even slashed their holdings because the 2017 tax overhaul that reduced corporate tax rates, which makes tax-exempt debt less attractive compared with other securities.

“Everybody likes to get caught up in muni-Treasury ratios,” Carney said. “They mean a lot when you’re looking for a non-traditional buyer to buy munis. When it’s retail that’s driving it — and it’s retail driving this rally — they tend not to care as much about ratios.”

This may mean that tax-exempt bonds have more room to run regardless of whether municipals are considered cheap or expensive, Carney said. Tax-exempt debt has returned about 7.7% this year, according to the Bloomberg Barclays index. While that’s less than Treasuries or corporate bonds, it’s still the biggest gain since 2014.

For those who do still care about the gauge, the ratio of 10-year municipal yields to Treasuries is hovering around 86%, up from as little as 72% in May.

Maybe that means they’re cheap. Or maybe not.

Bloomberg Markets

By Amanda Albright

September 4, 2019, 9:54 AM PDT

— With assistance by Danielle Moran

BlackRock Sees Supply and Demand Driving Municipal Bond Rally.

Sean Carney, head of municipal strategy at BlackRock, discusses the municipal bond market posting its best returns since 2014. He speaks with Bloomberg's Taylor Riggs in this week's "Muni Moment" on "Bloomberg Markets."

Watch video.

Bloomberg MarketsTV Shows

September 4th, 2019, 10:09 AM PDT

Bondholders Burned in Denver Show Rare Risk From Bull Market,

- **Denver project highlights risks to buyers of premium bonds**
- **Par buyback clause means some investors may lose over 10%**

Denver International Airport's decision to terminate a contract with private developers to build a "Great Hall" at one of its terminals is proving costly to investors who bought about $190 million municipal bonds to help finance the project.

The securities were sold at a premium and borrowing provisions allow Great Hall Partners LLC to redeem the debt at par plus accrued interest upon cancellation of the development agreement. Because the debt was trading for 115 cents on the dollar, the prices swiftly dropped by more than 10% after the airport announced last month that it was terminating a $1.8 billion contract with the consortium to renovate the main terminal and operate retail concessions for three decades.

It follows an instance last year when for-profit health system HCA Healthcare Inc. bought Mission Health System, an Asheville, North Carolina-based non-profit, triggering a par call on Mission's premium bonds. The losses imposed by Denver Great Hall and Mission could cause buyers to shun new deals with similar provisions.

"This should be a wake-up call for the industry," said Fred Cohen, former director of municipal bond trading at AllianceBernstein Holding LP. "Buyers haven't focused on it because it hasn't happened that often, but it happens every once in a while and investors pay the price."

The steep price drop illustrates a rarely seen risk in the $3.8 trillion municipal-bond market that's grown as tumbling interest rates push prices of many securities well above face value. Since many investors still want debt that carry 5% coupons because it's the easiest to resell, more than 70% of the $232 billion of municipal bonds issued this year have been sold at a premium, according to data compiled by Bloomberg.

Investors should demand that borrowers issuing new premium bonds agree to pay the amortized cost of the debt, reflecting how much money they've lent to the issuer, rather than par in the event of an extraordinary redemption, Cohen said.

Disappointed

Denver officials in August notified the partnership that includes Ferrovial Airports International Ltd, Saunders Construction Inc. and JLC Infrastructure, that it was terminating the development agreement for the Great Hall Project in the airport's Jeppesen Terminal, which had been beset by delays and cost overruns.

Nuveen LLC held about $20 million of the Great Hall bonds as of July 31. John Miller, who oversees more than $150 billion state and local government bonds as head of municipal investments, said the firm was disappointed at Denver International Airport's decision to terminate the agreement.

The action "will result in bondholders being damaged and the equity participant possibly benefiting from a make whole equity call. It is unknown how much the developer will be paid to go away as a result of the termination payment, meanwhile, bondholders may be offered par," Miller said in an email. "DIA believes the best course of action is to take over as developer because the project has experienced significant delays and cost overruns. While the majority of bondholders have supported DIA deals in the past, its purported course of action is not a viable solution for bondholders as this action would hurt long-term investors in the airport."

Adam Banker, a spokesman for Fidelity Investments, which owned about $20 million of the bonds at the end of July, said the company doesn't comment on specific holdings.

The decision to terminate the contract was in the best interest of the airport, passengers and the airport's investors, said Stacey Stegman, an airport spokeswoman.

"The bottom line is that these are not the city's or airport's bonds," Stegman wrote in an email. "In the case of termination, a 'termination for convenience' placed Great Hall Partners' bondholders/accredited investors in the best position."

The city will make a termination payment to Great Hall Partners and the Public Finance Authority which issued the debt and it will be their responsibility to pay bondholders, she said.

Prices on the biggest maturity of the bonds, a $132 million block maturing in 2049, dropped to 104 cents on the dollar from 115 cents the day before. The partnership issued the maturity in December 2017 at 113 cents on the dollar. As of mid August the amortized cost of $132 million Denver Great Hall bonds maturing in 2049 was about 111 cents on the dollar or $147 million.

Redemption Provisions

Buyers have accepted "extraordinary" redemption provisions at par not only because they're triggered infrequently, but because of a bull market for tax exempt debt where demand far exceeds supply, Cohen said. Investors have poured $43 billion into municipal bond funds through August, an almost five-fold increase compared to the same period last year. State and local debt issuance has increased about 9%.

Premium bonds are desirable for institutional investors because they outperform discount bonds when rates rise and are less costly to trade. In general, revenue bonds issued for specific projects such as hospitals, have extraordinary redemption provisions, while general obligation bonds don't, Cohen said.

Bloomberg Markets

By Martin Z Braun

September 5, 2019, 10:43 AM PDT

— With assistance by Amanda Albright

What Is a Dedicated Tax-Backed Municipal Debt?

A string of municipal bankruptcies following the 2008 financial crisis forced many investors to question the utility of municipal bonds in their portfolio. Whether warranted or not, these concerns have given rise to dedicated tax bonds.

A dedicated tax bond, as far as municipal debt is concerned, refers to a variety of bond issues whose primary repayment method is secured by government tax or fee revenues. So long as a municipality generates tax and other forms of revenue, bondholders can feel certain that they will be repaid. The majority of debt issuers are supported by income tax, sales tax or gas tax, among others. The projects usually financed by this type of debt include economic growth initiatives.

To be sure, most general obligation (GO) bonds have an unlimited tax pledge. However, municipalities must use a portion of their tax revenues to cover frequent operating costs. Dedicated tax bonds, on the other hand, have revenue streams specially assigned to servicing debt. As such, they differ from traditional GO bonds and limited-tax GO bonds, which are backed by a limited amount of taxes.

Although dedicated tax-backed municipal bonds are more secure during economic downturns, there's little recourse for bondholders to access other funds from the issuer. However, since these bonds are backed by state revenues, the prospect of default is extremely slim.

Continue reading.

municipalbonds.com

by Sam Bourgi

Sep 04, 2019

XBRL US 2nd Release of CAFR Taxonomy for Municipal Reporting in Public Exposure Review.

NEW YORK–(BUSINESS WIRE)–Sep 5, 2019–

XBRL US announced today that it is conducting a 60-day public review and comment period for the second release of the Demonstration Comprehensive Annual Financial Report (CAFR) Taxonomy. The taxonomy, developed by the XBRL US State and Local Government Disclosure Modernization Working Group, includes the CAFR's Statement of Net Position, Statement of Activities, Governmental Fund Balance Sheet, and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances. The public review will also contain a limited number of concepts from pension and other post-employment benefit footnotes that are planned for a future taxonomy update.

This second release of the CAFR Demonstration Taxonomy incorporates feedback received during the first public review which ended on March 18, 2019. Municipalities, analysts, investors, data and software providers are invited to review and comment on the new release during the second public exposure period, which will close on October 28, 2019.

XBRL US also announced that Will County, Illinois, is the first local government to publish their financial statement data in standardized, XBRL format on their public website, using the CAFR Demonstration Taxonomy. View the Will County financials: https://www.willcountyauditor.com/financial-and-statistical-reports

“Open, honest, transparent government, is important to the residents of Will County,” said Duffy Blackburn, CPA, Auditor of Will County, “Financials prepared using data standards give our citizens, investors, and government agencies access to standardized, machine-readable data to better gauge financial health, and make more timely, informed decisions.”

Dr. Shannon Sohl of Northern Illinois University’s Center for Governmental Studies, and Vice Chair of the XBRL US State and Local Working Group, added, “Users of Will County’s digital CAFR will also see other elements found in annual financial reports (AFR’s) produced for the Illinois Office of the Comptroller (IOC) to demonstrate the possibility of producing a single annual report, eliminating redundant reporting for local governments to reduce the reporting lag, increase efficiency and transparency.”

Approximately 30,000 state and local governments in the United States produce audited financial reports annually. Because this data is not standardized or machine-readable, the ability to aggregate data and compare the financial performance of governmental entities is limited. The state of Florida led the effort towards greater standardization in local government reporting with the passage of House Bill 1073 in March 2018, which mandates data standards for local government; and by the state of California, which has introduced Senate Bill 598, which requires the creation of a Commission to investigate and report on the implementation of data standards for state and local government financial reporting. SB 598 was approved by the State Senate in June and by three State Assembly committees this summer.

“We’re pleased to see Florida, California and Will County take the lead in adopting open government financial reporting data standards, and we look forward to supporting other early adopters of XBRL-based CAFRs,” said Marc Joffe, Senior Policy Analyst at Reason Foundation and Chair of the XBRL US State and Local Disclosure Modernization Working Group.

Materials available for reviewers include the Taxonomy, in XML and spreadsheet format, a Taxonomy Architecture Guide, and six sample instance documents. Those reviewing the taxonomy will have an opportunity to post comments related to individual elements and the structure of the taxonomy.

The XBRL US State & Local Working Group is also hosting Municipal Finance Data Forum Midwest, on October 3 in Naperville, IL. Learn more and register: https://xbrl.us/events/muniforum-20191003/

Members of the XBRL US State and Local Working Group include Aquorn Inc., Bond Intelligence, DataTracks, Crowe LLP, Ez-XBRL Solutions, Gray CPA Consulting, Intrinio, IRIS Business Services LLC, Lehigh University, Middle Tennessee State University, Neighborly Investments, Novaworks LLC, Reason Foundation, Thales Consulting (CAFROnline), Touro College, Truth In Accounting, Northern Illinois University, the University of Maryland, the University of South Florida, and Workiva. Observers to the Working Group include NASACT (the National Association of State Auditors, Comptrollers and Treasurers) and the U.S. Census, among other organizations.

About XBRL US

XBRL US is the non-profit consortium for XBRL business reporting standards in the U.S. and represents the business information supply chain. Its mission is to support the implementation of business reporting standards through the development of taxonomies for use by U.S. public and private sectors, with a goal of interoperability between sectors, and by promoting XBRL adoption through marketplace collaboration. XBRL US has developed taxonomies for U.S. GAAP, credit rating and mutual fund reporting under contract with the U.S. Securities and Exchange Commission and has developed industry-specific taxonomies for corporate actions, solar financing, and surety processing. http://xbrl.us

Access the public review: https://xbrl.us/xbrl-taxonomy/2019-cafr/

Learn about the State and Local Working Group: https://xbrl.us/home/government/state-and-local-government/

Learn more about the Municipal Finance Data Forum: https://xbrl.us/events/muniforum-20191003/

View the Will County, Illinois financials: https://www.willcountyauditor.com/financial-and-statistical-reports

View source version on businesswire.com:https://www.businesswire.com/news/home/20190905005876/en/

Michelle Savage,michelle.savage@xbrl.us, 917 747 1714

Ohio Supreme Court: Municipal Bond Buyers Do Not Automatically Acquire Right To Sue.

Ohio law does not automatically transfer to the buyer of a municipal bond the seller's right to sue a financial institution overseeing the repayment of the bonds, the Ohio Supreme Court ruled.

A Supreme Court majority decided Aug. 22 that unless the right to file a lawsuit is expressly assigned to the buyer when a bond is purchased, the buyer does not acquire the right. Writing for the Court majority, Justice Melody J. Stewart stated that purchasers of distressed bonds incorrectly concluded that R.C. 1308.16 gave them the right to sue Huntington Bank for breach of contract. Huntington served as a trustee overseeing the nearly $6.6 million in revenue bonds issued for a Lucas County nursing home that went bankrupt.

Chief Justice Maureen O'Connor and Justices Judith L. French and Michael P. Donnelly joined Justice Stewart's opinion.

Justice Patrick F. Fischer concurred in the judgment. Justice Sharon L. Kennedy concurred in judgment only with a written opinion joined by Justice R. Patrick DeWine.

In 1998, Lucas County issued $6.59 million in revenue bonds to back construction of the Villa North Health Care and Rehabilitation Center. The agreement exempted the bonds from federal taxes but made it clear that Lucas County was not obligated to pay back the borrowed money. Rather, it would pay the bondholders only what it received from the project's owner, the Foundation for the Elderly.

Huntington Bank entered into an agreement with the county, known as a “trust indenture,” in which the bank would earn a fee for collecting the bond payments and distributing the funds to the bondholders.

The project ran into difficulties. In 2003, the foundation defaulted on about $420,000 in principal and interest payments. A new entity, Benchmark Health Care of Toledo, assumed the nursing home lease, but it also defaulted by the end of 2003. In May 2004, Huntington informed the bondholders that Benchmark filed for reorganization through Chapter 11 bankruptcy. After two attempts at reorganization, the plan failed in 2009, and Huntington foreclosed on the property.

An investor, through a fund named Paul Cheatham IRA, began purchasing the Villa North bonds in 2003 as part of a risky investment strategy. His investment advisers identified distressed, nontaxable bonds and urge investors to buy them at a discount. The buyers purchased the bonds with the hopes that any problems causing the value of the bonds to drop would be remedied and the bonds’ value eventually would increase. Cheatham IRA continued to purchase Villa North bonds, paying 32 cents on the dollar, after Benchmark filed for bankruptcy.

In the end, Huntington was able to collect only about $340,000, paying bondholders 5 cents on the dollar.

Cheatham IRA filed a class action lawsuit against Huntington Bank, alleging the bank breached the trust indenture, and that Huntington could have done more to protect the bondholders against the mismanagement of the Villa North project. Cheatham asked the Lucas County Common Pleas Court to certify a class of more than 50 bondholders, and the bank objected.

The trial court ruled that Cheatham IRA did not have the same rights to sue as the original bondholders and that they could not be joined together as a class. The court stated that many of the alleged breaches by Huntington occurred before the fund bought the bonds, and that R.C. 1308.16(A) did not transfer to the subsequent bondholders the right to sue for acts that occurred before they bought the bonds.

Cheatham IRA appealed to the Sixth District Court of Appeals, which reversed the trial court and ruled that the fund did acquire the right to sue Huntington. The bank appealed the decision to the Supreme Court, which agreed to hear the case.

Justice Stewart explained that under common law, only the person injured can sue to recover from an injury, unless that person expressly transfers the right to another. The Sixth District found that in the case of securities, Ohio law made an exception, and that R.C. 1308.16(A) gives the purchaser of a security “all rights in the security that that the transferor had or had power to transfer.” The Sixth District interpreted “all rights” to include the right of the original bondholder to sue for breach of contract based on a breach that occurred when the original bondholder owned the bond. In this case, Cheatham IRA acquired to right to sue when it bought the bonds, even if the “injury” occurred before they bought the bonds, the appeals court ruled.

The Supreme Court disagreed. The opinion explained that a “chose in action,” which includes the right to sue, belongs to the owner of a piece of property. The right to sue does not automatically transfer to a buyer of property, such as a bond. If the agreement to sell does not expressly include the seller’s assignment of the right to sue to the buyer, no right transfers, the Court stated.

The majority opinion noted that R.C. 1308.16(A) is Ohio’s version of the Uniform Commercial Code’s (UCC) section 8-302. Nearly every state adopted similar versions of the UCC to bring uniformity to business laws, and the Court stated the UCC is considered to “make uniform the law among the

various jurisdictions." No other jurisdiction has interpreted UCC 8-302 as overruling the common law rule that a right to sue does automatically transfer, the Court stated.

"The Cheatham IRA has been clear that its claim is based on Huntington's alleged failure to act upon notice of the initial default. Only those who owned the bonds at the time of the original default could bring an action for that breach of the trust indenture," the opinion stated.
The Court majority also stated that it expressed no opinion on allegations made by Cheatham IRA against Huntington for actions that occurred after the fund bought the bonds.

In her concurring opinion, Justice Kennedy stated that the Court need look no further than the "plain and unambiguous language of R.C. 1308.16(A)" to conclude that a buyer of a municipal bond does not automatically acquire the right to sue.

R.C. 1308.16(A) provides that a purchaser of a security acquires "all rights in the security that the transferor had or had power to transfer." While the phrase "rights in a security" is not defined in R.C. Chapter 1308, Justice Kennedy wrote that the common dictionary definitions of the words lead to only one interpretation — that the buyer of the bond can acquire only the legally recognized title to the bond that the seller had the power to transfer.

The opinion further stated that "rights in a security" does not encompass the "trust indenture." A trust indenture is an agreement governing a trustee's conduct and the trust beneficiaries' rights. It is not a security. To find the right to sue based on a violation of the trust indenture, the Court would have to read the term "related to" into the phrase "all rights in the security," which statutory construction does not permit, she concluded.

The Highland County Press

September 5, 2019

Avoid Muni Bonds Issued By New Jersey, California And New York, Invest Elsewhere.

How often have you heard a value equity manager say his sector is overdone? Or have you ever heard a growth manager shout from the rooftops that growth stocks are overvalued? Probably not.

Well, as a bond manager I will break the rules and tell you municipal bonds issued by high-tax states are overvalued. Grotesquely overvalued.

These nose-bleed-high municipal bond prices in California, New York, New Jersey, Oregon and Minnesota are literally erasing the tax advantages they were intended to create. Remember, high prices equal limbo low yields.

In fact, yields in the high-tax states are so low that most investors in those states who invest in 1-10 years will be better off either investing in municipals out of their state of residence or investing in taxable corporate bonds.

Continue reading.

Forbes

by Marilyn Cohen

Sep 4, 2019

The Power of Scarcity.

The fast food world gave us an interesting case study in supply and demand last week. By now you've no doubt heard about The Chicken Sandwich, the surprise superstar menu item from Popeyes Louisiana Kitchen that's launched 1,000 blog posts, op-eds and thought pieces. According to reports, the Cajun restaurant sold out of its entire seven-week inventory in just over two weeks.

As what often happens when demand outpaces supply this dramatically, the value of the Popeyes sandwich has exploded on the secondary market. One Maryland man managed to sell his for $100, an incredible 2,400 percent markup over the retail price of $3.99.

There are a few lessons investors can learn here—one of them being that people put a premium on scarcity.

Continue reading.

Forbes

Frank Holmes

Sep 3, 2019

Public Finance And Public Policy: Insights From 5 Experts

In Boston there is always one harbinger of fall you can count on. No, it's not the changing colors of the tree leaves. It's the plethora of moving vans and overstuffed cars crowding the streets as students make their way into dorms and back to class.

It's back to school for their professors as well. While traditional academicians almost without exception have Ph.D. after their names, there is emerging a new group, the "Practitioner Professor": men and women who have spent their lives building accomplished careers in their field are now coming into the classroom to share their knowledge as well as reflect on it themselves.

Interestingly, one area that has benefited by this growing trend is public finance. There are numerous schools of public policy around the nation, but very few actually offer classes much less degrees or certifications focused on public finance or the municipal bond market.

Continue reading.

Forbes

Barnet Sherman

Sep 3, 2019, 09:14am

Munis in Focus: Joe Mysak on Ridership (Radio)

Munis Editor for Bloomberg Briefs, on why the falling of ridership hasn't stopped municipalities from investing in mass transit. Hosted by Lisa Abramowicz and Paul Sweeney.

Running time 06:15

Play Episode

Bloomberg

September 6, 2019

Addicted to Fines.

Small towns in much of the country are dangerously dependent on punitive fines and fees.

Flashing police lights are a common sight all along Interstate 75 in rural south Georgia. On one recent afternoon in Turner County, sheriff's deputies pulled over a vehicle heading northbound and another just a few miles up on the opposite side of the interstate. In the small community of Norman Park, an officer was clocking cars near the edge of town. In Warwick to the north, a police cruiser waited in the middle of a five-lane throughway.

These places have one thing in common: They issue a lot of tickets, and they finance their governments by doing it. Like many other rural jurisdictions, towns in south Georgia have suffered decades of a slow economic decline that's left them without much of a tax base. But they see a large amount of through-traffic from semi-trucks and Florida-bound tourists. And they've grown reliant on ticketing them to meet their expenses. "Georgia is a classic example of a place where you have these inextricable ties between the police, the town and the court," says Lisa Foster, co-director of the Fines and Fees Justice Center. "Any city that's short on revenue is going to be tempted to use the judicial system."

This is by no means just a Georgia phenomenon. Throughout the country, smaller cities and towns generate major dollars from different types of fines, sometimes accounting for more than half of their revenues. Some places are known for being speed traps. Others prop up their budgets using traffic cameras, parking citations or code enforcement violations.

Continue reading.

GOVERNING.COM

BY MIKE MACIAG | SEPTEMBER 2019

How To Build Your Own Bond Portfolio.

Summary

- The best way to build a bond portfolio is to start by thinking about the risks.
- Treasury—all interest rate risk. Investment-grade corporates—some credit risk, some interest rate risk. High-yield corporates—mostly credit risk (they behave like stocks).
- The other thing you need to consider is the length of maturity you want. The idea is to spread your risk along the interest rate curve.
- Short-term bonds = less interest rate risk and less credit risk. Long-term bonds = more interest rate risk and more credit risk.
- The key here is diversification. And yes, this is more art than science. But the bond market is much larger than the stock market. For many reasons, it is not clever to avoid it altogether.

Continue reading.

Seeking Alpha

by Jared Dillian

Sep. 8, 2019

EVENT RECAP: Institutional Fixed Income Roundtable

On Thursday, August 22nd, over 50 fixed income leaders from BDA member firms attended BDA's Institutional Fixed Income Roundtable at the Ritz-Carlton in Dallas, TX.

Attendees heard from taxable and municipal market experts, engaged in active discussions on fixed income market disintermediation, new liquidity providers, market dynamics and trends, issuance expectations, and the buy-side outlook. Following the Roundtable, participants enjoyed a cocktail and networking reception.

Below is a recap of the key issues discussed at each session.

Fixed Income Overview: Challenges and Opportunities

Discussion Leader: Dan Collins, Managing Director, Head of Fixed Income Market & Portfolio Strategy, Wells Fargo Securities

- Issuance of Treasuries are ramping up, and that trend should continue;
- The impacts of potentially negative rates and a flat-to-inverted yield curve;
- Debt to GDP ratio is concerning, but servicing of the debt is not an issue currently;
- While there are some geopolitical headwinds, there are no reasons to see a recession in the next 12 months

Legislative, Regulatory & Political Update

Discussion Leaders: Kelli McMorrow, Senior VP, Bond Dealers of America; Brett Bolton, VP, Bond Dealers of America

- BDA staff discussed the current political climate and expectations for the 2020 election cycle
- Bolton discussed BDA advocacy actions in response to the Fall 2018 request for guidance regarding private placement activities by municipal advisors
- The BDA response can be viewed here

- Staff also discussed prior meetings with the SEC and the MSRB on the issue, as well as continued work on a second letter to the SEC, and an upcoming Washington, DC fly-in to discuss the request with the SEC and leaders on Capitol Hill highlighting investor protection concerns
- McMorrow provided an update on other legislative and regulatory priorities such as FINRA Rule 4210 and GSE reform. A BDA working group is drafting a white paper on "Main Street" broker-dealer priorities in GSE reform.
- McMorrow and Bolton also gave an update on specific priority issues for the BDA –such as GSE reform, the reinstatement of municipal advance refundings, and rasing the BQ debt limit.

Market Disintermediation/New Liquidity Providers/Buy-Side Trends & Expectations

Discussion Leader: Ken Monahan, VP, Market Structure & Technology, Greenwich Associates

Presentation materials are available here

- Where is the liquidity in the future? And are the sources as distinct as they see?
- Who are the other market participants? And who are the other non-dealer market-makers? And how much of an increasing role are they playing in fixed income?
- Is auto-execution a future goal, or already here?
- This structure is common in FX and Treasuries, but remains an open question as to whether it will succeed in credit.

Bond Dealers of America

August 27, 2019

A Hot Job Market Is Causing Labor Pains for State Governments.

Peanut season is nearly upon South Carolina and, like governments across the country, the state has been scrambling to hire.

Its Department of Agriculture is lifting pay for crop inspectors to $13 to $16 an hour from the previous $9.50 to $11.50, and creating an "aide" version of the position that requires less education and experience. It is even tweaking the title to make it sound more appealing: what used to be "temporary inspector" is now a "peanut grading inspector." All this in a bid to find the 125 people it needs to help ensure peanut safety during the September to November harvest.

It is an example of what's happening nationwide. Public agencies that perform crucial functions are struggling to compete as unemployment hovers near its lowest level in a half-century. The public sector has been posting record job openings, and state governments have lost about 20,000 employees since mid-2018, based on Bureau of Labor Statistics data.

Continue reading.

The New York Times

By Jeanna Smialek

Aug. 30, 2019

The Community Reinvestment Act: What Do We Know, and What Do We Need to Know?

Abstract

The Community Reinvestment Act (CRA) was enacted in 1977 to encourage depository institutions to meet the credit needs of their communities. In 2018, the Office of the Comptroller of the Currency put out an advance notice of proposed rulemaking to gather feedback on how the CRA could be modernized. The 1,485 comment letters make clear there is no consensus on what modernization means. We argue that any revision of the regulations would be more effective if it is grounded in facts about current CRA lending. Using 2016 Home Mortgage Disclosure Act data and 2016 Federal Financial Institutions Examination Council loan files, we assess what we know about CRA lending from existing data sources and what we could analyze if we had more data and increased transparency on the data that are already collected.

Download Article.

The Urban Institute

Laurie Goodman, Jun Zhu & John Walsh

August 30, 2019

Muni Bond Demand Withstands Record-Low 30-Year Yield: Invesco

Stephanie Larosiliere, senior municipal strategist at Invesco, examines the impact of a record-low 30-Year yield on the municipal bond market. She speaks with Bloomberg's Taylor Riggs in this week's "Muni Moment" on "Bloomberg Markets."

Watch video.

Bloomberg Markets TV Shows

August 28th, 2019, 8:07 AM PDT

Cost of Infrastructure Fixes Is Going Up.

As a stalemate in Washington lingers, unsafe conditions contribute to a rise in property damage

As a stalemate lingers between President Trump and congressional Democrats over moving forward on an infrastructure package, the price of fixing U.S. roads and bridges is going up in dollars and lives.

The number of public transit safety incidents on streets, highways and bridges rose by 13% between 2015 and 2018, in part because of unsafe conditions. The amount of property damage caused by

those accidents increased by almost 20%, according to an analysis of the National Transit Database.

Additionally, the National Highway Traffic Safety Administration in 2018 reported 36,750 traffic fatalities on roads, or about 101 deaths a day, up from 97 a day in 2015. The need for road improvements contributed to some of those deaths, experts say.

Continue reading.

The Wall Street Journal

By Likhitha Butchireddygari

Updated Sept. 2, 2019 12:15 pm ET

Revolving Water Fund Pilots PFS Approach for Water Quality Improvements.

IN BRIEF

IN MAY 2019, THE REVOLVING WATER FUND AND THE CITY OF NEWARK, DELAWARE, ANNOUNCED THE CLOSING of the first ever pay-for-success transaction funding on-farm agricultural restoration activities to reduce nutrient and sediment flow into waterways.

THE REVOLVING WATER FUND POOLS CAPITAL TO SUPPORT UPSTREAM RESTORATIONS. IT AIMS TO QUANTIFY THE POLLUTION REDUCTIONS from these restoration activities, then package and sell the reductions to municipalities in the watershed seeking to cost-effectively comply with water quality standards.

IF NEWARK IS ABLE TO DEMONSTRATE TO REGULATORS THAT THEY HAVE REDUCED THEIR NUTRIENT AND SEDIMENT LOADS, NEWARK WILL PAY BACK THE FUND. The compensation will cover the costs of the project team, fund further restoration activities, and may eventually also pay back future private investors.

In May 2019, the Revolving Water Fund and the city of Newark, Delaware, announced the closing of the first ever pay-for-success transaction funding on-farm agricultural restoration activities to reduce nutrient and sediment flow into waterways.

The traditional water fund model, which has been used around the world, pools philanthropic and donor capital to support upstream restorations. The Revolving Water Fund (a collaboration between i2 Capital and The Nature Conservancy in Delaware) innovates on this model by also aiming to quantify the pollution reductions from these restoration activities, then packaging and selling the reductions to municipalities in the watershed seeking to cost-effectively comply with water quality standards enforced under the Clean Water Act.

In the Revolving Water Fund's Newark pilot, capital from the fund pays for on-farm restoration activities upstream in the Brandywine-Christina watershed. After "purchasing" these restoration activities, if Newark is able to demonstrate to regulators that they have reduced their nutrient and sediment loads, Newark will pay back the Revolving Water Fund. The compensation will revolve back into the fund, cover the costs of the project team, fund further restoration activities, and

eventually also pay back private investors in the future who may invest if the pilot proves successful.

The Revolving Water Fund was the result of years of cooperation between NGOs and regulators in the Delaware River watershed, as well as strategic infusions of philanthropic and federal grant funding to develop the model and bring it to the pilot stage. If successful, the ability to achieve regulatory compliance for water quality would be a first for the water fund model.

“Our goal is to produce pollution reductions in a way that the per-ton cost of sediment removed is covered by an offtake agreement that is economically viable to the community,” said Ashley Allen, founder and CEO of i2 Capital. The Revolving Water Fund team also hopes that increasing regulator confidence in the model, ideally to be validated through the pilot, will create private investor comfort with and interest in the revolving water fund concept.

Watershed-Scale Vision

The Brandywine-Christina watershed, in the southwest region of the Delaware River watershed, covers 565 square miles from Pennsylvania through Delaware. While the area is mainly rural and agricultural, the Brandywine-Christina watershed provides drinking water to over 500,000 people each day. It also faces development pressures from the nearby cities of Wilmington and Philadelphia.

Yet 400 miles of streams in the watershed are impaired, mainly due to agricultural and sediment runoff. This means that cities like Newark, which gets the majority of its water from the Brandywine-Christina, have to spend substantial municipal resources on treating the impaired water so that it is drinkable and complies with water quality regulations. This challenge is common across the Delaware River watershed.

In the face of these water quality challenges, in 2013 the William Penn Foundation launched their Delaware River Watershed Initiative. The Initiative is a $100 million commitment over 10 years to improve water quality in eight subwatersheds that make up the Delaware River watershed. The foundation selected NGOs in each subwatershed to create joint workplans for addressing local goals, such as nutrient reduction and improved water quality.

The Nature Conservancy (TNC) of Delaware and the University of Delaware were selected by William Penn Foundation to be collaborators within the Brandywine-Christina Watershed. Drawing from their experience from engaging with landowners implementing on-farm conservation practices in the watershed, the organizations set out to build the network needed for a revolving water fund to operate.

“One of the challenges [with developing the revolving water fund] is finding enough willing landowners to partner with on implementation of the practices,” said Richie Jones, former Delaware state director of TNC. “That’s the importance of on-the-ground partners who are building those relationships to implement the work being paid for.”

Partnerships established through the Delaware River Watershed Initiative laid the groundwork for the on-the-ground project pipeline that the revolving water fund relies on. This gave i2 Capital the momentum to apply for a USDA Natural Resource Conservation Service Conservation Innovation Grant (CIG) to support scaled implementation of the model, which they received in 2017. The CIG funding allowed i2 Capital and TNC to bring Quantified Ventures, Environmental Incentives and the Stroud Water Research Center to the project.

“The CIG came at the perfect time, because we had done all the stakeholder outreach, and the political environment and systems were in place, thanks in large part to the William Penn

Foundation and its Delaware Watershed Restoration Initiative," said Jones. The Bunting Foundation provided the startup capital for the revolving fund. Now, through pilot projects like the one with Newark, the team needs to test if they can cover the costs of staffing the program and implementing projects while also generating a return on capital back into the revolving fund.

Regulatory Challenges Create Opportunity

The Revolving Water Fund aims to tap into the regulations in Delaware and Pennsylvania that require municipalities to reduce the nutrient and sediment pollution loads in their waterways. These forms of contamination are regulated through total maximum daily load limits (TMDLs) and municipal separate storm sewer system (MS4) permits. The fund's argument is that municipalities can achieve their regulatory goals for protecting water quality through conservation activities on agricultural lands. Basically, to stop the water from getting impaired upstream before it reaches the municipality.

"Regulators will be on board with this if you can prove the water fund moves money to the highest-efficiency, lower-cost avenues of compliance, which then gives investors confidence because they know that regulators already understand what we are trying to accomplish," said Jones.

Regulatory approval of the revolving water fund approach as a way for municipalities to meet their TMDL and MS4 permits is a big step in allowing the model to be replicated more widely. Recognizing this, the Revolving Water Fund team developed a pollution reduction calculator to measure the impact of on-farm conservation activities. This provided a tool for engaging with regulators early on, as the team worked with regulators on several versions before settling on a model that both sides felt comfortable with.

"We are getting the Delaware Department of Natural Resources and Environmental Control [DNREC] and Pennsylvania Department of Environmental Protection, the two regulators, to look at how we are addressing clean water methodologies and recognizing them as consistent with the regulatory parameters that exist or need to be expanded," said i2's Allen.

New Ability to Invest Upstream

"Newark has been trying to do source water protection work, but it's been a little ad hoc," said Tom Coleman, city manager of Newark. The city had to rely on NGO partners to help them find projects, he said, which is often not the most efficient use of funding.

The city of Newark is home to the University of Delaware and is the third largest city in the state, with a population of over 30,000. The city's dense urban center has meant that source water protection projects within the city limits are few and far between. In the past, Newark faced a decision between two expensive choices for meeting regulatory requirements: building water treatment systems or implementing source water protection projects on the limited urban land available.

Now the revolving water fund makes it possible for Newark to spend money on projects across state lines in rural regions of Pennsylvania, rather than use the little land available within the city on projects that would have lesser impact. This new capacity enables Newark to essentially purchase source water protection practices — on agricultural land upstream in the Brandywine-Christina watershed — that are cheaper and more effective than projects on the highly urbanized land within city limits.

"In Newark we could only really do wetland ponds and flood mitigation, and downtown land is very

expensive," said Coleman. "It's more efficient to look upstream, it adds more tools to our toolbox."

By buying into the water fund, Newark can access cheaper source water protection practices that reduce runoff on agricultural lands in Pennsylvania, such as cover crops, grass swales and riparian restoration.

"It's no small feat to have Newark paying for agricultural restoration in Pennsylvania, but we've both spent a lot of time working with DNREC to get them comfortable," Jones said of the city and TNC's efforts.

The Revolving Water Fund also offers new flexibility for municipalities like Newark by creating a pipeline of projects that a city can pay for based on their water quality needs. Through the pilot, Newark can budget long-term to pay for water quality improvements based on need, rather than their current method of funding projects only when they are available or when funding is available.

"When the Revolving Water Fund started to get fleshed out, we were excited that it would have another organization doing the legwork to find and prioritize the projects and understand their potential water quality improvements," Coleman said.

Proving the Model
"Proof of concept is where the field [of conservation finance] hasn't yet had sufficient movement," said Allen. "Proving out this three-part operation is the precursor to raising a larger fund, which will provide the liquidity and velocity for more projects."

With the Newark pilot and future pilots, The Revolving Water Fund team wants to prove their model works across a range of contexts and states. But first, a pilot needs to successfully demonstrate the nuts and bolts of a deal – contracts for supply and offtake, regulatory approval, and investment – before the model can be replicated.

"We envision this as a private debt instrument that basically provides the ability to produce a product up-front, with the debt capital providing risk reduction," said Allen. "In this case, the private investor will take that risk, and the municipality will only pay for the product once it has the assurance that the product will work – that is, it meets regulatory approval, is scoped and will be in the ground."

Looking Ahead

"We're in phase one of implementation with the pilots, and the next phase is deploying larger-scale capital," said Jones. "The opportunity is that we can hopefully aggregate the municipalities that want to do this."

For example, Jones imagines they could use the revolving fund model to create an aggregated lending facility for a group of municipalities to get a lower interest rate when purchasing restoration activities. Companies that rely heavily on the use of water within the watershed could also be tapped as payors for the revolving fund.

This aggregation could also create opportunities for easier access to the Environmental Protection Agency's State Revolving Funds (SRFs) for clean water projects, as SRFs could lend more to the Revolving Water Fund in a large lump sum. This is easier than giving smaller loans to each individual municipality, since it requires less administration in total.

"It would be interesting to have SRF money involved in this cycle, whether that's on product development or the offtake side, a takeout for initial private investors or (probably more compelling)

as liquidity for the municipal offtake," said Allen.

As the Revolving Water Fund proves out its first pilot and looks to further projects, the team sees further applications beyond nutrient reductions.

"The next frontier for the water fund is around climate resilience," said Jones. "How do we build in flood resiliency in watersheds like Brandywine-Christina, and could we use agriculture lands to retain water?"

Conservation Finance Network

by Allegra Wrocklage

August 28, 2019

Fitch Ratings Responds to Investors' Muni Debt Questions Following Chapter 9 Ruling.

Fitch Ratings-New York-21 August 2019: Though the First Circuit Court's Chapter 9 ruling centered around a transportation authority in Puerto Rico, the wide-reaching nature of the ruling necessitates a change to how special revenue and 'true sale' municipal debt is analyzed, according to Fitch Ratings during a webinar it held earlier this month.

The webinar followed Fitch's release of a criteria exposure draft that proposes to introduce a ratings cap for special revenue debt and true sale structures relative to a municipality's Issuer Default Rating (IDR). The cap would be a total of up to six notches above the IDR depending on the strength of the legal security, and follows a March First Circuit Court Chapter 9 ruling related to Puerto Rico debt.

The public finance markets by and large were caught by surprise by the landmark ruling, which involved the Puerto Rico Highways & Transportation Authority. 'Since municipal bankruptcies are rare and typically resolved through negotiation, related case law is extremely limited,' said Managing Director Amy Laskey. 'The lack of precedent heightens the importance of the recent court decisions in the Puerto Rico matter.'

Fitch is proposing to apply its amended methodology to true sale structures, even though the First Circuit Decision did not address them. 'The legislative history surrounding the revision of Chapter 9 appeared to provide such a strong case that special revenue bondholders would continue to be paid during the pendency of a bankruptcy as long as pledged revenues were sufficient,' said Laskey. 'Now that the First Circuit's ruling has injected uncertainty into the payment of special revenue debt, we feel compelled to revisit the certainty of other legal protections as well.'

The criteria changes would be expected to affect fewer than 20 ratings. The limited rating impact results primarily from the very strong credit quality of U.S. municipalities, which are generally rated at least in the 'AA' category. With this strong baseline, a security rating cap of three-to-six notches above the issuer rating is not an actual constraint in the vast majority of cases. Fitch has six U.S. public finance ratings currently on Rating Watch Negative following the court ruling, which it expects to resolve once the criteria report is finalized.

Answers to the questions that Fitch analysts were asked during the webinar are detailed in the

special report, 'What Investors Want to Know: Fitch's Proposed Change to the Evaluation of Local Government Security Ratings', which was released today and is available at 'www.fitchratings.com'.

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Additional information is available on www.fitchratings.com

CDFA Releases Conduit Bond Fee Study.

Read the Study.

CDFA | Aug. 22, 2019

'It's Just Dirt': Anything Goes in Today's Muni Bond Market

- **Yields on riskiest muni-debt drop to 4%, the lowest on record**
- **That is pushing investors into increasingly exotic deals**

Last month, a risky, new deal hit the municipal-bond market. It came from a small borrower in Colorado that was looking to finance the construction of 1,200 luxury homes in the foothills of the Rocky Mountains.

It was an odd time for such a project. Denver's decade-long housing boom was beginning to show signs of cooling and, moreover, rival developers had already raised record sums to turn vast tracts of land into new communities. "There's no houses to see," said Nicholas Foley, a municipal-bond fund manager at Segall Bryant & Hamill in Denver. "It's just dirt."

No matter. The buy orders poured in anyways and, in the end, about $20 million worth of bonds had been sold for yields as low as 4.75% on 30-year maturities — similar to the rates that investors once only reserved for relatively risk-free market behemoths like California or New York.

Continue reading.

Bloomberg Markets

By Amanda Albright

August 21, 2019, 2:00 AM PDT Updated on August 21, 2019, 6:34 AM PDT

Muni-Bond Refinancing Surges as Yields Hold Near a Record Low.

- **'Whole conversation with the issuer community has been reset'**
- **30-year yield hit 1.9% last week, lowest since at least 2011**

Like homeowners racing to lock in lower interest rates, state and local governments in August sold $8.5 billion in bonds to refinance outstanding debt, the fastest pace since October, according to data compiled by Bloomberg. That's because the costs for governments to borrow have plummeted in the last month, when yields fell after the Federal Reserve cut rates for the first time in more than a decade on concern about a global economic slowdown and stock market swings increased the allure of the safest assets.

"The whole conversation with the issuer community has been reset in the last 30-days," Charles Peck, head of public finance at Wells Fargo & Co., said in an interview on Bloomberg TV.

"Most of 2019 has been characterized by a lack of a sense of urgency in the issuer community to get to market in anticipating that rates will stay at these crazy low levels," Peck said. "All of that changed when the 30-year Treasury rate hit 2%, tax-exempt rates hit the lowest point in almost every tenor and reinvestment rates are at their highest point in recent memory."

Refunding Boom
The jump is a welcome shift for Wall Street underwriters and mutual-funds that have cash they need to invest. Both have been eager for new bond deals since the pace slowed after the 2017 tax-cut law eliminated a refinancing tactic that accounted for billions of dollars of new bond sales each year.

Sweta Singh, a portfolio manager at Wilkins Investment Counsel, Inc. said that it's a "no brainier" for issuers to refinance since both tax-exempt and taxable rates are so low. Yields on 30-yearbenchmark bonds last week dropped to as little as 1.9%, the lowest since at least 2011, according to Bloomberg's BVAL index. It's currently about 1.93%.

"Whether it's new money or refunding, it absolutely makes sense for the issuer to come to market knowing these rate levels and how much demand there is," she said. "It completely makes sense."

Bloomberg Markets

By Danielle Moran

August 22, 2019, 10:30 AM PDT

— *With assistance by Taylor Riggs*

Fitch Rtgs: New Lease Accounting Won't Affect Not-For-Profit Hospital Rtgs

Fitch Ratings-New York-22 August 2019: The Financial Accounting Standards Board's new

accounting standard for operating leases is not expected to have an effect on the vast majority of Fitch-rated not-for-profit hospital and health system ratings, says Fitch Ratings, because Fitch currently includes operating leases in its debt-equivalent calculations.

Pursuant to the new standard, which took effect Dec. 15, 2018, operating leases must be reported on the balance sheet as an asset and a liability, consistent with the current treatment of capital leases. Under the old standard, operating leases, such as hospital equipment and building leases, were considered an operational expense and were only recorded as such under the income statement, while absent on the balance sheet. In contrast, capital leases were recorded as an asset with the related debt captured under debt or other liabilities on the balance sheet. This resulted in what Fitch believes was an understatement of liabilities on the balance sheet.

Early on in January 2018, Fitch incorporated operating leases as a debt-equivalent liability in our assessment of leverage profiles with the publication of the revised U.S. Not-For-Profit Hospitals and Health Systems Rating Criteria. Under the criteria, Fitch uses a 5.0x multiple to capitalize annual operating lease charges to create a debt-equivalent figure to capture the effect the new lease accounting standard will have on Fitch-rated hospitals and health systems. This figure is included in Fitch's core leverage metrics and is currently used to evaluate total long-term liabilities and leverage. For the most part, our use of the 5.0x multiple compares similarly or conservatively to the new standard, based on a sampling of unaudited financial statements of hospitals and health systems in recent interim periods.

The accounting change was implemented in order to align the treatment of operating and capital leases and improve financial reporting transparency and disclosure. As hospitals and health systems typically lease facilities as a cost effective strategy rather than purchasing these facilities themselves, the change in lease accounting is expected to have a significant effect on the long-term debt profiles of these organizations, especially for large health care systems with multiple leased facilities across numerous states.

Fitch's treatment of operating leases incorporates all operating leases in our debt-equivalent calculation, inclusive of short-term leases. As such, our initial analysis indicates that the Fitch-calculated figure is fairing more conservatively compared with expected debt-equivalents reported under the new standard, although there may be exceptions as additional rated entities report on the accounting change.

Reported leverage medians of Fitch-rated hospitals and health care systems based on the new standard are expected to generally remain unchanged or possibly even slightly improve over the Fitch-estimated figure, assuming all other factors remain constant, given permitted exclusions of short-term operating leases under the new standard. Hospitals and health systems are likely to have more information and disclosures in their 2019 audits that will shed more light on the calculation of operating leases and discount rates used in estimations.

State Revenues Were Weak in The Fourth Quarter of 2018; But Revenue Outlook for FY 2019 Remains Positive

State Tax and Economic Review, 2018 Quarter 4

ABSTRACT
State government tax revenues from major sources declined in the fourth quarter of 2018 compared

with the same quarter in 2017, mostly because of declines in state income tax revenues. The declines in income tax collection are partially attributable to the disappearing impact of incentives created under the TCJA to accelerate payments of state and local income taxes into tax year 2017. However, most states saw positive April surprises when income tax returns were filed. Although growth in income tax collections this April was the largest in the past 10 years, the surge should be viewed as a one-time occurrence.

Download the report.

Tax Policy Center

Lucy Dadayan

July 16, 2019

Infrastructure & Surface Transportation Update: Mintz, Levin

With partisanship at a fever pitch, one area of agreement between both parties on Capitol Hill and with President Trump has been the need to address the increasingly fragile state of the nation's infrastructure. However, as summer marches on and with Congress's annual August recess taking lawmakers away from Washington for five weeks – the window of opportunity is, once again, closing as attention is diverted to other matters such as the President's trade agenda and annual appropriations bills. Further, the 2020 election will be underway in earnest in the next few months, and conventional wisdom is that any significant legislative effort like an infrastructure package needs to happen before we are in the throes of an election cycle.

President Trump invited House Speaker Pelosi (D-CA) and Senate Majority Leader Schumer (D-NY) to the White House for talks on infrastructure in late April where they agreed to a $2 trillion infrastructure plan. With some arguing that this amount was insufficient to address the pressing needs of modernizing the nation's infrastructure, the plan has stalled as there was no agreement on how to pay for it. Further, the President indicated that he was unwilling to work with Democrats as long as they were using congressional committee oversight to investigate him. As we all know, those investigations have continued apace.

With all of that said, while we may not see an "infrastructure package" anytime soon, we do expect to see movement on Capitol Hill on infrastructure-related measures such as the surface transportation and Water Resources Development Act (WRDA) reauthorizations.

The current surface transportation bill, the Fixing America's Surface Transportation (FAST) Act of 2015, is set to expire on September 30, 2020. The work of reauthorizing the FAST Act is already underway, with the Senate Environment and Public Works (EPW) Committee unanimously approving their reauthorization bill, the America's Transportation Infrastructure Act of 2019, before departing for the August recess. According to the committee, the bill is the largest highway reauthorization legislation in history, authorizing $287 billion from the Highway Trust Fund over five years. Highlights of the bill include:

- Funding of $5.5 billion over five years for the Nationally Significant Freight and Highway Projects program, $6 billion over five years for new competitive grants for bridges, $500 million annually for new safety incentive programs, and $250 million over five years for a new grant program designed to reduce wildlife-vehicle collisions.

- Further, the bill provides $2.9 billion for the Tribal Transportation Program and $2.1 billion for the Federal Lands Transportation Program over five years.
- With regard to environmental protection and emissions reduction, the bill would invest $4.9 billion over five years in a new resiliency program to protect roads and bridges from natural disasters, $3 billion over five years for the states to support projects aimed at lowering highway-related carbon emissions, and $1 billion over five years in competitive grants for alternative fuel infrastructure.
- The bill also reauthorizes the Diesel Emissions Reduction Act (DERA)program, which supports the reduction of emissions from diesel engines, and the Utilizing Significant Emissions with Innovative Technologies (USE IT) Act to support carbon capture, utilization, and sequestration research.

Senate EPW is, of course, just one of several Senate committees with jurisdiction over surface transportation, with their charge being highways, bridges, and tunnels. The Banking Committee has responsibility for mass transit, the Commerce Committee covers rail and transportation safety, while the Finance Committee handles the trickiest part of all – funding. In the House of Representatives, jurisdiction is more clear-cut with the Ways and Means Committee handling funding, and the Transportation and Infrastructure Committee covering all other aspects. Each of these committees will be working over the coming months to advance their policy and funding priorities for surface transportation.

In March, the House Transportation and Infrastructure Committee held a hearing on "Aligning Federal Surface Transportation Policy to Meet 21st Century Needs" where Chairman DeFazio (D-OR) noted that September 30, 2020 seems a comfortable distance on the congressional calendar but "we don't have time to spare" in making progress on reauthorization. The House Ways and Means Committee also recently held a hearing on "Our Nation's Crumbling Infrastructure and the Need for Immediate Action."

Some of the issues we'll be watching most closely as surface transportation reauthorization gets underway are the treatment of private activity bonds and efforts to restore advance refunding of such bonds, funding issues associated with the Highway Trust Fund, vehicle safety, and autonomous vehicles, among others.

Also due for reauthorization in 2020 is the Water Resources Development Act (WRDA) that is on a two-year reauthorization schedule unlike the five-year schedule of surface transportation. The most recent WRDA bill was enacted in October 2018 with the America's Water Infrastructure Act. While Congress has not always met the two-year mark on WRDA reauthorization, it has been on a winning streak recently, having enacted reauthorization measures in 2014, 2016, and 2018, and there is a strong desire in Congress to continue meeting the challenge with enactment of a new bill next year.

Although the long-hoped-for infrastructure package seems a remote possibility, our contacts on Capitol Hill regularly express optimism for a surface transportation and WRDA reauthorization before the 2020 deadlines.

by Frank C. Guinta, Christian T. Fjeld, Stephen J. Silveira & R. Neal Martin

Wednesday, August 21, 2019

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How High Are Infrastructure Costs? Analyzing Interstate Construction

Spending.

lthough the United States spends over $400 billion per year on infrastructure, there is a consensus that infrastructure investment has been on the decline and with it the quality of U.S. infrastructure. Politicians across the ideological spectrum have responded with calls for increased spending on infrastructure to repair this infrastructure deficit. The issue of infrastructure costs is particularly important as calls for increased infrastructure spending are sometimes coupled with prescriptions for dealing with higher perceived costs. However, the scholarship on the cost of infrastructure is lacking.

Leah Brooks of George Washington University and Zachary Liscow of Yale Law School aim to help fill this evidentiary gap by documenting and analyzing spending on new construction of the US Interstate System over the course of the second half of the twentieth century. Interstate highway construction is of particular interest because it is one of the largest infrastructure projects in the American history. In addition, and usefully for their analysis, Interstate highways are a relatively uniform product across space and time, particularly in comparison with other big-ticket items such as mass transit or airports. This relative uniformity makes for easier comparisons across time and space. At the same time, because states were responsible for construction, there is rich potential for geographic variation.

To analyze Interstate construction spending, Brooks and Liscow digitize annual state-level data on spending from 1956 to the present, and combine these spending per mile ("costs") data with numerous other sources to measure the geographic, political, and legal determinants of costs. While the spending data are at the state level, they observe the precise location of Interstate segments by date of completion, which allows them to undertake more granular analysis.

Brooks and Liscow make two main contributions through this paper:

- They find that spending per mile on Interstate construction increased more than three-fold (in real terms) from the 1960s to the 1980s with inflection point of increase dated to the early 1970s; and that changes in observed geography over time do not explain these changes.
- They provide suggestive evidence of the determinants of the increase in spending per mile. In particular, the increased spending per mile coincides with the rise of "citizen voice" in government decision-making in the early 1970s, while rising incomes and housing prices nearly completely explain the increase in costs statistically.

Read the full paper here»

The Brookings Institution

by Leah Brooks and Zachary Liscow

Monday, August 19, 2019

Untangling Tolls and P3s.

The Alabama Department of Transportation recently released a "Myth Busters" communication in response to recent criticism of the agency's plans to deliver a new bridge and byway project as a public-private partnership. ALDOT's response focuses on common misconceptions about how the tolls will be imposed and why tolls are necessary for this particular project (which is, in fact, being

delivered as a toll-revenue P3). However, in light of the recent pushback against tolls in a variety of jurisdictions, including South Florida, it is worth clarifying the relationship between tolls and public/private partnerships.

In brief, tolls and P3s are independent concepts. In fact, most toll roads are not public-private partnerships—in such situations, the government sets and collects tolls itself as a means to pay for the asset. In addition, most recent P3s do not involve tolls—the private developer of an asset is often repaid by the government directly, through annual availability payments, with no tolls imposed on users of the asset. The recent PortMiami Tunnel is an example of a recent P3 that does not involve tolling. It is also worth considering that even if a P3 asset has tolls, the private developer is not necessarily the party receiving the toll revenue–the government may choose to collect tolls on a P3, but keep the toll revenue itself and instead pay the developer an established annual availability payment. A P3 may also be structured in a manner where the private partner bears the type of risks associate with tolls, but no tolls are actually collected from the public—instead, the government will pay the developer a "shadow toll" for each user. The bottom line is that there are many ways to structure a P3 to accomplish the government's objectives, and that tolls need not be part of the equation.

by Albert E. Dotson, Jr and Eric Singer

August 23 2019

Bilzin Sumberg

Public-Private Partnerships and Dispute Resolution.

We have extensively written about how public-private partnerships ("P3s") offer better, more efficient solutions to public infrastructure needs, and about how, given their effectiveness, they've become a preferred method for funding and managing infrastructure projects in and outside of the U.S. P3s, in short, effectively leverage private funding and expertise with government resources to more efficiently address public needs—often yielding extraordinary results. Yet, while P3s deliver more than just better results than traditional procurement methods tend to, they also incentivize more efficient dispute resolution, too. That is, while ordinary litigation options are typically still on the table, given the long-term arrangements between the parties involved, they tend to seek out faster dispute-resolution options like arbitration, for instance, instead of diving into years of costly, public litigation.

To be sure, P3 teaming arrangements are intricate and complex. A P3 proposer usually consists of a consortium of private entities who, through a special purpose vehicle, submit a proposal to the public entity and, if selected, enter into an agreement with that entity on the one hand, and numerous subcontractors on the other, to address a specific need—such as providing social infrastructure, transportation, or a new utility. From there, the P3 entity would then design, build, finance, operate, and maintain the asset for years to come. Essentially, they remain partners on a single, long-running project, as opposed to typical design-build arrangements where the private-party's interests are short term. So, given the long-term nature of and goals for any given P3 project, the proposer's and public entity's interests tend to be more aligned as both sides have an interest in the project's ongoing success given long-term operations and maintenance contracts are typically part of the deal.

None of that means disputes won't ever happen, of course. Inevitably, they will. The difference here is that each side now has more incentive to resolve their dispute efficiently. So quicker-moving dispute-resolution options like arbitration become more appealing than conventional litigation, especially since parties can (and should) select tribunals ahead of time—including arbitrators with specific expertise on P3 arrangements, as compared to a generalist judges with backlogged dockets. Plus, arbitration proceedings are kept private, are not as jurisdictionally confined (which matters as these projects often involve foreign investors), and are more efficient, as discovery and briefings are streamlined and parties often waive their appeal rights—attributes hardly resembling standard litigation. These practical considerations, among others, drive parties to skip litigation and arbitrate their disputes if (and when) they arise instead.

In short, P3s incentivize not only better project results, but also place the parties in longer-term, more collaborative arrangements that, in turn, nudge them to quickly and effectively resolve their disputes. And that is yet another reason why P3s offer a better path forward.

by Elise Holtzman Gerson, Albert E. Dotson, Jr and Anthony Sirven

August 20 2019

Bilzin Sumberg

The Surprise Bond Sector Which is Unwittingly ESG Compliant.

The US municipal bond market could be an overlooked but strongly developed area for ESG investors to look into, according to a Schroders research paper.

In a white paper, entitled '*Should municipal bonds be a core holding for ESG investors?*', three members of Schroders' bond team looked at inherent characteristics of municipal bonds.

While some US authorities have launched dedicated green bonds, the Schroders report indicates that the $3.8 trillion US municipal bond market is linked to ESG thinking regardless.

'The US municipal market is vital in funding key projects around the country. Many provide the opportunity to allocate to assets aligned with ESG priorities. Municipal debt proceeds often contribute to positive social and environmental improvement.

'State and local governments are essential to developing and maintaining both physical infrastructure (water & sewers, bridges, mass transit, roads & bridges) and social infrastructure (education, health care),' the authors said.

The Schroders team gave the example of a New York City debt issue which was specifically targeted at climate change resilience projects in the wake of Hurricane Sandy.

'The area was damaged due to flooding and storm surge, and the main focus of the funding is to create a network of barriers well above sea level in neighborhoods that are susceptible to flooding. This is just one example of how municipal bonds fund projects around the country that are inherently ESG-focused.'

While the benefits are seemingly evident, the Schroders team said traditional credit analysis should not be jettisoned.

‘Working with Schroders’ Data Insight Unit, we have developed a proprietary ESG municipal model. It examines and assesses regional, state and local issuers based on 42 unique ESG factors from a variety of sources, including several proprietary metrics.

‘As with fundamental municipal bond research, we turn anecdote into evidence while balancing sustainability with valuation. Our ESG model is one of the many tools our analysts use to reach a credit opinion on an issuer.’

Schroders said the munis market has been traditionally popular due to the beneficial tax treatment for investors, as well as the generally high credit quality of the market. ‘More recently, investors are seeing the viability of the municipal market as a way to make an impact in communities, instead of traditional philanthropy efforts.’

City Wire

By Chris Sloley

20 Aug, 2019

Municipal Fiscal Prudence: The Overlooked Community Impact Factor

This is the sixth and final article in a series highlighting the most important aspect of municipal bonds: how the projects bonds finance helps the community. It appropriately started with Municipal Bonds: Investing In Our Communities. This piece looks at how fiscally responsible governments have a more positive impact on their communities because they can better meet the needs of those residents.

When thinking about impact factors, fiscal prudence is often overlooked. Yet in the event of fiscal irresponsibility, the negative impacts can be severe to a community and investors alike. Puerto Rico and Detroit are just two recent examples of why fiscal responsibility is an essential factor to consider when investing in municipal bonds.

Investing in municipalities and authorities with initiatives and processes aligning with good governance, such as consistent, prudent, and transparent financial management, can provide stable returns for investors and lower capital costs for communities.

Continue reading.

Forbes

Barnet Sherman

Aug 20, 2019

Environmental Impact Bonds: The Very Welcome New Kid on the Municipal Finance Block

The public finance industry is not well known for breathtaking innovations nor spontaneous

breakthroughs. But in the past three years a truly innovative development has occurred: Environmental Impact Bonds (EIBs).

In 2008, the World Bank issued what it called a "green bond." Before that event, the bond market and the bond buying public probably had some vague understanding that the World Bank used the proceeds of the bonds they issued for all kinds of typical public works projects mostly in developing countries. But the Bank's "green bond" was a little different. In this case, the World Bank specifically pledged to the bond purchasers that the proceeds of their investments would be invested in "green", or environmentally beneficial, projects. So, clean water, clean air, etc. These are the type of projects that the bank said it would invest "green bond" buyers' money in.

In 2019, another type of green bond was launched in Europe. The "Climate Bond Initiative" began offering investors green bonds the proceeds of which were specifically invested in projects to retard climate change. Think rapid transit and similar projects that get people out of thousands of polluting automobiles and off motorcycles, motorbikes, and those ubiquitous tuk-tuks that plague Asian cities.

Now, the rule of thumb in environmental finance is that the lower the payments, the more projects will get done. Is a farmer going to build a fence to keep his cattle from fouling a stream? If it costs $500, probably yes. If it costs $5,000, maybe. If it costs $50,000, definitely not. Are you going to put solar panels on your roof? If your payment is $20 a month, probably. If its $200 a month, maybe. If its $2,000 a month, definitely not.

So, back in 2008, everybody thought that the World Bank's green bonds would have a lower rate of interest than its traditional bonds. The bank would then pass the lower payments on to its developing country borrowers, who, in turn, would be more likely to do more environmentally beneficial projects. Socially Responsible Investors would be willing to accept a lower rate of interest in return for the satisfaction of knowing that their money was creating environmental benefits. What a neat system!

Only it didn't work. The bank's green bonds carried a market rate of interest, not a lower rate. In fact, it was the same interest rate as for the bank's other non-green bonds. So, if the interest rate wasn't going to be lower, what was the point? The point was that investors just wanted to know that their money was being used for environmentally friendly projects. Okay. But that's not how the new EIBs work.

In 2016, DC Water and its advisors, Quantified Ventures (QV) put together a unique $25 million tax-exempt municipal bond that DC Water issued. The proceeds of the new EIB were for green infrastructure projects to reduce the flow of stormwater that was coursing through the sewers of our nation's capital and into the Potomac River.

Green infrastructure involves projects such as rain gardens, bioswales, pervious pavement, constructed wetlands, etc. – as opposed to "gray infrastructure" which are basically, pipes, pumps, machinery, and equipment. DC Water and QV called the instrument an "Environmental Impact Bond." They built into the EIB a unique and brilliant feature: if the stormwater flow reduction were to exceed 41.3 percent, DC Water would pay the investors an additional $3.3 million. But, if the flow reduction is less than 18.6 percent, then the investors will get $3.3 million less interest.

Wait a minute! This looks backwards. Didn't we say up above that the goal was for borrowers to pay the lowest interest rate possible so that they'd be able to do more projects? So, the question now arises: why would DC Water be willing to pay more for success? The answer is because the $25 million green infrastructure project was a demonstration project. If it worked, it would mean that DC Water wouldn't need to spend possibly hundreds of millions more on additional stormwater

reduction projects. So, why would DC Water pay its EIB investors an extra $3.3 million? The answer is simple: they are happy to pay out $3.3 million because they might save millions more!

Here in a few succinct words are what B-school newbies would call the "value proposition" for these new EIBs. Let's assume a market rate of 4 percent for high-quality municipal bonds. And let's assume that, much like DC Water, the bond issuing agency's choice is between a green infrastructure or a much more expensive gray infrastructure project. Then:

1. The agency issues bonds for the green infrastructure project paying 5 percent if the project succeeds and 3 percent if the project fails.
2. Investors are willing to accept less if less environmental benefit but have the satisfaction of knowing that they were part of a big green infrastructure effort to improve the environment.
3. Investors are delighted to accept more if the environmental benefit is greater than estimated. They get both the emotional satisfaction and more money.
4. If the project fails, the agency has to spend more money on a new, additional project, but has the satisfaction of saving some money on the failed attempt.
5. If the project succeeds, the agency is delighted to pay the higher interest rate because their alternative would have been far more costly.

What did the investment world think of this Environmental Impact Bond? What did the bond market think about Quantified Ventures' new "Pay for Success" bond? Well, the venerable bible of the municipal bond industry, The Bond Buyer, named the DC Water issue the "2016 Non-Traditional Deal of The Year!"

Does this mean the end of the type of green bonds that the World Bank and other major agencies issue? No. They will still be around. There may be no financial implications to such bonds, but they do, after all, create good will. They do let investors know that the World Bank and the other major agencies are doing the right thing for the environment with the investors' money. As a matter of fact, DC Water is planning on issuing at least $100 million of green bonds in the near future.

Since DC Water's first EIB, Atlanta has gotten into the game with its own $14 million EIB which is the first winner of the "Environmental Impact Bond Challenge," funded by the Rockefeller Foundation in partnership with Neighborly, a San Francisco-based public finance house. Atlanta's is the first publicly offered EIB. The city is using their EIBs to fund innovative green infrastructure projects that will address critical flooding and water quality issues, reduce stormwater runoff, and enhance the quality of life in neighborhoods in Atlanta's Proctor Creek watershed.

Baltimore is another city with combined sewer problems like DC. Baltimore is required by federal and state law to reduce and treat polluted runoff from more than 4,000 acres of pavement and buildings by 2019. Working with the Chesapeake Bay Foundation and Quantified Ventures, Baltimore is planning to issue some $6.2 million of EIBs later this year to finance green infrastructure for stormwater management in some three dozen neighborhoods to help pay to replace hard, paved surfaces with plants, trees, and green spaces to soak up and filter polluted runoff before it reaches streams and winds up in Baltimore Harbor.

So, Green Bonds, Climate Bonds and EIBs have been the major innovations in the municipal finance market over the last decade. Neither Green Bonds nor Climate Bonds have any new financial features; they just have their use in assuring investors that their money is being used to pay for environmentally beneficial projects. But it is the Environmental Improvement Bonds – with their "pay for success" formula – that offer true financial innovation and financial incentives for cities like Washington D.C., Atlanta and Baltimore to address their many water quality challenges. EIBs are, indeed, the very welcome new kid on the environmental finance block.

Water Finance & Management

By Michael Curley

AUGUST 19, 2019

Ransomware Attacks Are Testing Resolve of Cities Across America.

HOUSTON — At the public library in Wilmer, Tex., books were checked out not with the beeps of bar code readers but with the scratches of pen on notebook paper. Out on the street, police officers were literally writing tickets — by hand. When the entire computer network that keeps the small town's bureaucracy afloat was recently hacked, Wilmer was thrown into the digital Dark Ages.

"It's weird," said Jennifer Dominguez, a library assistant. "We've gone old school."

This has been the summer of crippling ransomware attacks. Wilmer — a town of almost 5,000 people just south of Dallas — is one of 22 cities across Texas that are simultaneously being held hostage for millions of dollars after a sophisticated hacker, perhaps a group of them, infiltrated their computer systems and encrypted their data. The attack instigated a statewide disaster-style response that includes the National Guard and a widening F.B.I. inquiry.

Continue reading.

The New York Times

By Manny Fernandez, David E. Sanger and Marina Trahan Martinez

Published Aug. 22, 2019

To Succeed In The Global Economy, Cities Must Invest In What Makes Them Unique.

In a converted parking garage turned business incubator and accelerator in downtown Syracuse, N.Y., entrepreneurs and inventors from as far away as Italy and Switzerland are hard at work developing software applications, power systems, and imaging technology for the emerging unmanned systems industry.

The presence of these global innovators represents an early win in a regional strategy to establish the central New York region as a global industry hub, leveraging historic local advantages in electronics, sensors, and defense applications to meet the growing global demand for drones, "internet-of-things" platforms, and other data-driven technologies.

To prosper in the global economy, midsized city-regions are increasingly focused on establishing these distinctive, world-beating industry specializations that leverage local strengths. This includes investing in these specializations, as well as the industrial commons and programming that supports them. It also means strategically orienting export assistance, foreign direct-investment promotion, customer discovery, talent attraction, innovation partnerships, and other global connections to specifically target these local sectors.

Continue reading.

The Brookings Institution

by Rachel Barker, Marek Gootman, and Max Bouchet

August 23, 2019

The City of Stockton Bankruptcy.

During the great recession of 2008, investors saw some of the biggest names in the private sector going under within months – Lehman Brothers and Washington Mutual, to name a few – and many were "bailed out" by the federal government in an attempt to stop the bleeding.

Investors throughout the U.S. and around the world were fearful for the future of their own holdings in the private sector, and the words of Sir John Templeton were more relevant than ever, "Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria."

Throughout all the chaos, investors weren't really concerned about the world of municipal debt. For an ordinary investor, the municipal government is just as secure as the federal government and their investments in municipal debt are almost recession-proof. The commonly held belief amongst many investors is that if the government is struggling to make payments on its obligations, the elected officials will simply increase the taxes to bring back the revenue or any potential shortfalls – until Detroit and Stockton happened. These two municipal bankruptcies were a wake-up call for many investors around the world that municipal debt isn't recession-proof and that every municipality is different in how it manages its operations and debt.

In this article, we will take a look at the municipal bankruptcy of the City of Stockton and what led to the Chapter 9 filings.

Continue reading.

municipalbonds.com

by Jayden Sangha

Aug 23, 2019

The Gift-Card Budget.

Strapped for cash, state governments are plugging holes using unspent gift cards. Not everyone thinks it's a good idea.

Brenda Mayrack never intended to become an unclaimed-property czar. Even among legal specialties, the field is particularly obscure: During law school at the University of Wisconsin, she remembers hearing only a 10-minute lecture introducing the topic at the end of her trusts-an--estates class. But as the director of Delaware's unclaimed-property office, Mayrack now oversees a

fund of $540 million a year, forgotten by people from Paris to San Francisco and then held temporarily by the state.

“You can think of all kinds of examples,” says Mayrack. “The parent has an insurance policy, then they die, and no one knows about it.” Or, Mayrack says, someone might have lost track of a bank account, and the records disappeared in a fire or flood. “The only way the beneficiary will know about it is through unclaimed property,” she says. Because that money belongs to the consumer, not the insurance company or the bank, state offices of unclaimed property step in. Delaware’s pot of unclaimed money includes a mix of forgotten securities, uncashed checks, insurance payments, and—more and more often—gift-card money that customers never spent.

As Starbucks and Amazon propelled gift cards into what was in 2018 a $95.7 billion market, the amount of unused money left on them has also grown. Somewhere in the range of $2 billion to $4 billion—experts aren’t exactly sure—will languish on gift cards this year, according to figures provided by the business research firm Mercator Advisory Group. But there’s little consensus as to who owns that cash. While in some regions, companies take it for themselves, an increasing number of state governments seize it as unclaimed property. Much of that money is then directed into government general funds, where states use it to patch up holes in their budgets—a strange and little-noticed chain of monetary custody in which cash intended for a Colorado Office Depot can wind up paying for infrastructure hundreds of miles away.

No state has had more success with this approach than Delaware. “Delaware does have the vast majority of gift-card money,” says Michael Rato, a lawyer who works on unclaimed-property cases—a consequence of the fact that an outsize number of businesses incorporate there. Mayrack estimates that money from unused gift cards is the fourth most common type of unclaimed property her office encounters, after securities, uncashed checks, and accounts-receivable credits; all told, the state’s unclaimed-property fund accounts for 10 percent of its entire annual budget.

Other states are following its lead. Earlier this year, Colorado tightened its rules regarding gift-card money as part of a broader law that also entitled the state, for the first time, to spend unclaimed property in its annual budget. Some lawyers have considered claiming unused money stored in video games and cryptocurrency. As the Trump administration continues to cut federal funding for state programs, legislators desperate to make up the shortfall are turning to a patchwork of forgotten microtransactions you meant to spend on lattes or in-game wardrobe upgrades to help.

Unclaimed-property laws date back to feudal England, when the Crown was quick to seize control of land owned by citizens who had no heirs. In the United States, too, states held on to the property of people who’d died without clear inheritors. But as the majority of unclaimed property shifted from physical objects such as cash and land to assets that lacked clear geographic origins—and, therefore, a clear state to claim them—the law has become more complicated.

“What became trickier is when there was a type of unclaimed property that touched many different states,” Rato says. “When you have something like a share of stock, there are multiple different states that could have a claim.” By the middle of the 20th century, American courts had to decide who gets to control unclaimed money that is, say, left in a bank account: the state where the holder lives, or the state where the bank is incorporated?

In the 1965 case Texas v. New Jersey, the Supreme Court ruled that, if the address of the owner is known, all the unclaimed property should revert to the state of residence. If not, the state of incorporation for the company that holds the property gets the money. That makes Delaware, the site of incorporation for more than 60 percent of public companies, one of the top recipients of unclaimed property across the globe.

Gift cards have been a particular boon. Since few companies retain the addresses of gift-card owners, jurisdiction is almost always awarded to the state of incorporation. And to make sure it gets its due of gift-card proceeds, Delaware has hired private auditors to inspect the books of companies that are not particularly eager to publicize their extra cash. From 2004 to 2014, for instance, Delaware paid the auditing agency Kelmar Associates $207 million to survey corporations registered within its borders for unclaimed property.

The state is probably right to be vigilant. In recent years, companies have become especially adept at circumventing unclaimed-property laws, according to Mayrack. Many now contract with third-party gift-card businesses based in states, such as Ohio and Virginia, that don't treat unused gift-card money as unclaimed property.

In these states, companies can funnel all unused gift-card money into their own coffers after five years, an expiration period mandated by Congress in 2009. One of the most prolific vendors of gift cards, Starbucks, is based in Washington, a state that says it won't take most gift-card money as unclaimed property—and because of its favorable location, the company made back $60.5 million in unspent gift-card money in 2017.

Even companies based in states with stricter laws are cutting corners just to avoid having their gift-card money seized as unclaimed property. Rather than contracting with legitimate third-party gift-card brands, some have allegedly set up shell companies to stash their unused gift money out of state. In one recent case, Delaware sued Overstock.com for contracting with a company that helped register gift cards out of state, even though Overstock.com—a Delaware company—remained the actual owner of the gift cards. In its complaint, Delaware called these out-of-state holdings a "sham" with the purpose of creating "a false paper trail." A jury agreed, and this past July, Overstock.com was required to pay the state a $7.3 million settlement.

Overstock, for its part, plans to file an appeal in September, telling me, "We did not violate the law." The company also noted that slightly less than 1 percent of its unspent gift-card money belonged to Delaware residents—but because of rules prioritizing the location of incorporation, it paid nearly all of it to the state.

Gift cards alone are not a massive revenue source for any state, but with many regions facing budget cuts, any extra wiggle room helps. Earlier this year, Claire Levy, who served in the Colorado legislature before becoming executive director of the Colorado Center on Law and Policy in 2013, pushed the state's lawmakers to borrow money from its unclaimed-property fund—which had grown to $116 million—in order to pay for affordable housing.

"Colorado chronically has budget issues," Levy tells me. "Public education is pitted against health care, which is pitted against child protective services, on and on and on."

Although some opponents in the Colorado House of Representatives charged that Levy was "spending someone else's money," as one legislator put it to The Colorado Sun, Colorado citizens take back only about 40 percent of unclaimed property within 20 years. In 2015, the nationwide return rate was roughly the same: 42 percent. If the money just sits there, why not use it?

Legal advocates such as Levy see this approach as the future. "Are we just going to continue to just lock that money away and let it pile up and pile up and pile up?" she says. "It just makes no sense when we need to fund housing, when we need to fund mental health care, when we need so many other things taken care of."

Yet an element of the low return rate is self-fulfilling. Without any incentive to do otherwise, some

states allocate minimal funds—or none at all—toward notifying consumers that their property is on hold.

“We don’t have an outreach budget,” says Betty Yee, who oversees unclaimed property in California.

Since taking office in 2015, Yee has pushed the state to devote more resources to returning unclaimed money rather than spend it on government programs if no one reaches out to claim it. “The main objective of the unclaimed-property law is to protect unclaimed-property owners,” she says. “This is not the state’s property.”

Still, spending this money on state programs is a widespread practice. In her research, Levy discovered that the majority of states do spend unclaimed money, either by pouring it directly into the general fund or by putting it toward specific uses, such as housing and infrastructure.

Earlier this year, for instance, Louisiana pulled in $30 million to $40 million worth of unclaimed property to fill a hole in its annual budget. The Kansas legislature, too, decided to spend an extra $4 million from its unclaimed-property holdings. And California has long dumped its $400 million pot of unclaimed property into its general fund, making unclaimed property the state’s fifth-largest revenue source.

Government funding has always been a little bit weird—consider Iowa’s carved-pumpkin tax—but in an era of shrinking budgets, gift-card money has quietly begun bankrolling the month-to-month, year-to-year workings of American states.

THE ATLANTIC

by MICHAEL WATERS

AUGUST 27, 2019

Bad Wrap: The Woes of Bond Insurers.

Burned by financial crisis, they turned to muni bonds. Ouch

On august 8th two subsidiaries of mbia, an American insurer, sued nine Wall Street firms, alleging misconduct in underwriting bonds issued by Puerto Rico and “wrapped”, or guaranteed, by mbia. Lawsuits accusing banks of peddling iffy securities are not rare these days. However, this one is a reminder that “monoline” bond insurers, which briefly played a starring role in the financial crisis of 2008, are, though hardly full of life, still kicking.

Monoline insurers (so called because they focus solely on providing financial guarantees) charge a premium to cover interest and principal payments should bonds default. The industry sprang up in the 1970s, first focusing on municipal debt and later branching out into structured products like mortgage securities. That expansion backfired spectacularly when American house prices crashed. For a few weeks in 2008 the previously obscure monolines—the biggest of which were mbia and New York-based Ambac—became front-page news as fears spread that they might be unable to pay claims on hundreds of billions of dollars of securitised debt.

Rating agencies responded by downgrading monolines’ own debt. That did for some of them, given that the business was largely about lending the insurer’s aaa rating to the bonds. Ambac filed for

bankruptcy and was placed in rehabilitation. mbia avoided going bust but is a shadow of its former self. Both firms remain in run-off, meaning they cannot write new policies, but have big books of existing business. These days, most new policies are written by either Bermuda's Assured Guaranty or New York-based Build America Mutual.

The monolines had hoped that less-ravaged municipal bonds would shore them up. But there too volume tumbled as issuance dwindled and interest rates fell, eroding margins. Josh Esterov of CreditSights, a research firm, reckons the muni-insurance business is a tenth of its pre-crisis size.

Moreover, as the public-finance market shrank it also convulsed. Insurers have suffered bigger-tha--expected losses on muni defaults, from Detroit to Puerto Rico. The latter's bankruptcy in 2017, designed to help it restructure $120bn of debt and pension obligations, has hit them particularly hard. The $170m net loss under us gaap made by mbia in the latest quarter was largely down to Puerto Rico.

The $720m mbia is seeking from Citigroup, ubs and seven other banks matches the value of claims it has paid out on Puerto Rican contracts. It accuses them of creating "a financial abyss of historic proportions" by urging Puerto Rico to issue "unsustainable" debt, and making false or misleading disclosures on which the insurer relied. The banks' defence is likely to focus on the fact that bond insurers are hardly unsophisticated; insurers have long advertised their credit-surveillance skills.

All of which suggests that post-crisis bond insurance is not for the faint-hearted. Last year David Einhorn became the latest in a long line of hedge funders to publicly short a bond insurer, calling Assured Guaranty "a melting ice cube". The firm pooh-poohed the critique, and many clearly think it has navigated the morass well: its share price is 50% above its pre-crisis peak (and 23% higher than when Mr Einhorn weighed in); mbia's is down by 88%. This has allowed Assured to swoop in on some of the more attractive bits of rivals' books. It is also diversifying: on August 9th it acquired BlueMountain, a fund manager specialising in collateralised loan obligations—securities backed by leveraged loans, which fared better than mortgage-backed debt in the crisis and remain popular with yield-hungry investors.■

The Economist

Aug 15th 2019

Some Question Public-Private Partnerships Following Airport Project Breakup.

DENVER (CBS4) – A day after Denver International Airport and city officials announced a bombshell breakup with their partners on the Great Hall reconstruction project, questions about what it will cost remain.

Lengthy completion dates and rising costs, first reported by CBS4 Investigator Brian Maass, are partly to blame for the termination.

Denver Mayor Michael Hancock made the decision to cut the losses while also pointing out issues with the process.

"Public-private partnerships… we have to get better at this," he said. "This is a very valuable and to some extent painful lesson for us to learn."

Public-private partnerships, also known as P3's, are relatively new way for local and state governments to fund major projects.

The airport is one example but the Central 70 project, expansion of U.S. 36 and Denver's commuter rail are other examples.

Paul Teske, Dean of Public Affairs at The University of Colorado Denver who researches changes in urban development and public finance, paying close attention to these deals.

"From the start they are partners in the investment and the private partners are putting some money in and they are also partners in the revenue so there has to be some sort of revenue which is why highways with tolls are a good example," Teske said

The benefit is that projects can start with smaller up-front costs and little-to-no weight on taxpayers.

The concern, outside of unforeseen issues in development, is government losing a long-term revenue source.

Teske says the question the community needs to ask is who is taking the biggest risk.

"The details are very important and that's why there are not a ton of these, you can't pull a contract off the shelf."

CBS4

By Karen Morfitt

August 14, 2019 at 9:59 pm

Understanding General Obligation Municipal Bonds.

Summary

- Municipal bonds are sold by local and state governments to help fund public projects or municipal government operations, like building new schools or repairing city sewer systems.
- A common mistake some municipal bond investors make is assuming that any general obligation bond issued by a state or local government is backed by the same pledge.
- With high-profile cases like Detroit's bankruptcy and Puerto Rico's effective bankruptcy in 2017, it may seem like GOs frequently default – but that's not the case.

Continue reading.

Charles Schwab

By Cooper J Howard

Aug. 15, 2019

The New Center Offers Bipartisan Solutions To Combat The Widening Infrastructure Funding Gap.

WASHINGTON, Aug. 12, 2019 /PRNewswire/ — The New Center – an organization focused on creating the space for a political center in America – today released a new policy paper entitled, "The Infrastructure Funding Gap." With Washington's continuing impasse over how to fund critically needed infrastructure investment, this paper highlights ways in which leaders on both sides could come together to fill the funding gap.

"The Infrastructure Funding Gap" is the second in The New Center's two-part series examining the causal factors behind America's decrepit infrastructure. A previous paper, "Infrastructure: A Tangle of Red Tape," explored how excessive regulations and inefficient bureaucratic procedures impede our ability to build new infrastructure.

In this New Center paper, we try to break the logjam where Democrats have been demanding new taxes to invest new public money, while Republicans have pushed more involvement for private sector investors. A grand infrastructure bargain that brings both parties to the center could include:

1. Requiring states to evaluate all potential funding options, including public-private partnerships, to become eligible for federal funding
2. In the short term: Increasing the federal fuel tax for the first time since 1993 and indexing it to inflation, but in the long-term: transitioning from a fuel tax in the short term to a vehicle miles traveled fee in the long term to account for the increasing prevalence of hybrid and electric vehicles
3. Implement an overland freight tax on heavy-duty trucks and rail cars to account for the extra wear these large vehicles impose on our infrastructure
4. Implementing a capital budgeting system for federal infrastructure projects to account for spending that delivers economic return and operating expenses separately
5. Reviving the Obama Administration's Build America Bonds program to stimulate the purchase of municipal bonds and generate extra funding for public infrastructure projects
6. Lifting burdensome regulations on Private Activity Bonds, which are valuable financing tools for projects that benefit private entities while serving a public purpose

"The Infrastructure Funding Gap" is available for download at www.newcenter.org along with several other recent policy proposals.

Municipal CUSIP Request Volume Slows, Ending Six-Month Growth Streak.

NEW YORK, NY, August 15, 2019 – CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for July 2019. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found declines in CUSIP request volume across most major asset classes in July.

Read Report

GASB Publishes Implementation Guidance On Lease Accounting.

Norwalk, CT, August 15, 2019 — The Governmental Accounting Standards Board (GASB) has issued an Implementation Guide that contains questions and answers about the GASB's new standards on accounting and financial reporting for leases. GASB Implementation Guides are intended to clarify, explain, or elaborate on the requirements of Board pronouncements.

Implementation Guide No. 2019-3, *Leases*, answers many questions about how to apply the provisions of GASB Statement No. 87, Leases, including:

- Scope and applicability
- Determining the term of a lease
- Determining if a lease qualifies for the short-term lease exception
- Recognition, measurement, and disclosure by lessees
- Recognition, measurement, and disclosure by lessors
- Accounting for contracts with multiple components and contract combinations
- Accounting for modifications and terminations of leases, and
- Sale-leasebacks, lease-leasebacks, and intra-entity leases.

The questions and answers contained in GASB Implementation Guides constitute Category B authoritative guidance under generally accepted accounting principles (GAAP). The guidance is applicable to all state and local governments that follow GAAP when preparing their financial statements.

Implementation Guide 2019-3 is available for download at no charge on the GASB website, www.gasb.org. Printed copies will be available through the GASB Store in the coming weeks.

The Bond Buyer: Muni Advocacy Growing and More Focused.

A larger, more focused and more collaborative municipal market lobby has emerged in Washington, as middle-market dealers, bond lawyers and other interests seek more specific and effective representation on muni-specific issues.

That evolution of muni advocacy has been in progression for years, but was further galvanized by the market's collective shock and dismay at the assault on both advance refundings and private activity bonds that commenced during consideration of the 2017 Tax Cuts and Jobs Act. The result has been the growth of Bond Dealers of America, a much more active role for the National Association of Bond Lawyers, and more collaboration than market groups had been accustomed to before.

"I think we're representing an industry," said Mike Nicholas, BDA's chef executive. Nicholas said he believes that broker-dealers see a lot of value in a targeted Washington advocacy strategy that focuses on fixed income issues, even if they also see value in broader financial services lobbying as well.

The numbers seem to back Nicholas' assertion. Since BDA's 2008 founding in the wake of the 2006 merger between the Securities Industry Association and the Bond Market Association, it has grown from just 14 members to more than 70. In July it announced the additions of Chicago-based firms Loop Capital Markets and Mesirow Financial.

In 2008 BDA had two staff and zero outside counsel or lobbying, and today has several staffers and has law firm Nixon Peabody on retainer. The group did recently see Justin Underwood leave for American Bankers Association, and many said that his departure is a loss for the industry.

Simultaneous to BDA's growth has been an apparent withdrawal by the Securities Industry and Financial Markets Association, which the SIA-BMA merger produced. Though the group publicly maintains its commitment to muni issues and does continue to submit comments to regulators on a regular basis, many in the industry saw SIFMA's decision to let go of longtime muni lobbyist and researcher Michael Decker as a clear signal that munis are not a high priority for the group. Decker subsequently formed a "working relationship" with BDA.

About 75% of BDA members are also members of SIFMA for advocacy outside the scope of BDA, because SIFMA covers all markets worldwide and some BDA members have sizable businesses outside of fixed income.

BDA board chair Angelique David, who is executive managing director, COO and general counsel at Chicago-based B.C. Ziegler & Co., said her firm and others see an advantage in BDA's targeted approach.

"A really broad focus may or may not capture those smaller midsize firms," David said, adding that BDA members are able to call the organization at any time and get help from a staff member or lawyer.

She said Ziegler and other BDA member firms see continued value in muni-specific advocacy even though the tax issues no longer rage as hotly as they did in the fall of 2017.

Jessica Giroux, director of government affairs at NABL, also worked at BDA from 2011 until August 2017. She said that muni advocates visiting Capitol Hill earlier in her career generally focused on updates and education about muni issues, with the focus generally on saving taxpayers money with the lower cost of borrowing munis allow.

But industry groups began to coalesce around the tax reform and the threat it posed to munis, she said, including through existing channels such as the Public Finance Network, which is a broad coalition of groups representing all parts of the market. Issuers and muni advisors are also involved, working in concert with the industry where controversy doesn't exist, such as in the push to restore advance refundings.

"It has really brought us all closer together," Giroux said. "We are sharing information."

NABL has itself become noticeably more active in federal advocacy in the past year under its current President Dee Wisor, although the frequent involvement of NABL President-elect Rich Moore in that advocacy suggests the pattern will hold going forward.

An open question is whether the market's efforts, even more focused, will bear fruit in the near future. Many of the priorities of BDA and the other groups, such as an increase to the bank-qualified limit or a restoration of a Build America Bonds-like program, have not materialized despite legislation having been introduced multiple times in the past several years.

Bond Dealers of America

by: Kyle Glazier

August 13, 2019

Fitch Rtgs: US State 2019 Revenues Up Sharply but Sustainability Unclear

Fitch Ratings-US-15 August 2019: US states' revenue collections for fiscal 2019 exceeded expectations for the second consecutive year but growth will likely slow and revenue forecasting will be more challenging, says Fitch Ratings. While some portion of growth reflects the decade-long economic expansion, one-off factors, namely the December 2017 federal tax changes, commonly referred to as the Tax Cuts and Jobs Act (TCJA), and the US Supreme Court's Wayfair v. South Dakota (Wayfair) decision, contributed to the surge in revenues. These one-off factors affected collection trends and may continue to do so, complicating states' revenue forecasting and budget planning. Revenue increases in some states eased budget pressures and contributed to revisions of several Negative Rating Outlooks to Stable but they will not lead directly to rating movement in the short term.

States' median tax collections grew 7.0% yoy in fiscal 2019, exceeding the 5.0% median growth rate for fiscal 2018 based on data from states that have reported fiscal 2019 revenue results. We reviewed publicly available monthly revenue reports for fiscal 2019 (35 states) and fiscal 2018 (39 states). The data excludes the four states that do not use a June 30 fiscal year-end. Fitch used total state revenues if total tax collections were not specifically provided, but in all cases tax revenues were the dominant source of collections.

Continue reading.

Bank of America Says 'No Way' to Negative Municipal-Bond Yields.

- **State and local debt would have no tax advantages if so**
- **Bank analysts also 'believe the U.S. can avoid negative rates'**

Bank of America Corp., the biggest underwriter of state and local government debt, isn't worried that municipal-bond yields will turn negative, even if they do in other parts of the U.S. fixed-income markets.

Bond yields have been plunging fast, making it seem possible that American investors could actually wind up paying governments to lend them money — as is already happening in Japan and much of Europe because of the escalating trade war with China, concerns about slowing global growth and stock market volatility. The yield on 10-year Treasuries has dropped to about 1.55%, with those on tax-free debt about a quarter percentage point less.

But Bank of America's municipal-bond strategists said in a report Friday that even in the "unlikely" event that taxable debt yields fall below zero in the U.S., those on tax-exempt securities will "stay positive in this cycle."

"We believe the U.S. can avoid negative rates in general," they wrote.

There's a major reason why municipal-bond yields wouldn't go negative, even if that happens to Treasuries: If yields drop below zero, there would be no tax benefits to buying the securities, the bank's analysts said. That's the major reason investors buy them, and without that, they'd likely buy taxable debt instead.

The analysts, however, do expect state and local bond yields to keep falling. They said they now

anticipate that 10-year benchmark tax-exempt yields will drop to 1%. They currently yield about 1.23%, the lowest since at least 2011.

Bloomberg Markets

By Amanda Albright

August 16, 2019, 12:54 PM PDT

Munis Join Global Bond Rally as Investors Seek Yield.

R.J. Gallo, senior portfolio manager at Federated Investment Management, discusses municipal bond investment strategy in this week's "Muni Moment" on "Bloomberg Markets." (Source: Bloomberg)

Watch video.

Bloomberg Markets – Muni MomentTV Shows

August 14th, 2019, 9:22 AM PDT

The Last Recession Crippled U.S. States. But Bondholders Won Big.

- **Even during 2008 chaos, city and state debt delivered gains**
- **Debt rallied Wednesday amid concern about global slowdown**

The last time the U.S. went into a recession, states and cities were left reeling from budget deficits so vast that they slashed their payrolls, cut deeply into spending and even raised taxes to stay afloat.

But bondholders were just fine.

In 2008, when the stock market plunged and the collapse of Lehman Brothers Holdings Inc. unleashed financial havoc worldwide, bonds backed only by states' and cities' promise to repay them still posted a return of 1.5%, according to Bloomberg Barclays indexes. The next year, they returned nearly 10%. That wasn't an anomaly. In 2001 — when the economy was roiled by the bursting of the dot-com bubble — the state and local debt rallied, with returns of 5% that year and 9% in 2002.

Continue reading.

Bloomberg Markets

By Amanda Albright

August 14, 2019, 10:24 AM PDT

Amid Concerns of a Recession, Pension Plan Returns Fall Short.

After two straight years of beating expectations, pension investment earnings have slightly dipped thanks in part to fears of a trade war.

Public pension plans are missing their investment earnings expectations for the first time in three years, a development that could strain future state and local budgets amid rising concerns that the national economy is slowing.

Plans with more than $1 billion in assets earned a median return of 6.79 percent for the fiscal year ending June 30, according to the firm Wilshire Trust Universe Comparison Service. That's below those plans' median long-term expected rate of return of 7.25 percent.

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.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | AUGUST 16, 2019 AT 4:00 AM

S&P: Jolted By California Wildfires, Re/Insurers Recalibrate Their Risk Appetite.

The back-to-back devastating California wildfires of 2017-2018 caught the property-casualty re/insurance sector by surprise with the intensity and frequency of the losses and challenging the sector's understanding of this hazard. Nevertheless, in view of most re/insurers' robust capitalization, these wildfires in conjunction with other catastrophe losses had limited impact on their creditworthiness.

Historically, the re/insurance sector has mostly focused on the primary perils such as U.S. hurricanes, tornadoes, and earthquakes, which in the past have been major causes of property-catastrophe risk and losses. The events of 2017-2018 highlighted the increasing risk from secondary perils such as California wildfires, which have increased in frequency and severity. Eight of the most destructive fires occurred in the past two years, and five of the seven largest fires and 10 of the top 20 most destructive fires occurred after 2009. However, it took the events of 2017-2018 for the industry to start paying the kind of attention this peril deserves.

The modeling for California wildfires has been challenged by a number of factors. Climate change is one but not the only factor contributing to the increase in risk, with increasing frequency and severity of dry weather and extended droughts heightening the risk of wildfires. In addition, the level of urbanization, and population and economic asset density, which are close to or encroaching on the wildlands (commonly referred to as wildland-urban interface [WUI]), have been growing, which makes for a catastrophic event when these high-density areas, potentially with expensive properties, are hit. The recent updates to the model targeted a higher level of sophistication for the primary causes of wildfires, resulting in higher frequency and severity of estimated losses. However, challenges persist in understanding this type of peril.

Continue reading.

2018 NADB Green Bond Impact Report.

Read the report.

North American Development Bank | Aug. 15

USDA Invests in Rural Water and Wastewater Infrastructure in 24 States.

Investments will Benefit 133,000 Residents in Rural Communities

WASHINGTON, Aug. 8, 2019 – U.S. Department of Agriculture (USDA) Rural Utilities Service Administrator Chad Rupe today announced that USDA is investing $135 million in 49 projects to improve rural water infrastructure in 24 states (PDF, 170 KB).

"Under the leadership of President Trump and Agriculture Secretary Perdue, USDA continues to partner with rural communities to address their current and long-term water needs," Rupe said. "Modernizing water infrastructure will yield key health benefits and help spur economic growth – making rural places even more attractive to live and work."

USDA is making the investments through the Water and Waste Disposal Loan and Grant program. Rural cities and towns, water districts and other eligible entities can use the funds for drinking water, stormwater drainage and waste disposal systems in rural communities with 10,000 or fewer residents.

Below are examples of projects announced today that show how USDA is partnering to improve rural water and wastewater infrastructure.

- The city of Portsmouth, Iowa, will use a $300,000 loan to replace a water tower and part of the city's distribution system. The updates will eliminate water losses and will improve water pressure throughout the community. They also will provide a reliable, affordable water system for Portsmouth's residents and businesses.
- The Charlotte Harbor Water Association in Punta Gorda, Fla., will use a $7.1 million loan and a $5.4 million grant to replace approximately 86,000 linear feet of water mains along with appropriate valves, fittings, fire hydrants and other equipment.
- Northport, Wash., is receiving a $115,000 loan and a $345,000 grant to improve its water filtration system. The improvements will lower the levels of manganese and nitrates in drinking water.

USDA is announcing investments today in Alabama, Florida, Georgia, Iowa, Illinois, Indiana, Louisiana, Massachusetts, Michigan, Minnesota, Mississippi, Montana, North Carolina, New Mexico, New York, Nevada, Oklahoma, Oregon, South Carolina, Tennessee, Texas, Utah, Washington and West Virginia.

USDA had $2.9 billion available for USDA Water and Environmental Program loans and grants at the beginning of fiscal year 2019. USDA will make additional funding announcements in coming weeks.

View the interactive RD Apply tool or contact one of USDA Rural Development's state or field offices for application or eligibility information.

In April 2017, President Donald J. Trump established the Interagency Task Force on Agriculture and

Rural Prosperity to identify legislative, regulatory and policy changes that could promote agriculture and prosperity in rural communities. In January 2018, Secretary Perdue presented the Task Force's findings to President Trump. These findings included 31 recommendations to align the federal government with state, local and tribal governments to take advantage of opportunities that exist in rural America. Increasing investments in rural infrastructure is a key recommendation of the task force.

To view the report in its entirety, please view the Report to the President of the United States from the Task Force on Agriculture and Rural Prosperity (PDF, 5.4 MB). In addition, to view the categories of the recommendations, please view the Rural Prosperity infographic (PDF, 190 KB).

USDA Rural Development provides loans and grants to help expand economic opportunities and create jobs in rural areas. This assistance supports infrastructure improvements; business development; housing; community facilities such as schools, public safety and health care; and high-speed internet access in rural areas. For more information, visit www.rd.usda.gov.

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Release No. 0118.19
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U.S. Department of Commerce Announces Availability of $587 Million to Aid Communities Impacted by Natural Disasters.

WASHINGTON – U.S. Secretary of Commerce Wilbur Ross today announced that the Department's Economic Development Administration (EDA) has published the Fiscal Year 2019 (FY2019) Disaster Supplemental Notice of Funding Opportunity (NOFO) making $587 million available to eligible grantees in communities impacted by Presidentially declared natural disasters in 2018, and floods and tornadoes in 2019.

"The Trump Administration and the Department of Commerce understand the challenges faced by American cities and towns devastated by recent natural disasters and are committed to helping them recover," said Secretary of Commerce Wilbur Ross. "The funding announced today will help ensure that communities impacted by disaster can rebuild and fuel growth for the future."

EDA disaster grants are made by its Regional Offices under the agency's Economic Adjustment Assistance (EAA) Program, which enables EDA to make awards that support a wide range of construction and non-construction activities in areas which experience sudden and prolonged severe economic dislocation. The submission of applications should be based on long-term, regionally-oriented, and collaborative development strategies that foster economic growth and resilience.

Eligible applicants under the EAA program include a(n): (i) District Organization of an EDA-designated Economic Development District (EDD); (ii) Indian Tribe or a consortium of Indian Tribes; (iii) State, county, city, or other political subdivision of a State, including a special purpose unit of a State or local government engaged in economic or infrastructure development activities, or a consortium of political subdivisions; (iv) institution of higher education or a consortium of institutions of higher education; or (v) public or private non-profit organization or association acting in cooperation with officials of a political subdivision of a State. EDA is not authorized to provide

EAA grants to individuals or for-profit entities.

There are no application deadlines and the agency will accept proposals on a rolling basis until the publication of a new Disaster Supplemental NOFO, cancellation of this NOFO, or all funds are obligated. Disaster recovery projects must be consistent with the U.S. Department of Commerce Disaster Recovery Investment Priorities.

For more information, please visit the EDA and Disaster Recovery page.

EDA Update

Tuesday, August 13, 2019

How Risk-Sharing Policies Affect the Costs and Risks of Public Pension Plans.

Risk sharing is an important component of today's public pension system, as the state and local governments strive to balance growing pension costs and risks as well as the competitiveness of compensation to public employees. In traditional public sector defined benefit (DB) plans, the employer bears nearly all investment risk, longevity risk, and inflation risk during both working and retirement years. On the other hand, the employee tends to be the one absorbing these risks in traditional defined contribution (DC) plans. Under this dilemma, risk-sharing mechanisms such as contingent cost-of-living adjustments (COLAs), contingent employee contributions, and hybrid DB-DC plans, were created.

However, risk sharing has not been widely used in the U.S. public pension plans. Current examples include COLAs in South Dakota Retirement System that depend **partly** on plan funded status, COLAs in Wisconsin Retirement System that depend on investment performance, and employee contributions in Pennsylvania State Employees' Retirement System that depend **partly** on investment performance. Nevertheless, many variants and alternative approaches to risk sharing are possible. It brings a sense of urgency to understand how risk-sharing mechanisms affect costs and risks to pension plans, governmental employers, workers and retirees.

In this paper, Don Boyd, Gang Chen and Yimeng Yin (Center for Policy Research, Rockefeller College, University at Albany) examine the impacts of selected risk-sharing policies on employers and plan members, using a model that simulates a pension fund's year-by-year finances taking investment return volatility into account (i.e., a stochastic simulation model). The pension plan they model has demographic characteristics of a stylized typical U.S. public pension plan. They assume that it has reached a steady state, with new members each year replacing leaving members in a way that keeps the plan's overall demographic structure stable; this assumption greatly simplifies their calculations while still allowing valuable insights.

The authors' simulation results are preliminary but informative. Their main conclusions are:

- The contingent COLA policies examined in the paper, reduce the volatility of employer contributions only marginally. The impact of these policies is more significant during dramatic market downturns than during more normal market conditions.
- The examined contingent COLAs could create a significant benefit risk for retirees. During downturns, retirees could experience low benefits during retirement. The acceptance of contingent COLA policies depends on the risk tolerance and risk preference of plan members and policymakers.

- The examined contingent employee contributions policy, styled after policies in Pennsylvania state retirement systems, also has relatively little impact on employer contribution volatility and total employer cost.
- In some instances, introduction of a risk-sharing policy when a plan is deeply underfunded may be less about reducing risk and more about reducing cost. Employers may utilize the interaction between risk-sharing mechanisms and other plan policies to further reduce cost. For example, the funded-ratio-triggered COLA policies can create incentive for employers to seek a lower discount rate: the lower discount rate would result in higher actuarial liability and a lower funded ratio, making COLAs less likely to be triggered and therefore reducing future benefit payouts. It also could make it easier for a plan to take less investment risk.Read the full paper here»

The Brookings Institute

by Donald Boyd, Gang Chen, and Yimeng Yin

Monday, August 12, 2019

How One City Saved $5 Million by Routing School Buses with an Algorithm.

The Boston Public School District held a contest to determine the best solution for busing around 25,000 students to school every day. The winning algorithm improved the efficiency of the routes in The yellow school bus has remained largely unchanged since it first debuted in 1939. But while the buses look the same, their routes have grown infinitely more complex in the past 80 years, as the number of students, schools, and road systems grow and change.

Drawing bus routes for Boston Public Schools involves challenges unique to the city. BPS allows parents to select their child's school from a list of about ten options, in an effort to reduce inequalities that might result from isolating students to their neighborhoods. While this represents a greater level of choice than most cities, the resulting bus routes can be meandering and complicated.

Compounding that challenge is the fact that BPS provides more bus services than most other districts. All elementary school students who attend schools more than a mile from their home are offered yellow bus service to one of over 220 schools, and many live much farther than that. Some schools draw students from more than 20 different zip codes. Each of those schools also had different start times, between 7:15 and 9:30 a.m., so buses might have to visit multiple schools for pick up and drop off.

Continue reading.

Route Fifty

By Emma Coleman

AUGUST 12, 2019

Municipal Bonds: A Positive Impact In Addressing Homelessness

This is the fifth article in a series highlighting the most important aspect of municipal bonds: how the projects bonds finance helps the community. It appropriately started with Municipal Bonds: Investing In Our Communities. This piece looks at how municipal bonds address difficult social issue by financing impactful programs that benefit people and their communities.

Projects contributing to thriving communities, including those that encourage positive and beneficial interactions with schools, libraries, hospitals, fire stations, public transportation networks, affordable public housing and parks are all part of what makes a community great for its residents.

But some residents in the community are not part of it. The issue of homelessness affects nearly every municipality, large or small, across the nation. Homelessness is defined as people living in "places not meant for human habitation." That's an almost unbearably antiseptic way of saying people are living anywhere a modicum of shelter can be found—in tents, cars, parks, train or bus terminals or just in doorways on the streets.

Continue reading.

Forbes

Barnet Sherman

Aug 13, 2019, 10:20am

Fitch U.S. Water and Sewer Utilities Rating Criteria Revision.

To more clearly communicate credit opinions and facilitate a more forward-looking, predictable approach to ratings, Fitch Ratings has revised its U.S. Water and Sewer Rating Criteria. These revisions will facilitate a more forward-looking, predictable approach to ratings and better highlight differences among credits in the same category.

Anticipated Rating Impact is Limited
Assuming current credit characteristics are maintained, Fitch estimates approximately 10% of the ratings covered by the criteria will be affected, with slightly more upgrades than downgrades anticipated. Criteria-driven rating changes will be dependent on the finalization of criteria after assessing comments received during the exposure draft period.

Experienced Analytical Judgment
Fitch's ratings will continue to be based on the judgment of a team of experienced analysts, rather than on weighted assessments or model-based outcomes.

Subfactor Assessments More Focused
The subfactor assessments relating to the three key rating drivers have been refined to provide an enhanced focus on elements most important in determining credit quality.

Clearer Communication of Credit Opinions
The goal of the revised criteria is to communicate Fitch's credit analysis more clearly, presenting both high-level categorical assessments of key rating drivers along with well-defined opinions about both rating conclusions and the underlying fundamentals.

Rating Changes More Predictable
The revised criteria more clearly define and communicate Fitch's expectations of the range of performance.

New Through-the-Cycle Tool
Known as FAST, this tool highlights how cycles affect utilities differently, and will be publicly available with a select group of issuer data during the criteria comment period.

- Exposure Draft: U.S. Water and Sewer Utilities Rating Criteria
- Rating Criteria User Guide
- Sample New issue Report
- Overview of the Exposure Draft: U.S. Water and Sewer Rating Criteria
- FAST for Water and Sewer

When to Consider a Public-Private Partnership Engagement.

Whenever there is a new government project coming, there is a question about alternative funding resources or public-private partnerships (P3). It has become common for public officials to determine whether a project is suitable for a P3 engagement, especially when the project is critical and lacks sufficient funding. Usually, complex projects requiring unique expertise are suitable for a P3.

Very often the SPI Team receives inquiries from public officials about an upcoming project. Their questions are almost always about alternative funding sources or public-private partnerships (P3s). These officials usually are trying to determine whether a particular project is suitable for a P3 engagement. Since the question has become so common, it seems appropriate to discuss how P3 decisions are best made.

The most common reason to consider a public-private partnership is when government officials need to launch critical projects but lack the financial resources. However, there are numerous other reasons as well.

When projects are complex and require unique expertise, it is wise to collaborate with experienced and trusted private-sector partners. And, when shifting the risk of on-time, on-budget delivery of a major initiative is a priority, it is reasonable to consider a partnership. Because public officials continually strive to meet public needs and maintain public assets with inadequate budgets and resources, P3s have become very common. That trend will not be reversed any time soon because public funds are scarce and federal funding assistance, especially for infrastructure initiatives, is either inadequate or nonexistent.

But, because P3 procurements are not yet common delivery methods in all jurisdictional levels of government, public officials who will be responsible for successful outcomes should seek answers and best practices. And, it all starts with posing the correct questions.

To determine whether a P3 is the best method for procuring a project, public agencies typically evaluate why a collaborative effort with private-sector investment is being considered. One answer could be because the project is large and complex and shifting some of the delivery risk is prudent. Another reason might be that, because of the complexity, certain types of expertise and experience are required that the public entity lacks. It may be that there is a preference for having another party responsible for ongoing operations and maintenance of the public asset after it is completed.

Financial assistance is a primary reason that critical projects often require a private-sector partner.

If those questions are answered affirmatively, the next step is to consider the project's anticipated costs. Most P3 engagements are tied to large public projects, usually in the $100 million cost range. But, there are numerous ways to make smaller projects attractive to private-sector contractors and alternative funding sources.

Public officials throughout the country have found innovative ways to consolidate small and similar projects so their contracting opportunities are of interest to experienced private-sector firms. Successful consolidations have included merging a number of bridge repair projects, packaging urban revitalization projects, or bundling construction of multiple public school campuses into one project.

Experienced private-sector partners are drawn to partnering opportunities that require capital investments but only if a revenue model is developed for repayment of the initial capital over a period of time. Usually, the last, and perhaps the most important, question is whether or not a revenue repayment model can be created.

Myriad ways are available to structure repayment models. For instance, if a private firm constructs a courthouse, delivers a performing arts center, or builds a new terminal at an airport, repayment funds could come from a lease agreement or from revenue generated through a parking garage or retail outlets inside the new public asset. A revenue model also could include a dedicated revenue stream that results from increased tax revenues or savings because of efficiencies tied to the project. Some municipal leaders have repaid capital investments from the sale of non-revenue producing public assets. Many ways exist to structure repayment over a long period of time.

The P3 process also includes many ways to attract alternative funding. If a region has been designated as an 'Opportunity Zone', private-sector contractors will be interested in investing in public projects because of tax benefit incentives. Opportunity Zone designations are abundant throughout the country. Public agencies located within these regions should definitely promote the tax benefits available through public-private partnerships. Some smaller P3 projects have included capital investment from nonprofit organizations, regional banks, and crowdfunding programs.

One of the last considerations is whether or not there a political champion to lead the project. If so, the question to ask is whether the project can flourish over the long term, even if and when the political champion leaves office. It's important to secure internal support and it is wise to designate additional project champions.

When these basic questions are answered, it is almost always clear whether or not a P3 is the best option for project delivery. Collaborative initiatives and public-private partnerships are destined to become the norm, so addressing basic questions and considering all options are critical components of success.

Born2Invest

By Mary Scott Nabers

August 6, 2019

Bond Insurer MBIA Sues Banks Over Defaulted Puerto Rico bonds.

Aug 8 (Reuters) – Bond insurance company MBIA Inc sued several financial institutions on Thursday over their role in underwriting billions of dollars of Puerto Rico bonds that eventually went into default.

The lawsuit filed in superior court in San Juan claimed the banks "inflicted a financial tragedy" on the now-bankrupt U.S. commonwealth by urging it to issue "unsustainable" debt.

"That debt bankrupted the commonwealth and its agencies while the banks enriched themselves through massive fees," the lawsuit stated.

Puerto Rico filed for bankruptcy in 2017 to restructure about $120 billion of debt and pension obligations.

According to the lawsuit, major banks underwrote more than $66 billion of bonds issued between 2001 and 2014 by Puerto Rico and its agencies, earning hundreds of millions of dollars in fees. The defendants are: UBS Financial Services Inc, UBS Securities LLC, Citigroup Global Markets Inc, Goldman Sachs & Co LLC, J.P. Morgan Securities LLC, Morgan Stanley & Co LLC; Merrill Lynch, Pierce, Fenner & Smith Inc; RBC Capital Markets LLC, and Santander Securities LLC.

MBIA argued that these underwriters failed to do their due diligence on Puerto Rico bonds, which led to disclosures that were "materially false or misleading" and upon which its unit, National Public Finance Guarantee Corporation, relied upon when it decided to insure the debt.

A request for comment from J.P. Morgan was not immediately answered. Representatives of the other banks declined to comment on the lawsuit.

National insured more than $11 billion of Puerto Rico debt. Subsequent defaults led the insurer to make as of July 1 over $720 million in claims payments that the lawsuit seeks to recover in damages from the banks.

The same banks were sued by Puerto Rico's federally created fiscal oversight board in May for allegedly aiding and abetting the island's "clearly insolvent" government to issue debt.

(Reporting by Karen Pierog in Chicago and Luis Valentin Ortiz in San Juan Editing by Matthew Lewis)

MBIA Sues Nine Puerto Rico Bond Underwriters.

Bond insurers MBIA Insurance Corp. and National Public Finance Guarantee Corp. sued nine Wall Street firms on Thursday for their actions while underwriting Puerto Rico bonds.

MBIA (MBI) and its subsidiary National are seeking at least $720 million from UBS Financial Services, UBS Securities, Citigroup Global Markets, Goldman Sachs (GS), J.P. Morgan Securities, Morgan Stanley (MS), Bank of America (BAC) as successor to Merrill Lynch, RBC Capital Markets, and Santander Securities.

The bond insurers filed their suit in the Court of the First Instance, Superior Court of San Juan, in Puerto Rico.

Essentially, the insurers argued that the financial firms provided them incomplete and misleading information about the Puerto Rico issuers' financial conditions prior to the insurers agreeing to insure the bonds.

Official Statements are examples of this information. The insurers said that under federal securities laws the issuers were required to investigate the information in the official statements. "The banks did not scrutinize these materials as they assured the market they would," the insurers said.

In the documents the financial firms handed to the insurers prior to the bond sales, "the issuers' debt service coverage ratios were overstated, and they had not spent and likely would not spend their funds as represented."

"Just like the commonwealth and the people of Puerto Rico, National was misled by the underwriters of the commonwealth's bonds," said Bill Fallon, chief executive officer of MBIA (MBI).

In their suit, the insurers acknowledge that they have no statutory claims against the financial firms. They say their suit is under "doctrina de actos propios" (doctrine of proper acts) and the doctrine of unilateral declaration of will. Both have roots in Spanish law, which still underpin much of Puerto Rico's local laws.

All the defending firms in this case were offered a chance to provide a statement to The Bond Buyer. They all failed to do so or said they had no comment.

The financial firms were underwriters for Puerto Rico public sector bonds.

National has paid over $720 million in claims on its insured Puerto Rico bonds and is expecting to pay out hundreds of millions of dollars more. This is the origin of the insurers' claim for at least $720 million.

National insured more than $11 billion of Puerto Rico bonds. National said it insured the bonds when they were issued from 2001 to 2007.

The doctrina de actos propios "is designed to protect 'legitimate expectations' and 'good faith' and to 'prohibit … behavior that would result in an unreasonable interference with a legitimately created trust relationship, that allowed the other party to reasonably rely on the original conduct,'" the insurers said in its suit.

The claim of unilateral declaration of will applies when "'a person might have an obligation towards another person, as long as their intention is clear, arises from a suitable judiciary act and is not contrary to the law, the moral or the public order,'" the insurers said, quoting from a 2014 court decision.

The insurers' losses wouldn't be so large if Puerto Rico and its Oversight Board had chosen to observe basic principles of municipal finance since the bankruptcy, said Chapman Strategic Advisors Managing Director James Spiotto. Spiotto pointed to Puerto Rico and the board's unwillingness to observe guarantees for paying special revenues in bankruptcy and the Puerto Rico Constitution's priority on paying general obligation interest.

If these were followed, the insurers would probably be less interested in launching their lawsuit against the financial firms, Spiotto said.

Vicente & Cuebas and Selendy & Gay are the law firms representing the insurers.

By Robert Slavin

BY SOURCEMEDIA | MUNICIPAL | 08/08/19 04:14 PM EDT

National and MBIA Insurance File Lawsuit Against Wall Street Banks for Misconduct as Underwriters in Puerto Rico's Fiscal Crisis.

SAN JUAN, Puerto Rico, Aug. 8, 2019 /PRNewswire/ — Today, National Public Finance Guarantee Corporation and MBIA Insurance Corporation (collectively, "National" or "Plaintiffs") filed suit in the Court of First Instance, Superior Court of San Juan, Puerto Rico, against eight major Wall Street banks to hold them accountable for inequitable conduct in Puerto Rico's municipal bond market that contributed to Puerto Rico's economic collapse.

Plaintiffs are bond insurers that have been presented with, and fully honored, over a billion dollars in claims after the municipal debt underwritten by the banks became unsustainable on their terms for the Commonwealth and its agencies and they defaulted on their obligations. The lawsuit names as defendants UBS Financial Services, Inc.; UBS Securities LLC; Citigroup Global Markets Inc.; Goldman Sachs & Co. LLC; J.P. Morgan Securities LLC; Morgan Stanley & Co. LLC; Merrill Lynch, Pierce, Fenner & Smith Inc.; RBC Capital Markets LLC; and Santander Securities LLC.

Each bank underwrote one or more bonds issued by each of the Commonwealth, the Puerto Rico Electric Power Authority, the Puerto Rico Highways and Transportation Authority, and the Puerto Rico Sales Tax Financing Corporation. The Complaint alleges that, for over a decade, these banks urged Puerto Rico and its agencies to issue massive amounts of this debt, allowing the banks to profit from underwriting and selling the bonds, as well as from related interest rate swap, refinancing and other transactions. In their capacity as underwriters, the banks had a fundamental 'gatekeeper' responsibility that assured the markets that these municipal bonds could be repaid. But, as shown by a Special Investigation Report prepared for Puerto Rico's Financial Oversight and Management Board, the banks did not conduct appropriate due diligence, resulting in key disclosures being materially false or misleading. These diligence failures concealed essential facts that would have demonstrated that the debt was not sustainable and could not be repaid in accordance with its terms.

This debt burden ultimately forced the Commonwealth from the municipal markets, leaving it and its public institutions—like power utilities, hospitals, schools, and essential infrastructure on which millions of Puerto Ricans rely—in financial distress. Bond insurers like National have paid billions of dollars in claims payments to date, while uninsured municipal bond investors, including many Puerto Ricans, have suffered huge losses.

"We are honored to represent National in this litigation," said Philippe Selendy, founding partner of Selendy & Gay, counsel for National and former lead counsel for the Federal Housing Finance Agency in its RMBS litigations. "As alleged in the Complaint: 'El legado de la conducta injusta de los bancos afectará a Puerto Rico por generacione. Éstos no solo desatendieron su obligación de actuar como celosos guardianes, sino que se aprovecharon de las circunstancias imperantes en Puerto Rico, llevando a Puerto Rico directamente a su crisis actual. Mientras los bancos se enriquecían, le infligían graves daños al Gobierno de Puerto Rico y a sus ciudadanos, al igual que a National. Deben por tanto responder por esta conducta ilícita.'"[i] [English translations have been made available in the endnotes].

The Complaint is based upon two equitable doctrines of Puerto Rican law—doctrina de actos propios and declaración unilateral de la voluntad.

According to Federico Hernández Denton, former Chief Justice of the Supreme Court of Puerto Rico and counsel for National, "The Complaint alleges: '[L]os Demandados, por medio de sus actos, le garantizaron a los demandantes que habían realizado investigaciones completas y razonables de los términos de los bonos que los demandantes aseguraron, y éstos de buena fe confiaron en dichas representaciones, al emitir sus seguros. Pero los Demandados frustraron las expectativas legítimas y de buena fe de los demandantes, al no llevar a cabo esas investigaciones y en torno a la veracidad y de las representaciones que hicieron en las solicitudes de seguro….Estas circunstancias extraordinarias ameritan que se aplique la doctrina de actos propios y/o de declaración unilateral de la voluntad.'"[ii]

In the face of the bonds' defaults, National has paid every cent of every claim on its policies—over a billion dollars—to cover the losses of insured investors.

"Just like the Commonwealth, and the people of Puerto Rico, National was misled by the underwriters of the Commonwealth's bonds," said Bill Fallon, CEO of MBIA Inc., the parent company of the Plaintiffs.

"This time of turmoil should be the occasion for rebuilding. National insured its first Puerto Rico government bond more than 30 years ago and to date has insured more than $15.7 billion of debt for Puerto Rico issuers," Fallon added. "Our insurance has helped Puerto Rico raise the money to build schools and hospitals and other vital public services. We're proud of that. The future of Puerto Rico and the integrity and transparency of the capital markets demand that the underwriters be held accountable."

Philippe Selendy, awarded "Litigator of the Year, Grand Prize" by The American Lawyer, has recovered over $35 billion for his public and private clients. Lauded by the Financial Times as "The Man Who Took on Wall Street," AmLaw reported that the Federal Housing Finance Agency "hit the jackpot" when it hired Mr. Selendy to lead its "litigation assault on Wall Street" that recovered billions for taxpayers in the aftermath of the Great Recession.

Retired Chief Justice of the Supreme Court of Puerto Rico, Federico Hernández Denton has over 50 years of expertise in law practice and litigation. He was Chief Justice of the Supreme Court of Puerto Rico (2004-2014), when he retired from the Court after presiding the Judicial Branch of Puerto Rico. Upon his retirement, he was appointed by the U.S. District Court of Puerto Rico as a Constitutional Lawyer of the Monitor of the Puerto Rico Police Commission.

MBIA Inc., headquartered in Purchase, New York is a holding company whose subsidiaries provide financial guarantee insurance for the public and structured finance markets.

National Public Finance Guarantee is a wholly owned subsidiary of MBIA Inc. and independently capitalized with $3.8 billion in claims-paying resources as of June 30, 2019.

The Complaint is available here.

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[i] "'The legacy of the banks' unjust conduct will affect Puerto Rico for generations. The banks not only disregarded their gatekeeping role but exploited it, leading Puerto Rico straight into its current crisis. While the banks enriched themselves, they caused great damage to the Commonwealth, its people, and National. They should now bear the costs of their inequitable conduct.'"

[ii] "'Defendants through their acts assured National that they were conducting reasonable investigations regarding the terms of the bonds that National insured, and National relied on those acts in issuing its insurance. But Defendants frustrated National's legitimate, good faith expectations by choosing not to conduct those investigations and utterly failing to ensure that they had confirmed the truthfulness and completeness of the integral materials in the insurance applications.…These extraordinary circumstances warrant application of doctrina de actos propios and/or the unilateral declaration of will.'"

How To Beat The Risk Of Negative Yields.

As the $14.5 trillion in global negative yielding bonds grows, what kind of maneuvering should you be doing?

First off, we older investors will never forget the Y2K scare and the disaster that never happened. Right now many investors are as worried about negative yields happening in the U.S. as we were worried about our computers in 1999 being unable to digest the changeover to 2000.

I quote the August 5 Barron's, which in turn quoted BofA Merrill Lynch Research: "Net buying in global bond funds is on pace to reach a "staggering record" of $455 billion in 2019, which compares with the $1.7 trillion of inflows over the past ten years."

For 2019, U.S. bond fund inflows have been huge. Investors have sold stocks for the safety of bond funds. You can look up the Lipper Fund Flows or Yardeni Research's excellent flow of funds charts to see the magnitude of this shift.

The point is, if we approach zero percent interest rates or heaven forbid, go to negative rates, my guesstimate is the money flows into bond funds of all types will become a tsunami.

Study the Vanguard Total International Bond Index Fund (VTIBX) with $131.6 billion under management. Its website states the fund has a 0.13% expense ratio and as of August 1, a 0.45% 30-day SEC yield. The yield is beyond paltry, I agree. But the near-term proposition looks even worse. As more investors flock to the fund, more bonds will be purchased at lower yields and even negative yields. Looking at the fund's largest holding, Bundesrepublic, Deutschland 0.25% maturing Feb. 15, 2029 which presently yields -0.538% this trend is not your friend.

We Baby Boomers have lived through unthinkable market occurrences. So the Central Bankers bringing negative yields to our bond market won't be any surprise.

What should you do? If ever there was a time to leave bond funds and switch to individual bonds, it's now. Granted, with a flat yield curve with 2-year U.S. Treasurys yielding 1.74% and the 10-year at 1.84% you aren't getting paid to extend your maturities. But swim against the current and do it anyway. Load up on 5-9 year bonds. If this wave hits our shores your one-year CDs or two-year corporate bond yields will quickly evaporate.

Your risk in switching to individual bonds is minimal. The Federal Reserve isn't going to do any harm. In fact, expect lower bond yields for a protracted time as global investors push and shove to invest in our bond market where U.S. yields out strip theirs by a mile. And, the slowdown in the global economy will keep a lid on rates.

If you are looking for taxable income, invest in corporate names like Motorola Solutions, Biogen,

Constellation Brands, Delta Airlines and Citigroup. Find the right maturities for your portfolio and spread them out.

Municipal bonds are another story. The flood of money in June, July and August has swamped the market. Add to that the massive maturities, coupon interest and calls; maybe waiting to invest in September if you are a first-time muni investor is a good idea. For others, when your munis are called or mature redeploy your funds—don't wait for higher rates this year—it's not going to happen.

My favorite municipal bond sectors remain airport revenue bonds issued by the top ten largest U.S. airports. Also the largest, most active harbor bonds are a favorite even though tonnage is down due to the trade war with China. Stay away from small cities and counties, small hospitals and utilities. Cyberattacks are occurring fast and furious on the smallest, most vulnerable and least likely to employ the latest in cyber security.

There is a lot happening. Generating portfolio income is getting harder. Bond funds will not be your easy way out. As money flows into both domestic and foreign bonds funds, you can potentially get stuck earning a few measly basis points or no basis points. The paradigm has shifted.

Forbes

by Marilyn Cohen

Aug 5, 2019

Moody's Operating Lease and Pension Interest Rates.

Operating Lease and Pension Interest Rates – July 2019

07 Aug 2019 | Market Outlook

Will Climate Change Lead to a 'Fiscal Tsunami'?

As extreme weather increasingly wreaks havoc, credit rating agencies want more information about how vulnerable each state and local government's economy is to climate change.

Moody's isn't waiting for them to give it up.

Moody's Corporation, which owns one of the largest U.S. credit rating agencies, recently purchased a major stake in Four Twenty Seven, a company that analyzes climate risks, such as sea level rise, heat stress and storms, to companies and governments. The acquisition "will help us go deeper into and refine how we assess physical risks caused by environmental factors," Michael Mulvagh, head of communications for Moody's, told Inside Climate News.

The move comes as rating agencies have increasingly commented on climate change and credit risk.

Both Moody's and S&P have released online tools to gauge which areas and what industries face the most exposure to extreme weather and long-term climate change. All three rating agencies have developed guidelines for evaluating the environmental, social and governance investments, some

which include certain government bonds. But the purchase by Moody's is widely regarded as a clear signal the ratings agency will be incorporating climate risk into future assessments of governments as a whole.

Calling Out Coal

While hurricanes and wildfires can do a lot of damage in a short amount of time, a more subtle climate risk is having an economy that's reliant on an industry that's harmful to the environment — like coal.

After robust growth between the early 1960s and 2000s, total coal production in the U.S. declined by 32 percent between 2007 and 2017, in large part because of the cheaper cost of natural gas. Much of the decline affected coal mines east of the Mississippi River in Appalachia and in the Powder River Basin in Wyoming and Montana.

According to new research from Columbia University's Center on Global Energy Policy, local governments in these regions — some of which rely on coal for up to half of their annual revenue — face "a fiscal tsunami."

"We've seen this with other industry collapses," Adele C. Morris, one of the report's authors, said in a presentation of the paper last month at the Brookings Institution. "In most cases what you see is this fiscal death spiral where public services decline, property values decline, other revenue declines, outmigration produces blight."

In Mingo County, W.V., coal mine employment fell from more than 1,400 people in 2011 to just 500 at the end of 2016. Nationwide, coal production is expected to drop by another 15 percent over the next decade — by even more if governments continue pursuing climate policies to reduce emissions and incentivize renewable energy.

Moving forward, the Center on Global Energy Policy suggests investors and other stakeholders ask these governments "for budget data that appropriately reveals the coal reliance of the local economy, and they should expect the information to appear in official statements in bond issuances."

Exaggerating the Financial Risk?

But some bond investors and analysts argue that any savvy bond buyer is already looking at climate risk, especially as it pertains to fossil fuels.

It's not necessary for governments to discuss their own climate risk at length, says Joseph Krist, a partner at the municipal finance firm Court Street Group.

"We've seen this before," he says, noting the collapse of the textile industry in South Carolina and the steel industry in Pennsylvania. "It's not a great thing if you live there but it also hasn't led to a whole lot of defaults. It's not a reason for bondholders to freak out."

Asking governments to disclose more about their how the environment could pose financial risks is also tougher for smaller cities and counties, many of which are most vulnerable to the changing climate.

"Reporting is an issue, and it is a struggle for municipalities," Tim Coffin, director of sustainability for Breckinridge Capital Advisors, said at the Brookings event. "We engage with companies and municipalities and we've discovered that even though we carry a pretty big stick in the muni market, it's hard to engage with some of them because they just don't have the bandwidth."

GOVERNING.COM

BY LIZ FARMER | AUGUST 7, 2019 AT 4:00 AM

Walton Family Backs Bond-Market Experiment for Charter Schools.

- **Non-profit is floating first bond for revolving loan fund**
- **The loans would cut reliance on high-yield muni-bond market**

Anand Kesavan spent more than a decade as a public finance banker working with state loan funds for clean water projects before a two-year stint as chief financial officer at KIPP Austin, a network of 10 charter schools in Texas's capital.

Now, he's heading a non-profit backed by the family of Walmart Inc. founder Sam Walton that's experimenting with a novel way to cut the cost of financing charter schools. On Wednesday, his Equitable School Revolving Fund will sell the first bonds ever used to finance a loan pool for such experimental schools, creating a potentially cheaper way for them to raise funds than selling higher interest-rate bonds on their own.

"Bringing down costs for schools is just as important as trying to bring up revenues," said Kesavan, chief executive officer of the Equitable Facilities Fund, the non-profit parent of the ESRF. "One of those way is to borrow at better terms."

Bond sales by charter schools have grown five-fold in the last decade to $3 billion, reflecting rising enrollment in the taxpayer-funded schools, which are independently run and provide an alternative for parents of children in poorly performing districts. The debt is among the riskiest in the municipal market because of the chance that students won't enroll or weak performance will cause them to close. Most individual charter-school securities aren't rated or carry junk ratings, causing investors to demand higher yields.

The fund, which received a $200 million grant from the Walton Family Foundation to start making loans, plans to issue about $110 million bonds through the Arizona Industrial Development Authority and the California Infrastructure and Economic Development Bank. Proceeds of the sale managed by Royal Bank of Canada will finance or reimburse $158.5 million of loans to 11 charter school operators in seven states.

Water-Fund Inspired

The ESRF was inspired by state revolving-long funds for water projects, which received initial capital from federal grants in the 1980s, said Kesavan, a former banker with UBS AG and Siebert, Brandford Shank & Co. Before those funds, municipalities had to pay higher interest rates to finance water and sewer infrastructure because they were borrowing on their own.

Like securities issued to finance water revolving funds, the ESRF will allow investors to diversify risk, while also providing greater scale and liquidity, Kesavan said.

Six of the charter school operators participating in the loan program have S&P ratings of BBB- or BBB. Three are rated BB or BB+ and two are not rated. The operators run 41 schools that are pledged to secure the bonds.

The new securities received an A rating by S&P Global Ratings Inc. because the $277 million of charter school loan repayments is greater than the $213 million debt service. As loans are repaid, the ESRF will use the money to make new loans. The fund will be able to withstand the default on 26% of its loans, assuming a 0% recovery, according to ESRF.

By contrast, a portfolio manager that had held individual charter school bonds would face the risk of losses immediately. Less than 4% of charter school bonds have defaulted, according to a 2017 study by NewOak Fundamental Credit.

“The premise of this deal is that investors can play in the charter school space but benefit from an A rating,” said Dora Lee, director of research at Belle Haven Investments. “However, it is hard for investors to be confident that that rating will be stable given that it’s an unproven loan fund and there’s going to be a lot more leverage coming down the pike.”

In addition to Wednesday’s deal, the ESRF plans to issue another $130 million of bonds in 2020 and $170 million in 2021. A minimum $600 million in school loans will be pledged to the $400 million in bonds.

ESRF spends six to nine months analyzing the charter schools applying for loans, scrutinizing factors like academic and financial performance, real estate, market position, regulatory environment and operating history.

The fund will monitor loans and can provide technical assistance, early intervention and remediation if the schools run into trouble.

“We can differentiate between the schools that are of good quality versus those that that aren’t” Kesavan said. “That’s the value that we offer to investors.”

Bloomberg Markets

Martin Z. Braun

August 6, 2019, 10:30 AM PDT

‘Music Man’ City Sells Munis to Pay for Renaissance.

- **Mason City, Iowa, borrows to pay for arena, hotel, museum**
- **Joins big cities in borrowing to pay for economic development**

There’s no trouble in River City. It’s selling bonds Tuesday to pay for everything from transit rolling stock and cemetery equipment to a new multi-purpose arena and turning “Music Man Square” into a convention and conference center.

Big cities use the municipal market all the time to help pay for things like New York City’s Hudson Yards and Boston’s “Big Dig” road relocation project.

But a close study of the calendar of new deals shows that small cities and towns are doing it every week, too, and backing the bonds in a variety of ways, sometimes with incremental increases in sales and property taxes, sometimes with governmental appropriations, sometimes with their general obligation full faith and credit tax pledge.

That's what Mason City, Iowa, birthplace of Meredith Willson, who in 1957 wrote "The Music Man," is using to secure the more than $12 million in bonds it's selling at auction. The tax-exempt portion is being used to pay for airport improvements, street construction and sewer projects, among other things – the usual enterprises you associate with the municipal market.

But the taxable portion is being used to help fund the "Urban Renewal Plan for the Downtown Reinvestment and Urban Renewal Area," and that includes an arena, a performing arts center, museum improvements and a "hotel, skywalk and convention complex," in the words of the official statement to the deal, which is rated Aa3 by Moody's Investors Service.

This is the stuff of bigger dreams, namely, economic development for the city of 28,079 (2010 Census) down from 30,642 in 1960.

They are calling that economic development the "River City Renaissance" project, a $40 million plan funded by a mix of taxes, grants, private equity, state and county money and these GOs. The project was approved by voters in November of 2017.

"The Music Man" told the story of a sweet-talking con-man, Harold Hill (portrayed in both the Broadway play and the 1962 movie by Robert Preston) who convinced the citizens of River City, Iowa, to pay up to start a marching band for their sons. It ended with a bit of magic, which may be what Mason City will need for all the pieces of the project to come together just right.

There's no way to track the growth in such projects since the Great Recession, because municipalities finance them in such diverse ways. Anecdotally, though, it seems that not a week goes by without some city, somewhere, selling bonds to finance a brighter future based upon shopping, a hotel, a convention center, a stadium, some swell addition that will turn downtown into a destination.

Bloomberg Business

By Joe Mysak

August 6, 2019, 6:57 AM PDT

Muni-Bond Yields Slide to New Low as China Trade War Escalates.

- **30-year benchmark yields tumble by 6 basis points to 2.1%**
- **China's retaliation drives investors into the safest assets**

U.S. state and local government bonds rallied along with Treasuries as the escalating trade war with China drove investors toward the safest assets, sending yields on 30-year municipal debt to the lowest since at least 2011.

The rally pushed the yields on the longest-dated securities down by 6 basis points early Monday, the biggest one-day move since April, to 2.1%, according to Bloomberg's benchmarks. Ten-year yields dropped 4 basis points to 1.39%, just above the previous low of 1.36% reached three years ago.

The state and local government debt is tracking a broader fixed-income rally as investors dash to haven assets after a sell-off across Asia that erupted after China let its currency weaken and cutting off purchases of American soybeans to strike back at President Donald Trump for threatening to

impose more tariffs on Chinese imports.

The gains promise to benefit states and cities who are poised to sell about $17 billion over the next month, the busiest slate of new offerings since December 2017, according to data compiled by Bloomberg.

Bloomberg Markets

By Danielle Moran

August 5, 2019, 6:51 AM PDT

Is Municipal Bond Insurance Still Worth the Money in an 'Over-Insurance' Phenomenon?

In theory, the municipal bond insurance should reduce the cost of municipal borrowing by reducing expected default costs, providing due diligence, and improving price stability and market liquidity. However, prior empirical studies document a yield inversion in the secondary market, where insured bonds have higher yields than comparably-rated uninsured bonds during the 2008 financial crisis, suggesting that insurance has no value precisely when needed most.

Whether bond insurance provides value to issuers of municipal bonds (munis) is an important question because the cost of insurance is borne by taxpayers. But this question remains unanswered by a literature providing mixed evidence based on relatively small samples of munis issued in particular states (e.g., Texas, California, New York) or in limited time periods. To fill this gap, Kimberly Cornaggia (Penn State University), John Hund (University of Georgia) and Giang Nguyen (Penn State University) examine the benefits of bond insurance to taxpayers in this paper, using comprehensive data and selection models to control for fundamentals and the endogenous choice to insure.

The authors bring a more comprehensive dataset to the question of insurance value than prior studies and tackle the selection effects associated with the endogenous choice to insure. They first find that the previously documented yield inversion in the secondary market during the 2008–2009 financial crisis, is driven primarily by insured munis with credit ratings at or above the ratings of their insurers, many of whom experienced serious financial distress and downgrades during the crisis. They then focus on the primary market and measure the benefit of insurance to issuers as a reduction in offering yields at issuance. Consistent with the secondary market results, the authors' primary market analysis indicates this lack of insurance value stems from the relative quality of insurers vis-a-vis insured issuers and that highly-rated issuers subsidize lower-rated issuers and any insurance premium represents negative value for the highly-rated issuers. The authors employ two state-of-the-art selection adjusted models to account for the selection into insurance. Although it is puzzling that highly-rated issuers pay for relatively low-rated insurance without commensurate economic benefits, the evidence is consistent with prior literature documenting an "over-insurance" phenomenon.

The authors conclude that the "over-insurance" phenomenon is influenced by:

- **Agency problems between public officials and the taxpayers they represent:** Jurisdictions with higher corruption (relatively higher conviction rates among public officials) despite lower deterrence (relatively lower prosecution rates) leave the most money on the table.

- **Conflicts of interest among underwriters and municipal advisors:** Municipalities hiring large, influential advisors or underwriters leave the most money on the table

The results commend additional regulatory efforts to enforce municipal advisor standards and better educate municipal issuers (heterogeneous in their sophistication) regarding the conflicts of interest inherent in underwriter incentives.

Read the full paper here»

The Brookings Institute

by Kimberly Cornaggia, John Hund, and Giang Nguyen

August 1, 2019

Municipal Bond ETFs Still Have Receptive Audiences.

The iShares National Muni Bond ETF (NYSEArca: MUB) is up nearly 6% year-to-date and some market observers believe municipal bonds can continue delivering upside in the second half of 2019 and that demand for the normally conservative corner of the fixed income market remains steady.

With bond market mavens warning investors of headwinds in the fixed income space like the possibility of an inverted yield curve, rising rates and BBB debt sliding out of investment-grade, investors need to be keen on where to look for opportunities.

One area is within the municipal bond space, which may have gotten a boost following last November's midterm elections. In particular, with respect to infrastructure spending—it's one of the few things, if any, that Democrats and Republicans can agree on, but with the newly-divided Congress, this could fuel municipal bond ETFs.

"The demand for municipal bonds, primarily from retail, has been nothing short of sensational," said BlackRock in a recent note. "We've seen $52 billion in flows from January through the week ended July 17. That has been coupled with eight months of positive performance going back to November of 2018, as interest rates began to fall. Year to date through July 24, municipal bonds are up 5.80% and up 8.35% since November 2018, as measured by the Bloomberg Barclays Municipal Bond Index."

MUB ETF Details

MUB, the largest municipal bond ETF, seeks to track the investment results of the S&P National AMT-Free Municipal Bond Index, which also measures the performance of the investment-grade segment of the U.S. municipal bond market.

Municipal bonds, also known simply as munis, are debt obligations issued by government entities. Like other forms of debt, when you purchase a municipal bond, you are loaning money to the issuer in exchange for a set number of interest payments over a predetermined period of time. At the end of that period, the bond reaches its maturity date, and the full amount of your original investment is returned to the investor.

Tax reform is playing a pivotal role in driving demand for municipal bonds among retail investors.

“Tax reforms have actually supported demand from retail investors, after a year where we witnessed institutional owners (~25% ownership) right-size their allocations,” according to BlackRock. “Consider that the most meaningful tax benefit went to the corporate sector, which saw its effective tax rate reduced 14%, to 21%. For individuals, the top marginal tax rate came down only 2.6%. And when you factor in the limited deductions at the state and local level, many people saw their tax obligations increase.”

ETF TRENDS

by TODD SHRIBER

JULY 31, 2019

GASB: What is Reference Rate Reform?

Reference rate reform refers to the global transition away from referencing the London Interbank Offered Rate—or LIBOR—and other interbank offered rates (IBORs), and toward new reference rates that are more reliable and robust.

Currently, LIBOR is the most commonly used reference rate in the global financial markets. However, concerns about the sustainability of LIBOR and other IBORs globally has led to an effort to identify alternative reference rates prior to late 2021, when LIBOR may no longer be used as an international benchmark.

In the United States, the Alternative Reference Rates Committee convened by the Federal Reserve has identified the Secured Overnight Financing Rate (SOFR) as its preferred alternative reference rate to U.S. dollar LIBOR.

Because the long-standing use of LIBOR as an international benchmark will likely cease in late 2021, the GASB has taken proactive steps to stay ahead of the migration away from LIBOR to an alternate benchmark.

Why Did GASB Add This Project To The Agenda?

What Are The Project Objectives?

Stay Informed.

Nuveen's Bond-Market Power Was Misused, Preston Hollow Founder Says.

- **Judge urged to find Nuveen tried to freeze out smaller rival**
- **Wall Street bond traders deny boycotting Preston Hollow**

Nuveen LLC’s role as one of the biggest players in the U.S. municipal-bond market gave the company “unfettered power’’ to strong-arm banks into blackballing rival Preston Hollow Capital LLC, the smaller firm’s founder said.

Jim Thompson, who founded Preston Hollow in 2014, urged a judge at the end of a trial Tuesday to

find Nuveen wrongfully schemed with banks' bond traders to freeze the Texas-based firm out of the high-yield market and stifle competition.

"Over the years, they've just done what they want,'' Thompson, who is also Preston Hollow's chief executive officer, told Delaware Chancery Court Judge Sam Glasscock III. "We're here asking the court to stop it.''

In its defense, Nuveen played down its influence and tried to show that it didn't get any agreements from Wall Street banks to stop doing business with Preston Hollow.

Glasscock, who heard the case without a jury, indicated he wouldn't rule on Preston Hollow's accusations until both sides submit final written arguments, sometime after the end of August.

Preston Hollow alleges Nuveen misused its market power as one of the biggest buyers of U.S. state and local government bonds to organize a boycott of the lender. Preston Hollow is asking the judge to stop what it describes as a campaign to badmouth it and interfere with its business relationships.

The judge heard testimony that Nuveen executives, including muni-bond titan John Miller, threatened to pull tens of millions of dollars in business from banks that underwrote offerings with Preston Hollow and financed its loans. Miller is co-head of Nuveen's fixed-income unit and oversees more than $160 billion in municipal bond assets.

Preston Hollow has made $2 billion in loans to finance hospitals, real estate developments and student housing. Nuveen, which had almost $1 trillion in assets under management as of March 31, is the investment manager of TIAA, best known for offering financial products to teachers.

At trial, Preston Hollow's lawyers played tapes of calls Miller made to bond traders at Goldman Sachs & Co. and Deutsche Bank AG in which he threatened them with loss of Nuveen's business if they continued to do deals with the targeted firm.

Miller was also accused of ordering subordinates to call major players in the muni-bond market to pressure them to avoid Preston Hollow.

"It's clear as day from the calls there was an agreement between Nuveen and Morgan Stanley to not do business with Preston Hollow,'' Cliff Weiner, a Preston Hollow executive, told Glasscock.

But Bernard Costello, head of Morgan Stanley's municipal bond-trading desk, testified in a video deposition that there was never an agreement to boycott Preston Hollow and said the Wall Street firm continued to do business with the company despite Nuveen's request.

Nuveen's lawyers argued that if the bond firm sought to organize a Preston Hollow boycott, it didn't do a very good job. They played snippets of video depositions in which a parade of bond traders from Goldman, JPMorgan Chase & Co., Bank of America Corp., the Royal Bank of Canada and other companies denied agreeing to Nuveen's demand to cut out Preston Hollow or work with each other to do so.

Nuveen presented evidence to show that six out of a dozen Wall Street bond dealers who allegedly colluded to withhold business from Preston Hollow actually underwrote exclusive deals with the Dallas-based firm in the first six months of this year.

Thompson disputed that number in his own testimony.

Another three firms also accused of being part of the boycott worked with Preston Hollow on other

types of deals this year, Nuveen contended.

Preston Hollow, which has worked with 44 bond dealers since 2017, won't be put out of business despite the opposition from Nuveen, said Ed Snyder, a professor of economics and management at the Yale School of Management, who testified as an expert witness for Nuveen.

"There are still a lot of options'' to engage in bond deals with scores of other underwriters who didn't get a call from Nuveen, he said. "Issuers have a lot of options too."

The case is Preston Hollow Capital LLC v. Nuveen LLC, 2019-0169, Delaware Court of Chancery (Georgetown).

Bloomberg Markets

By Jef Feeley and Martin Z Braun

July 31, 2019, 3:00 AM PDT

Nuveen's John Miller Says Trash Talk Was Just That, Not a Blackball.

- **Preston Hollow says muni-bond titan broke N.Y. antitrust law**
- **Miller says you have to do some 'blustering' on Wall Street**

Muni-bond titan Nuveen LLC's John Miller testified that he was only "blustering" when he told bankers he'd persuaded Goldman Sachs Group Inc., JPMorgan Chase & Co. and other bond-market players to stop doing business with rival Preston Hollow Capital LLC.

Miller, the co-head of Nuveen's fixed-income unit, took the witness stand as Preston Hollow seeks to prove that Nuveen sought to freeze the Dallas-based lender out of the high-yield municipal-bond market. Miller said on Monday he was just overblowing it when he assured Deutsche Bank AG officials last year that he'd gotten Wall Street to swear off Preston Hollow deals or risk losing Nuveen's business.

"Sometimes you have to exaggerate to get people's attention, especially on Wall Street trading desks," Miller said at the trial in Delaware Chancery Court.

In the end, Nuveen never got any agreements from Wall Street banks to stop doing business with Preston Hollow, he said.

Preston Hollow is trying to persuade Judge Sam Glasscock III that Nuveen used its market power as one of the biggest buyers of U.S. state and local government bonds to blackball the lender, whose role in financing risky projects posed a competitive problem. Preston Hollow accuses Miller and other Nuveen executives of threatening to pull tens of millions of dollars in business from banks that underwrote offerings with it and financed the loans.

Nuveen violated New York antitrust law by pressuring big banks, including Wells Fargo & Co. and Citigroup Inc., to shun the firm, according to the lawsuit, which seeks unspecified damages.

Read More: Nuveen's Warning to Wall Street: Cut Off Our Muni Rival or Else

Preston Hollow has made $2 billion in loans to finance hospitals, real estate developments and

student housing. Nuveen, which had almost $1 trillion in assets under management as of March 31, is the investment manager of TIAA, best known for offering financial products to teachers.

In court on Monday, Preston Hollow's lawyers played a tape of a December call between Miller and executives of Deutsche Bank.

"You have to make a choice who you want to do business with," Miller said on the tape. "I don't want to do business with anyone doing business with Preston Hollow."

On the call, Miller told the Deutsche Bank officials that Preston Hollow engaged in "dirty deals" that fleeced investors through "predatory lending."

Although Miller testified he believed the interest on a Preston Hollow loan to Roosevelt University in Chicago to refinance debt was higher than the market rate, he admitted he didn't know the specific terms of the deal or follow up with officials of the school.

Miller said he'd gotten reports about questionable Preston Hollow deals that "had been gnawing at me for two years." Once the Texas firm became more of a threat, he said, he decided to share his concerns with other bond-market participants.

In a call with Goldman Sachs officials, Miller derided Preston Hollow's private-placement deals as "private bull— business" that posed a threat to the entire bond market.

Miller testified that the purpose of the call to Goldman was to keep the pipeline of high-yield deals between the firms going, rather than as an ultimatum to cut ties to Preston Hollow.

"Ultimately, my goal is to keep the partnership, the new-issue allocations, to keep that going into next year," Miller said.

On Tuesday, Karen Davern, Nuveen's manager of fixed income trading, testified she made calls to Bank of America, Citigroup, Morgan Stanley and Goldman Sachs because the banks weren't marketing all of their high-yield bond deals to Nuveen. Had BlackRock Inc. or Vanguard Group received exclusive access to bonds, she would have made the same calls, she said.

"It wasn't about Preston Hollow. It was about seeing deals," said Davern, who manages relationships with Nuveen's dealers. "They're a competitor and they were getting deals we weren't seeing."

The case is Preston Hollow Capital LLC v. Nuveen LLC, 2019-0169, Delaware Court of Chancery (Georgetown).

Bloomberg Markets

By Jef Feeley and Martin Z Braun

July 30, 2019, 3:00 AM PDT Updated on July 30, 2019, 8:41 AM PDT

[Fight Over High-Yield Muni Bonds Raises Questions Of Ethical Behavior.]

A lawsuit that's heading to trial this week has pulled back the curtain on the niche corner of the municipal bond market that buys and sells high-yield bonds, revealing how clout drives deals, with questionable consequences for a $500 billion market funded by public money.

Dallas-based Preston Hollow Capital LLC, a five-year-old investment firm that buys high-yield muni bonds, on February 28 sued mutual fund giant Chicago-based Nuveen Inc. Preston accused Nuveen of trying to shut it out of the high-yield market by threatening to withdraw business from any broker dealer or bank that works with Preston Hollow.

Ahead of a trial, set for July 29 and 30 in Delaware Chancery Court, Preston won release of telephone transcripts that feature Nuveen employees, in hundreds of pages of conversations with bankers and other market participants, warning firms they will be put "in the box" if they conduct business with Preston Hollow. It was a "zero tolerance" policy dictated by the head of Nuveen's high yield muni fund, John Miller, who's also featured on the transcripts.

Preston Hollow is a relatively small and new market participant, holding $1.8 billion in assets under management. In contrast, Nuveen's municipal bond holdings, at $150 billion, dwarf Preston Hollow's. Nuveen is the largest high yield muni shop in the country, and quite often the largest revenue generator in a bank's portfolio.

Nuveen enjoys the clout and the market position to make demands of bankers that smaller firms would have a tough time getting away with.

Bankers in the transcripts use terms like stunned, devastated and feeling "punched in the stomach" when informed of Nuveen's new policy. At least one head of public finance appears to have lost his job over Nuveen's decision to yank its business. The bankers turn on each other, informing Nuveen of other banks' deals with Preston Hollow, and repeatedly asking Nuveen whether everyone on "the street" will be punished in the same way.

In court filings, Nuveen's attorneys don't deny the business practices but argue that the behavior is legal and a "privilege enjoyed by competitors in the same market to compete aggressively for market share."

The court will decide whether the behavior is a violation of New York State's Donnelly Act antitrust law, as Preston Hollow alleges. But market participants will have to decide for themselves whether the practices are ethical and whether they're allowed to become more common.

Nuveen's clout, and its willingness to deploy it, brings with it a heavy advantage that raises questions of fairness. The bankers seem driven only by a desire to preserve their relationships with their most profitable client, not by any other standard.

The question takes on more importance when we remember the fight takes place in a market financed by taxpayer money, where an unfair or inefficient market could drive up borrowing costs for government entities, and ultimately tax rates for taxpayers.

Forbes

By Caitlin Devitt

Jul 30, 2019, 10:02am

Caitlin Devitt is a senior reporter at Debtwire Municipals, where she covers Chicago, the State of Illinois and other Midwest states, and the charter school sector. She can be reached at caitlin.devitt@acuris.com.

A New 'Sustainability Bond' Got 10 Times the Investor Interest It Needed.

The Low Income Investment Fund, a San Francisco-based nonprofit, met with 10 times the investment interest it needed to float a $100 million "sustainability" bond last week, indicating strong demand for such bonds. LIIF will use the proceeds to support community development projects.

Demand from buyers including Pacific Investment Management Company, Nuveen, and Neuberger Berman helped the fund lock in durations of seven and 10 years for its debt, improving its credit profile. LIIF says the offering will enable it to lend to developers and nonprofits "with more stable, lower-cost, and longer-term capital, which supports their long-term sustainability and enables them to provide much-needed services in their communities."

The degree of interest was surprising: To the best of LIIF's knowledge, similar deals typically have been 1.5 or two times oversubscribed. The fund ascribes the interest to its financial profile; an appreciation of the mission of community-development financial institutions (CDFIs); a "building understanding and education of the market," and third-party ratification of sustainability. "It all kind of came together," says Daniel Nissenbaum, LIIF's chief executive officer.

Continue reading.

Barron's

By Mary Childs

July 31, 2019 8:00 am ET

Fitch Ratings: Fiscal 2020 Off to Mostly Smooth Start for U.S. States

Link to Fitch Ratings' Report(s): U.S. State Budget Update (Strong Fiscal 2019 Revenue Gains Support 2020 Budgets, but Outlook is Cautious)

Fitch Ratings-New York-01 August 2019: Most U.S. states have begun fiscal 2020 with newly enacted budgets and little in the way of significant delays, including four that Fitch Ratings designated as 'States to Watch' at the start of 2019 in a new report. Following budget enactment, Fitch revised the Rating Outlooks on Pennsylvania and Illinois to Stable from Negative.

Continuing its fiscal prudence, California coasted to an enacted budget on time and in fairly short order. "The California budget continued the prudent path set during the prior administration, with revenue growth directed to one-time spending, building budgetary resilience, and also to limited on-going spending," said Karen Krop, Senior Director and Fitch's lead analyst for California.

A fiscal 2020 budget is also in place for Alaska, though it ran into a stumbling block over its permanent fund payment to residents, which the enacted budget did not appropriate, leaving it to a special legislative session to address.

Fitch's other two 'States to Watch' also notably made it to the finish line on time by ameliorating some of their respective fiscal challenges. "Connecticut closed a significant projected budget gap through tax increases, better than expected revenue expectations and by cutting expenditures," said

Senior Director and lead Connecticut analyst Marcy Block.

“Illinois has begun to dig out of four years of gridlock thanks to unexpectedly high revenue collections in fiscal 2019 that made budget balancing decisions for fiscal 2020 less onerous,” said Eric Kim, Senior Director and lead analyst for Illinois.

The start of 2020 is not without its roadblocks, however. Seven states started the fiscal year on July 1 without an enacted fiscal 2020 budget in place. The governors of New Hampshire and North Carolina vetoed the legislatively approved budgets and will have to continue relying on short term remedies until they come to agreement on budgets for fiscal 2020. Oregon has yet to pass its biennial budget, while Rhode Island, Wisconsin, and Ohio each ran into minor delays before enacting their respective state budgets. The Massachusetts budget is awaiting the governor’s signature.

Also of note in the next 12 months, not surprisingly, will be pensions. Concerns over the long-term sustainability of pension obligations and rising contribution burden are still key issues for states. Several states made notable changes to pensions. California directed billions of dollars from robust revenue collections into its public employee and teacher systems to reduce future contribution pressure on the state and schools. Texas’ legislature materially raised its contributions for teachers’ pensions to improve chances of funding progress, while Connecticut extended its teacher plan amortization to reduce the risk of a contribution spike over roughly the next decade.

Fitch’s ‘U.S. State Budget Update’ for Fiscal 2020 is available at ‘www.fitchratings.com’ or by clicking on the link.

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Most States Close Out Fiscal 2019 with Revenue Growth (Updated July 31).

Following strong gains in April tax collections, most states ended fiscal 2019 with year-over-year revenue growth. Many states saw positive gains in personal income tax collections, attributing the increases to both the payroll withholding component, reflecting continued economic growth, and a second consecutive year of higher collections from non-wage income (capital gains, dividends, bonuses). Changes in taxpayer behavior following federal tax reform significantly altered the timing of estimated state personal income tax payments, with some states noting that those taxpayers no

longer had incentive to pay in December and instead made higher payments with their tax returns in the spring. In addition to gains in personal income taxes, corporate income taxes showed their largest yearly growth rate since fiscal year 2011, with states reporting that there was strong incentive for corporations to shift taxable income to tax year 2018 to take advantage of the 40 percent federal tax rate cut. Sales taxes also grew in most states in fiscal 2019, with several states attributing part of the growth to expanded online sales tax collections.

Continue reading.

NASBO

By Brian Sigritz

Metro-to-Metro Economic Partnerships: How to Network Global Assets to Fuel Regional Growth

City-to-city and region-to-region economic partnerships are on the rise. Economic development leaders from St. Louis have partnered with Rosario, Argentina to form a business and research exchange between the two agricultural regions. The mayor of Los Angeles inked a deal with Guangzhou, China and Auckland, New Zealand to support mutual trade objectives. Virtual reality incubators in New York and London now collaborate to offer resources and co-working space to firms expanding across the Atlantic.

These are just some of the examples of these partnerships initiated by a burgeoning cadre of mayors, economic developers, scientists and sector leaders, researchers and academics, and tech entrepreneurs partnering with city halls, universities, business associations, and incubators from Xi'an to Mexico City. They aim to spark new market opportunities, draw foreign investment, advance economic specializations, support industry collaborations, and enhance global visibility for city-regions.

City-to-city or metro-to-metro connections are nothing new. Building on a 1930s collaboration between the cities of Toledo, Ohio and Toledo, Spain, Sister Cities International emerged in the 1950s and has since spawned thousands of global exchanges and relationships. Centuries earlier, during the much-heralded eras of the Hanseatic League and 16th century Mediterranean trading cities, storied Venetian sailors and Northern European guilds led global commerce at the city-state level.

But the global economy has changed a lot since the 1950s, not to mention the Renaissance. It has become more complex and competitive, reinforcing and accelerating the need for cities to invest in core economic specializations and assets to prosper in an age of agglomeration. Succeeding in global markets today is less about incidental connections and episodic efforts and more about strategic investments in competitiveness and systematic implementation of smart, data-driven trade strategies.

City leaders developing these strategies face a number of challenges: wrangling with tariffs and trade wars; the everyday nuts and bolts of doing business with partners a world away, speaking different languages and operating under foreign, and sometimes byzantine, customs and regulations; and the responsibility of executing high-level strategic activity with limited time and resources. Amid this complexity and challenge, city leaders are increasingly shifting from a sometimes scattershot

approach pursuing opportunistic or headline-grabbing global opportunities to a more proactive, deliberate, and data-driven approach concentrating resources in markets and sectors best poised to deliver global growth for the region.

In this environment, reinventing city-to-city or metro-to-metro relationships as economic partnerships offers a tantalizing proposition: Apply the idea of direct city-to-city relationships that have fueled thousands of cultural exchanges and built goodwill between regions and countries to the imperative of global economic exchange and standing out in an increasingly complex world economy. Make some bets and pick a few markets with some apparent commonalities or complementarities. Stop scattering resources and attention across an overwhelming number of places. Work with your new foreign partners to plan a few business networking opportunities, trade missions, and collaborations between local incubators, universities, and others. Get on a plane to an exciting foreign location and make time to tour the local sites. Watch economic ties, deals, and growth bloom.

But practice proves that it's not that simple. Relationships take a lot of time to nurture and maintain. High-profile memorandums of understanding don't necessarily translate to high-impact results. Partnerships can fray as staff move on. Deals can fail to come through.

The stakes are high given scarce resources. The opportunity costs of a partnership with one city could be another with a region better suited to the core regional economic cluster. Or the cost could be staff resources devoted to managing a world-class export assistance program preparing 30 local firms to enter global markets. Or a follow-up visit with a foreign firm uncovering a multi-million dollar expansion opportunity. Or working with local education partners to design a workforce program that strengthens an industry sector that disproportionately drives local growth.

Given all that, how can city leaders know if the bet is worth it? Can metro-to-metro economic partnerships deliver real, lasting economic value? Or are they just a global form of ribbon-cutting, creating a flashy moment with little to follow? If they do make sense, how should they be organized? Who should manage them? What, realistically, can they achieve?

This brief, based on a survey of metro-to-metro partnerships and experimentation with several markets through the Global Cities Initiative, argues that in order to deliver clear results that enhance regional competitiveness, city-regions need to prioritize, design, and operationalize metro-to-metro economic partnerships to advance an evolution from global exchange to strategic economic collaboration. Economic partnerships should be driven by the goal of extending and strengthening global specializations and managed regionally to support that objective.

Download the report.

The Brookings Institute

by Marek Gootman, Rachel Barker, and Max Bouchet

July 31, 2019

Every Municipality Is Struggling With Unfunded Pension Liabilities - What Is the Fix?

Almost every local and state government in the United States is currently struggling with

their unfunded pension liabilities – which essentially means that local and state government workers have been promised far more in pension benefits than the monies set aside to meet those obligations.

Furthermore, most states have strong constitutional protections for these pension benefits, which protect against any proposed reductions in originally promised pension benefits or increases in the employee contributions. According to a report published by the American Legislative Exchange Council – which uses more appropriate assumptions on investment returns than the plans use themselves – state and local governments' unfunded liabilities now exceed $6 trillion.

In this article, we will take a closer look at the impact of unfunded liabilities on local governments and how local and state governments are preparing to meet these unfunded liabilities.

Continue reading.

municipalbonds.com

by Jayden Sangha

Jul 29, 2019

Volcker Rule: Community Bank Exemption

On July 9, 2019, the Board of Governors of the Federal Reserve System (the "FRB"), U.S. Commodity Futures Trading Commission, Federal Deposit Insurance Corporation (the "FDIC"), Office of the Comptroller of the Currency (the "OCC"), and U.S. Securities and Exchange Commission (collectively, the "Federal Agencies") issued a final rule (the "Final Rule") to exempt community banks from the Federal Agencies' regulations implementing the prohibitions and restrictions on proprietary trading and the sponsoring and investment in hedge funds and private equity funds ("Volcker Rule").

Background

The Volcker Rule, adopted by the Federal Agencies pursuant to Section 13 of the Bank Holding Company Act of 1956 (the "BHCA"), generally prohibits any "banking entity" from engaging in proprietary trading or from acquiring or retaining an ownership interest in, sponsoring, or having certain relationships with a hedge fund or private equity fund, subject to certain exemptions. Under Section 13 of the BHCA, the definition of "banking entity" includes any insured depository institution, as defined under the Federal Deposit Insurance Act, any company that controls an insured depository institution, or that is treated as a bank holding company for purposes of Section 8 of the International Banking Act of 1978, and any affiliate or subsidiary of such entity (excluding from the term "insured depository institution" certain insured depository institutions that function solely in a trust or fiduciary capacity).

Upon the enactment of the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "EGRRCPA") on May 24, 2018, Section 13 of the BHCA was modified by revising the definition of "banking entity" to exclude certain community banks and their affiliates from the Volcker Rule restrictions. Specifically, the term "insured depository institution" was amended to exclude any institution that does not have, and is not controlled by a company that has: (i) more than $10 billion in total consolidated assets; and (ii) total trading assets and trading liabilities exceeding five percent

(5%) of total consolidated assets. As a result, an insured depository institution is not a "banking entity," and thus is not subject to the Volcker Rule, if the insured depository institution, and each entity that controls it, meets the statutory exemption. The EGRRCPA also amended the Volcker Rule's name-sharing restrictions to generally permit a hedge fund or private equity fund that is organized and offered by a banking entity to share the same name or variation of the same name as a banking entity that is an investment adviser to the fund, subject to certain limitations as noted below.

The Final Rule's sole purpose is to conform the Volcker Rule to the EGRRCPA's amendments to Section 13 of the BHCA.

Community Bank Exemption

Consistent with the EGRRCPA, the Final Rule modifies the definition of an "insured depository institution." In so doing, an insured depository institution is excluded from the Volcker Rule restrictions if it, and every entity that controls it, satisfies both of the following:

- has total consolidated assets equal to or less than $10 billion; and
- has total consolidated trading assets and trading liabilities equal to or less than five percent (5%) of its total consolidated assets.

This exemption is not available to either (i) foreign banking organizations with a U.S. branch or agency or (ii) investors that control industrial loan companies. Such entities remain subject to the Volcker Rule restrictions.

In determining eligibility for this exemption from the Volcker Rule, the insured depository institution and bank holding company may rely upon its most recent *Consolidated Report of Condition and Income* or *FR Y-9C*, respectively, as the source of data for its consolidated assets and its trading assets and liabilities.

Name-Sharing Exemption

The Final Rule also modifies the Volcker Rule's name-sharing restrictions. Pursuant to this change, a hedge fund or private equity fund sponsored by a banking entity that is an investment adviser to the fund is permitted to share the same name or a variation of the same name with such banking entity, subject to certain conditions. Specifically, these conditions require that the investment adviser is not, and does not share the same name (or a variation of the same name) as, an insured depository institution, a company that controls an insured depository institution, or a company that is treated as a bank holding company for purposes of Section 8 of the International Banking Act, and that the investment adviser's name does not contain the word "bank."

What Does This Mean for Your Institution?

Prior to July 21, 2015, the date by which applicable institutions were required to comply with the requirements of the Volcker Rule, few community banks engaged in proprietary trading activities and/or sponsored or invested in hedge funds and/or private equity funds. At that time, most community banks limited their proprietary trading and investment activities to U.S. government, agency, municipal obligations and certain other liquidity management activities, each of which are specifically exempted from the Volcker Rule's prohibitions. Thus, at the outset, the Volcker Rule's impact on the community banking industry was not as substantial as it was on larger banking organizations.

In December 2013, providing a level of relief to community banks, the FRB, OCC and FDIC issued

guidance indicating that community banks with assets under $10 billion that engage in proprietary trading or that sponsor or invest in hedge funds and/or private equity funds may satisfy the Volcker Rule compliance program requirements by enhancing existing policies (as opposed to creating a new and substantially more burdensome compliance program). While the guidance was welcome news to many, community banks remained indifferent, as most of these smaller institutions do not engage in the trading and investing activity prohibited by the Volcker Rule, and the sheer complexity of the rule is enough to dampen any appetite for proprietary trading and investing in covered funds for those community banks who are looking to expand their trading and investment activities.

Now, the Final Rule's exemptions provide eligible community banks with an opportunity to diversify, to a small degree, their investment portfolios.

Importantly, for those community banks who now choose to engage in proprietary trading or sponsoring or investing in hedge funds or private equity funds, they should remain vigilant in reviewing and tracking asset levels to determine their eligibility for continuing relief under the Final Rule. The Federal Agencies, as part of their on-going supervisory examination process, will review whether a banking organization, and each of its affiliates and subsidiaries, that engaged in these activities are actually exempt under the Final Rule.

To view the full text of the Final Rule, click here.

by James M. Kane, Daniel C. McKay II, James W. Morrissey, Jennifer Durham King, Juan M. Arciniegas and Mark C. Svalina

August 2, 2019

Vedder Price PC

Vacation Reading: 7 Books For Discerning Municipal Bond Investors

When I go on vacation, I take a stack of books with me. My wife rolls her eyes and shakes her head before pointing out the obvious: I've brought a semester's worth of reading for a week's worth of vacation. I sheepishly agree—but I bring them anyway. She brings one of those summer paperback beach-reads and goes through it cover-to-cover. I start several of my hardcover tomes and maybe finish one. Maybe.

This year the reading list is a bit more focused than usual since I am using some of the books in my Boston University public finance class this fall. I've read a couple of these before, so those will just be a refresher. Others I've always wanted to get to and sitting on the beach is as good a time as any.

Continue reading.

Forbes

by Barnet Sherman

Aug 4, 2019

Municipal Bonds: A Holistic View Of A Community's Environment And Sustainability

This is the fourth article in a series highlighting the most important aspect of municipal bonds: how the projects bonds finance helps the community. It appropriately started with Municipal Bonds: Investing In Our Communities. This piece looks at how municipal bonds fund green and sustainable initiatives with quantifiable results with community wide benefits beyond the environment.

Natures Resources

Sensitive to the current impetus for sustainable environmental outcomes, municipalities seeking to demonstrate they are "green" are looking beyond environmental metrics. Sustainable environmental outcomes encompass the effective application and utilization of all public resources—natural, human, economic and technological—to improve service delivery and create sustainable outcomes in municipal operations and programs.

In rural Pend Oreille County (Moody's: Baa2; Standard & Poor's: NR) in northeast Washington, the key resource is the natural beauty of the Selkirk Mountain Range. The Public Utility District's Box Canyon Hydroelectric Project is owned by the people of the county, serving 13,100 residents with clean power. When the dam required upgrades to the turbines and generators, the District issued municipal Green Bonds and New Clean Renewable Energy Bonds to finance the project. The beneficial impact of this capital plant upgrade will last for many years, providing low-cost energy to the county's residents.

Continue reading.

Forbes

by Barnet Sherman

Jul 30, 2019

This Bill Could Save Rural Governments Millions in Infrastructure Financing.

A proposal before Congress would expand a provision that gives small governments and districts access to cheaper financing.

A new proposal in Congress could make financing infrastructure projects in rural America far more affordable.

Called the Municipal Bond Market Support Act of 2019, the bill would modernize a restriction on so-called bank-qualified municipal bonds that effectively limits small governments' access to cheaper borrowing rates in the municipal market.

The Government Finance Officers Association (GFOA) estimates that the proposed bill could save as much as $1.1 million in financing costs on a 15-year, $30 million bond issued by a small government. That translates into hundreds of millions of dollars in savings each year for small governments, nonprofits and districts across the country.

“Expanding the availability of bank-qualified bonds will help local governments and nonprofits afford critical construction projects and stimulate their economies, all while providing significant savings,” Alabama Rep. Terri Sewell said after introducing the bill.

Small governments that don’t issue debt in the municipal market very often tend to pay a premium on interest and borrowing costs because investors aren’t familiar with them. In 1986, bank-qualified bonds were created to encourage banks to invest with these smaller, less frequent issuers by giving the banks tax breaks related to buying and holding the bonds. It also saved those municipalities money on borrowing costs because it allowed them to bypass the traditional underwriting system and sell their tax exempt bonds directly to local banks.

But only small governments that issue $10 million or less in bonds per calendar year can sell bank-qualified debt. In today’s dollars, $10 million doesn’t go very far. “Over the years, there’s been a steadily shrinking universe of governments who are benefitting from the rules,” says Municipal Market Analytics partner Matt Fabian.

Sewell and cosponsor New York Rep. Tom Reed want to push up the cap to $30 million and index it to inflation thereafter. Their legislation would also extend bank-qualified eligibility to borrowers who issue debt through a state or local finance authority.

Bank-qualified debt is a small part of the $3.7 trillion municipal bond market, but the projects they finance have a big impact for their municipalities.

In Ohio, for example, roughly $650 million in total average bank-qualified debt has been issued each year since 2009. Much of it has been for telecommunications projects, including expanding broadband access to rural Americans.

In Alabama, about half of the bank-qualified debt issued each year goes toward water and sewer projects, as well as primary and secondary education.

While there appears to be strong support for the bill from leadership in the House Committee on Ways and Means, it’s unclear how far an infrastructure-related bill will go in a Congress that has dragged its feet on infrastructure financing and funding in general.

But some believe this bill has a good chance of going forward with or without a larger infrastructure package behind it. “Everybody’s running for office this year,” says Emily Brock, director of GFOA’s Federal Liaison Center. “They’ve been talking about infrastructure for the past two years, but Congress hasn’t done anything yet. This is one thing that would satisfy that need.”

If it does pass, Fabian notes that it’s unlikely to have a significant impact immediately on the muni market, given the historically low interest rates and the current aversion many governments have toward increasing their debt load. “In the near-term, there’s probably a minimal effect on the muni market,” he says. “But in the longer term, it could cultivate stronger capital access for these smaller issuers.”

GOVERNING.COM

BY LIZ FARMER | AUGUST 2, 2019 AT 4:00 AM

KBRA Releases Comment – Municipal Default History: Rating Ceilings Do Not Hold Up

A rating ceiling is an upward limit on a bond rating based on its linkage to the rating of the underlying municipality's general obligation credit. This linkage is based on the view that there is a high likelihood that, should the underlying credit enter bankruptcy or a restructuring process, all of the issuer's obligations will be drawn into that process. In KBRA's view, this approach is problematic because the prospect of bankruptcy among most municipal credits is highly unlikely and for some—like states—legally impossible. KBRA believes that, due to the low default rate in the municipal market, arbitrary rating ceilings distort risk.

Municipal defaults are very rare, with S&P and Moody's pegging municipal bond default rates at a fraction—about 1/20th and one-tenth, respectively—of the default rate for corporate bonds. At the same time, ratings issued by legacy rating agencies have a checkered record of anticipating municipal defaults. Even speculative-grade municipal ratings show low default rates, which suggest inadequate correlation and further undermines the rationale for rating ceilings.

KBRA believes that rating ceilings provide a false sense of comfort. A case in point are those which mandate the ratings of special revenue bonds must remain within a prescribed range relative to the underlying general obligation rating. This implies a level of precision in municipal credit ratings that is not supported by their history. These ceilings also needlessly limit the rating for many credits, regardless of the additional protections that may be provided. Furthermore, these limitations are a particularly poor fit for states, which cannot file for bankruptcy.

- Municipal Default History: Rating Ceilings Do Not Hold Up
- Rating Ceilings Subvert Fundamental Municipal Credit Analysis

Business Wire

July 25, 2019

Moody's Buys Climate Data Firm, Signaling New Scrutiny of Climate Risks.

Moody's Corporation has purchased a controlling stake in a firm that measures the physical risks of climate change, the latest indication that global warming can threaten the creditworthiness of governments and companies around the world.

The rating agency bought a majority share in Four Twenty Seven, a California-based company that measures a range of hazards, including extreme rainfall, hurricanes, heat stress and sea level rise, and tracks their impact on 2,000 companies and 196 countries. In the United States, the data covers 761 cities and more than 3,000 counties.

"We are taking these risks very seriously," said Myriam Durand, global head of assessments at Moody's Investors Service, who said the purchase would allow its credit analysts to be more precise in their review of climate related risks. "You can't mitigate what you don't understand."

The purchase is the latest in a series of moves by rating agencies to better account for the effects of climate change on the ability of governments to pay back the money they borrow by issuing bonds. Global warming can threaten that ability in a variety of ways.

Sudden shocks such as floods, wildfires or storms can hurt businesses and send residents fleeing, taking away the tax revenue that governments use to pay their debts. And longer-term threats — such as rising seas or higher temperatures — can make those places less desirable to live in, hurting property values and, in turn, the amount raised by taxes.

Rating agencies translate those risks, along with more traditional factors such as a government's cash flow and debt levels, into a credit rating, which communicates to investors the odds that a government will be unable to repay its bondholders. Lower ratings generally mean that borrowers need to offer investors a higher return to account for that risk.

Following a string of deadly hurricanes and wildfires in 2017, Moody's, along with S&P Global and Fitch Ratings, issued reports warning state and local governments that their exposure to climate risk could affect their credit ratings.

Still, the agencies have so far been reluctant to follow through on that threat. There have been few examples of cities or counties getting a lower rating because of climate risks. And some of the coastal communities that are most exposed to global warming have continued to receive AAA scores, the highest possible rating.

Yet the investors who buy those bonds have taken notice of those threats. Investors' odds of citing climate change as important to the municipal bond market tripled between 2018 and 2019, from 6 percent to 19 percent, according to Smith's Research & Gradings. More than half of investors surveyed said that state and local governments were "hardly prepared" for climate change.

In response, investors have pushed the rating agencies to be more transparent about how they incorporate climate risks. Some of those investors praised the move by Moody's, saying it showed the agency is taking climate change seriously.

Eric Glass, a portfolio manager at Alliance Bernstein, called the purchase "a step in the right direction."

"Moody's clearly drew the conclusion that they don't have the internal expertise and have gone outside to secure it," Mr. Glass said.

Neuberger Berman, an asset management company that has criticized rating agencies for not doing enough to consider climate risk, also praised the move.

"We look forward to 427's physical climate risk data being reflected in credit ratings," said Jonathan Bailey, head of environmental, social and governance investing for Neuberger Berman in an email.

For local officials in places most exposed to climate risks, the increased attention to these concerns will mean ever harder questions when they want to issue bonds, according to Adam Stern, senior vice president and co-head of research at Breckinridge Capital Advisers.

"The degree of disclosure is going to have to get better," Mr. Stern said. "The demand for this kind of information does plainly seem to be growing."

There are steps that officials can take to cut their odds of climate related downgrades. Moody's has said that cities and counties with plans for reducing their exposure to climate risks, by updating their infrastructure for example, could see their ratings improve as a result, or at least not deteriorate.

The result could be a spur to action for cities and counties that have so far overlooked the risks of

climate change, according to Jesse Keenan, a faculty member at Harvard's Graduate School of Design who advises governments on climate adaptation. He said the data produced by Four Twenty Seven can help governments know what steps are most likely to reduce the physical risks associated with climate change.

Still, some cities face climate threats so severe that there's not much they can do to alleviate it, said Mr. Stern, of Breckinridge. The looming problem for rating agencies, and for investors in general, is what to do then.

"How do you deal with an issuer that is doing everything you would think they should be doing, but nonetheless has a long-term risk profile such that the die may be cast?" Mr. Stern asked. "The market is nowhere near being able to price those risks."

The New York Times

by Christopher Flavelle

July 24, 2019

Ultralow Interest Rates Bring Opportunity and Danger to States.

What's good for funding infrastructure is bad for pensions—and in the long run, bad for infrastructure, too.

It's no secret that U.S. infrastructure is in dire need of an overhaul. The American Society of Civil Engineers estimates a lack of investment will cost almost $4 trillion in gross domestic product by 2025. Measured per household, that's a loss of $3,400 a year thanks to congested roads, overworked electric grids, and other deficiencies.

With that in mind, the global trend of debt yields falling below zero seems like a massive windfall for U.S. states and cities. After all, they borrow for public works projects in the $3.8 trillion municipal bond market, where rates are within spitting distance of all-time lows. Just about every state can borrow at less than 2% for 10 years—a better rate than the federal government can get. If U.S. Treasury yields drop to zero, as some prognosticators expect, it stands to reason that those for Florida, Maryland, and Texas will go down, too.

But this is hardly a free lunch. With $3 trillion in pension assets, states also face a cumulative unfunded liability of more than $1 trillion, even after the longest economic expansion in U.S. history. What's worse, that shortfall likely underestimates the problem, as most plans assume annual returns of 7% to 8%. Were the U.S. to enter a recession, with bonds already yielding next to nothing, it would become virtually impossible to meet that target. Indeed, the two largest U.S. pension funds, representing California's public employees and teachers, respectively, each reported in July that they came up short in 2018, when the S&P 500 was down for the year.

By keeping interest rates at rock-bottom levels, central banks have made it ultra cheap for governments and companies to borrow, but they've eradicated any semblance of safe returns. This has major implications for defined-benefit pension managers, who are supposed to purchase assets to match long-term liabilities. In the 1990s, that was easy enough to do with 30-year Treasury bonds. The average yield throughout the decade was exactly 7%—mix in a little exposure to equities, real estate, and hedge funds, and it was a virtual lock to beat targets. But those higher-yielding bonds

will mature soon, and reinvesting at less than half that rate will be painful. As with individuals saving for retirement, the only two choices are to contribute more money now or take on additional risk. With many states already cash-strapped and allergic to raising taxes, it's not hard to guess which option is politically more palatable.

Unless the risk-asset rally lasts forever, though, loading up on equities and alternatives won't be a long-term solution. More likely, states and cities will eventually divert a larger share of their budgets to supporting pensions. That means less funding for infrastructure.

For those who need to borrow and save simultaneously, the drift toward negative yields is very much a double-edged sword.

Bloomberg Businessweek

By Brian Chappatta

July 29, 2019

World of Tax-Exempt Bank Direct Purchases is Changing.

Over the past decade, tax-exempt bank direct purchases became an increasingly popular form of financing in the municipal market as an alternative to traditional public bond offerings. The trend was initially driven by several factors including the demise of some bond insurance providers, punitive bank capital charges for variable rate demand bond credit support products, and bank appetite for loan growth. Issuers compelled by the lower costs of issuance and ease of execution further fueled this trend. Per the Federal Deposit Insurance Corp., bank municipal debt holdings (separately categorized from municipal "securities") totaled $62 billion as of December 2009. By December 2017, reported holdings had more than tripled to $190 billion.

Post the U.S. Tax Cuts and Jobs Act of 2017, the trend in total bank holdings and the makeup of the universe of bank participants (national versus regional banks) is starting to evolve with holdings dropping to $185 billion as of the end of the first quarter in 2019. This is showing the first signs of a slow down since 2009.

Several of the largest holders have experienced a decrease in their portfolios by over 10%. Drivers for the decrease include borrowers experiencing increased costs for yield adjustment provisions in their bank direct purchase structures and reduced benefit to banks due to the drop in the corporate tax rate to 21%. Further, many borrowers have elected to move back to public markets structures to capitalize on favorable trends driven by increased demand in the market – municipal bond funds have seen over $25 billion dollars in net cash inflows since the beginning of 2019 per TM3. In addition to driving low tax-exempt rates, the strong market conditions are helping deliver more favorable covenant and security structures, particularly for borrowers rated in the lower and sub-investment grade categories.

While some borrowers have restructured their bank-held issues, many borrowers still have not. Reasons for this include having initially negotiated out increased cost language due to tax reform, bank partners temporarily waiving or renegotiating the increased cost rate, or the bonds being in a fixed rate mode, making it difficult to implement a higher rate without triggering a tax "re-issuance" event. Many borrowers will eventually need to revisit their deals with their bank partners as they approach the end of their commitment period, which is typically well within the final bond maturity.

As borrowers continue to revisit their bank structures, there are several considerations as they potentially make changes by moving to the capital markets or another bank partner that is willing to absorb some or all of the increased cost for holding tax-exempt debt.

The potential transition includes multiple documentation and cost considerations, primarily driven by the ability to convert modes within the existing documents or the need for a full refunding of the bonds. While many of the bank deals were completed with "multi-modal" indentures, the ability to convert modes may be more complex than anticipated. Additionally, to the extent existing bonds are transferred, there are documentation concerns some bank partners may have dealing with their determination of ability to book the debt as a "loan" or "security" based on the initial documents that were utilized. Lastly, many of the bank deals are structured in a LIBOR indexed mode, which may create challenges as LIBOR is phased out.

Separate from documentation considerations, new requirements to disclose other debt obligations under the SEC Rule 15c2-12 will also lessen the difference between public and private deals on an ongoing disclosure basis. While the new disclosure rule may not drive any borrower decision between the structures, it is an additional consideration for which borrowers need to be prepared.

As the market continues to evolve after tax reform and the banks and borrowers adjust, the most common pros and cons of private versus public debt will remain mostly the same. While bank direct purchases will continue to be a popular alternative for many borrowers, given the structuring flexibility, ease of execution, and cost benefits, the market and documentation standards will continue to evolve. Borrowers may be well served to revisit their deals sooner than later to best understand their options and start planning to achieve their institutional goals.

By Todd Brewer

BY SOURCEMEDIA | MUNICIPAL | 07/24/19 09:53 AM EDT

Vanguard, Nuveen, Goldman Win the Fight for Cash Flooding Muni Funds.

- **Five firms get about 80% of the inflows into muni mutual funds**
- **'It's the Amazon effect,' municipal bond analyst Tom Doe says**

A handful of the biggest firms on Wall Street are landing the vast majority of cash pouring into the municipal-bond market.

Vanguard Group Inc.'s mutual funds focused on tax-exempt debt have received about $12.7 billion this year, or nearly a third of the $39.1 billion that's been added to such funds, according to data compiled by Bloomberg. TIAA's Nuveen, Goldman Sachs Group Inc., BlackRock Inc. and MacKay Shields LLC received another $18.2 billion, leaving those five companies with about 80% of the new cash.

The figures show that the biggest Wall Street firms are benefiting the most from the rush this year into municipal bonds, illustrating the difficulty that smaller companies may have in keeping up with industry behemoths that have widespread brand recognition and the ability to charge lower fees.

"It's the Amazon effect in the municipal market," said Tom Doe, president of Municipal Market Analytics, an advisory firm. "If you're the number one performer that doesn't necessarily correlate with an increase in assets. It's not a performance vehicle, it's branding and costs."

Higher-income Americans have poured cash into municipal mutual funds this year as the federal limit on state and local tax deductions leaves some looking for new ways to drive down what they owe. Such funds have attracted new investments every week since early January, leaving them on pace for a potentially record-setting year.

That's coming just as the business is showing signs of becoming increasingly concentrated. In October, Pacific Investment Management Co. agreed to buy Gurtin Municipal Bond Management, a specialist overseeing about $12 billion of the securities for high-net-worth investors. That same month, Invesco Ltd. announced the acquisition of OppenheimerFunds Inc. , given the combined firm a major share of the municipal junk-bond market.

Doe said that the industry's concentration could make a retreat from the municipal market more problematic if it forced the major firms to sell at the same time in order to meet investor redemptions.

"In any market if everyone is investing in a similar way, if you don't have a diversity of participants, you are vulnerable to disruption and less liquidity," he said.

While it makes sense that some of the biggest firms are pulling in the most cash, their share of this year's inflows is bigger than their overall share of the industry's assets, indicating expanding leads over rivals. For example, Vanguard, which accounts for about 23% of municipal mutual fund assets, received about 32% of the year's new investments. Nuveen pulled in 16%, double its market share.

"I think you've got very established muni teams and which have been gathering assets and managing them successfully for quite sometime," said Beth Foos, an analyst with Morningstar Inc. "Folks may have a little bit more confidence in those large teams that could do that bottom up research to find some dislocation in the muni market when spreads are this tight."

J.R. Rieger, author of trade newsletter the Rieger Report, said the concentration is part of a broader trend across other investment classes, including Treasuries and corporate bonds.

"You see a migration to lower cost funds at bigger firms versus the higher manager fees for active managed portfolios," he said.

Bloomberg Markets

By Danielle Moran

July 23, 2019, 10:30 AM PDT

— With assistance by William Spada

The Municipal-Bond Market Is Now Controlled by Just a Few Firms.

Concentration benefits firms like Nuveen and Vanguard, as well as some investors, but critics see risks if the market cools

A few behemoths are increasingly dominating the municipal market, helping to lower prices for many investors but also sparking worries about concentration and influence.

There has been a mammoth shift in the $4 trillion muni market over the past decade as investors

have increasingly used professional money managers to invest in both high- and low-grade state and local government debt. Mutual-fund holdings of municipal bonds now total $738.6 billion, according to Federal Reserve data, a more than 50% increase since 2009.

This shift has been particularly beneficial to firms like Nuveen LLC and Vanguard Group. Since 2010, more than one in three new dollars going to muni funds classified as high yield has gone to Nuveen, according to an analysis of Morningstar Direct data through June. Over that time, almost a third of new money going to all muni funds has gone to Vanguard.

Continue reading.

The Wall Street Journal

By Heather Gillers and Gunjan Banerji

July 24, 2019 5:30 am ET

Fitch Ratings Proposes Rating Cap for Some U.S. Municipal Debt.

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

Fitch Ratings-New York-23 July 2019: An unexpected decision by the United States Court of Appeals earlier this year has triggered a proposed change to how Chapter 9-eligible entities' special revenue debt is rated in the event of a municipal bankruptcy, according to a criteria exposure draft released today by Fitch Ratings.

While the rating impact of Fitch's proposed changes would be limited (less than 20 ratings to be affected), the magnitude of the First Circuit ruling back in March cannot be overstated. Despite a proven track record of special revenue debt being paid through prior municipal bankruptcies, the March ruling has effectively rendered legal protections for special revenue debt uncertain going forward.

"There's still a possibility that the First Circuit's decision could be overturned, but the fact that the decision has so far passed through two courts substantially erodes the ability to confidently say that any legal protection can provide full insulation from the operating risk of the related municipality," said Managing Director Amy Laskey.

As such, Fitch proposes a ratings cap for special revenue debt and true sale structures relative to a municipality's Issuer Default Rating (IDR) of up to six notches above the IDR depending on the strength of the legal security. The new proposal will not affect most local government security ratings, which will remain either lower than or capped at the related government's IDR. Fitch's proposed changes will also not affect U.S. state bond ratings since they are not Chapter 9-eligible.

In response to the First Circuit Court ruling, Fitch placed seven U.S. public finance ratings that were more than six notches higher than the IDR of the related local government on Rating Watch Negative earlier this year. Fitch expects to resolve those Rating Watches if the proposed criteria revisions are adopted. Depending on the level of feedback it receives from the market, Fitch intends to finalize its amended ratings approach to special revenue and true sale debt later this year.

Fitch's "Revised Approach to Local Government Special Revenue and True Sale Security Ratings" 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

Fitch Ratings: Medians Rebound for U.S. NFP Children's Hospitals

Fitch Ratings-Austin-22 July 2019: Though U.S. not-for-profit children's hospitals are not out of the woods yet operationally, margins and profits have rebounded quite nicely over the last year according to Fitch Ratings in its 2019 medians special report.

Profits for children's hospitals stabilized while leverage improved even as capital spending increased to 161.1% in fiscal 2018 from 145.9% in fiscal 2017. "The need for high-quality, state-of-the-art services is a capital-intensive endeavor," said Director Richard Park. Operating margins rebounded to 5.6% in fiscal 2018 after falling to 4.5% during the prior year. "Children's hospitals have effectively controlled expenses over the last year while expansion projects have been moderate in scope and focused largely on ambulatory and service-line growth," said Director Richard Park.

That said, the sector is still susceptible to operational stress with potential cuts to Medicaid Disproportionate Share Hospital (DSH) funding starting Oct. 1. In addition to children's hospitals' high exposure to Medicaid, children's hospital volumes may be affected over time by a combination of increasing competition and declining births in the nation.

"Strong political and public-policy support for the specialized pediatric services provided means children's not-for-profit hospitals should remain insulated from the impact of any decreases to Medicaid and supplemental reimbursement," said Park.

Fitch's "2019 Median Ratios for Not-for-Profit Children's Hospitals" is available at www.fitchratings.com.

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Fitch Ratings: U.S. Public Finance Prepaid Energy Transaction Rating Criteria

Read the Criteria.

S&P: U.S. Charter School Rating Actions And Outlook Revisions, Second-Quarter 2019

The following table summarizes S&P Global Ratings' quarterly bond rating actions, outlook revisions, and affirmations for U.S. charter schools. We based the credit rating actions, outlooks, and affirmations are based on our criteria, U.S. Public Finance Charter Schools: Methodology And Assumptions.

Continue Reading

Jul. 24, 2019

S&P: U.S. Higher Education Rating Actions, Second-Quarter 2019

The following table summarizes S&P Global Ratings' quarterly bond rating actions for its U.S. non-profit colleges and universities. All credit rating actions are based on our Methodology: Not-Fo--Profit Public And Private Colleges and Universities.

Continue Reading

Jul. 24, 2019

Start Preparing Now for the End of Libor-Linked Loans, Securities.

That's what New York Fed President John Williams, Fannie Mae and Freddie Mac officials and Wall Street executives recommended at a recent SIFMA briefing.

If your clients have adjustable-rate debt or in floating-rate corporate or municipal bonds, start preparing them now for the end of Libor. The London Interbank Offered Rate, which is the reference rate for these and other loans and bonds, is due to expire at the end of 2021 and be replaced with another reference rate, which in the U.S. will mostly likely be the Secured Overnight Financing Rate (SOFR), developed by the Federal Reserve Bank of New York.

"2022 feels like it's a long way away, but believe it or not 901 days can disappear, almost in an instant," New York Fed President John Williams said at a Libor Transition Briefing in New York City on July 15 held by the Securities Industry and Financial Markets Association. That's less than the number of days Donald Trump has been president of the United States.

"Don't wait until Jan. 1, 2022 to manage your business' transition away from Libor because it's going to be too late," warned Williams. "The clock is ticking."

Currently an estimated $200 trillion worth of financial contracts are based on a spread to U.S. dollar Libor. The rates, set by a panel of private British banks, have lost legitimacy following revelations in 2012 that several banks had colluded to manipulate Libor, costing billions in overpayments by borrowers.

The new SOFR rate is based on $1 trillion worth of U.S. Treasury overnight repurchase agreements (repos) per day. In contrast, the three-month Libor is based on $1 billion worth of transactions. On July 18, the three-month Libor was 2.28%; the overnight SOFR was 2.46%.

Williams said the biggest challenge of Libor's demise isn't liquidity of the lack of a term rate — SOFR is an overnight rate unlike Libor, which had forward term rates of 12 months or less — but "the willingness on the part of the market to stop using Libor. "We need a mindset shift where firms realize that every new U.S. dollar Libor contract written digs a deeper hole that will be harder to climb out of."

Williams suggested that companies issuing Libor-linked products include "robust fallback language" in contracts "so that if Libor ceases to exist, chaos does not ensue."

That is one of several recommendations endorsed by the Alternative Reference Rates Committee (ARRC), which is leading the transition effort from Libor to SOFR. The committee, consisting of private-market participants and convened by the Federal Reserve Board and New York Fed in cooperation with the U.S. Treasury, Commodity Futures Trading Commission and Office of Financial Research, also recommends that consumer products linked to SOFR, such as adjustable-rate mortgages, use an average of SOFR rates over a period of time rather than individual overnight rates because averages are less volatile.

The committee is still working on contract language and structures for SOFR-indexed home equity loans, reverse mortgages, car loans and credit card rates.

"There's still a lot of work to do, " said Timothy Kitt, head of pricing and execution at Freddie Mac, who also spoke at SIFMA's Libor Transition Briefing.

In the meantime advisors whose clients invest in variable-rate securities linked to Libor, have

outstanding loans linked to Libor or are considering new Libor-linked loans or investments can keep up with developments during the transition through the AARC website, where they can also comment on "consultations" that ask questions about proposed structures, SIFMA's SOFR primer and briefs and SEC publications.

SEC staff recently published a statement on the Libor transition encouraging market participants to "proactively manage their transition away from Libor."

Among the statement's many recommendations for advisors:

- Consider the effects of Libor's discontinuation when recommending products to clients or monitoring them for clients.
- Whether to disclose risks of the transition to investors after considering the impact on liquidity and value of their investments.

According to SIFMA, 27 institutions have issued more than $136 billion notional in floating-rate securities tied to SOFR as of June of this year, in June and outstanding SOFR-linked notional across all products has grown from less $100 billion in May 2018 to over $9 trillion as of April 2019.

ThinkAdvisor

By Bernice Napach | July 22, 2019 at 10:58 AM

SEC Staff Encourages Proactive Approach to Libor Transition Issues.

On July 12, 2019, the staff of the Division of Corporation Finance, Division of Investment Management, Division of Trading and Markets, and Office of the Chief Accountant (Staff) of the Securities and Exchange Commission (SEC) issued a public statement regarding the expected transition away from the London Interbank Offered Rate (Libor) as a benchmark rate. In particular, the Staff's statement encourages market participants, including public companies, investment advisers, investment companies and broker-dealers, to proactively assess material risks as they transition away from Libor.

Companies should consider the Staff's guidance and overarching theme of transparency on an ongoing basis as they prepare periodic reports. Below is a brief summary of the key takeaways from the Staff's statement.

Background

Libor is a floating-rate benchmark that has served as the primary reference rate for various commercial and financial contracts, including corporate and municipal bonds and loans, floating rate mortgages, asset-backed securities, consumer loans, and interest rate swaps and other derivatives, for decades. Libor's susceptibility to manipulation, as exposed by a number of scandals in 2012, along with changes in the very nature of the transactions underlying it, has led to concerns that Libor is an increasingly unreliable benchmark. As a result, a global effort is underway to discontinue the use of Libor by the end of 2021. A number of banks are expected to stop reporting information used to set Libor after 2021. As regulators and market participants seek to avoid business and market disruptions resulting from the discontinuation of Libor, implementing alternative reference rates in advance of the discontinuation has become vital.1

The SEC has expressed urgency regarding preparation for the transition. In a press release announcing the Staff's statement, SEC Chairman Jay Clayton observed that "the transition away from LIBOR is gaining some much needed traction, but, as the [S]taff's statement makes clear, significant work remains." Clayton drew particular attention to the Staff's observation that "for many market participants, waiting until all open questions have been answered to begin this important work likely could prove to be too late to accomplish the challenging task required."

Key Takeaways

The Staff's statement notes that the Staff is actively monitoring the extent to which market participants are identifying and addressing risks related to the transition from Libor. The Staff highlighted a number of specific considerations.

Existing Contracts

With respect to companies' existing contracts, the Staff advised companies to identify those that extend past 2021 to determine if there are any interest rate provisions that reference Libor and to consider potential uncertainty in the interpretation of these contracts. In particular, the Staff advised that companies consider the following questions as they seek to understand and mitigate any risks related to the transition from Libor:

- Do you have, or are you or your customers exposed to, any contracts extending past 2021 that reference Libor? For companies considering disclosure obligations and risk management policies, are these contracts, individually or in the aggregate, material?
- For each contract identified, what effect will the discontinuation of Libor have on the operation of the contract?
- For contracts with no fallback language in the event Libor is unavailable, or with fallback language that does not contemplate the expected permanent discontinuation of Libor, should actions be taken to mitigate risk, such as proactive renegotiations with counterparties to address the contractual uncertainty?
- What alternative reference rate (for example, SOFR) might replace Libor in existing contracts? Are there fundamental differences between Libor and the alternative reference rate — such as the extent of or absence of counterparty credit risk — that could impact the profitability or costs associated with the identified contracts? Does the alternative reference rate need to be adjusted (by the addition of a spread, for example) to maintain the anticipated economic terms of existing contracts?
- For derivative contracts referencing Libor that are utilized to hedge floating-rate investments or obligations, what effect will the discontinuation of Libor have on the effectiveness of the company's applicable hedging strategy?
- Does use of an alternative reference rate introduce new risks that need to be addressed? For example, for companies that have relied on Libor in pricing assets as a natural hedge against increases in costs of capital or funding, will the new reference rate behave similarly? If not, what actions should be taken to mitigate this new risk?

New Contracts

With respect to new contracts, the Staff suggested referencing an alternative rate (such as SOFR) or, where new contracts reference Libor, to include fallback language. The Staff's statement notes that the Alternative Reference Rates Committee has published recommended fallback language for specific contexts and that other industry groups are developing fallback language as well.

Other Business Risks

The Staff also advised that companies should identify, evaluate and mitigate other consequences of the discontinuation of Libor on their business, such as on strategy, products, processes and information systems.

Market participants facing a significant impact may want to establish a task force to assess the impact of financial, operational, legal, regulatory, technology and other risks.

Division of Corporation Finance

In the Staff's statement, the Division of Corporation Finance highlighted specific disclosure considerations for market participants. In particular, it noted that Libor transition might require disclosure in companies' risk factors, management's discussion and analysis, board risk oversight, and financial statements.

In accordance with the overarching theme of a proactive approach to Libor transition risks, the Division of Corporation Finance also noted that companies should keep investors informed about their progress toward risk identification and mitigation and the anticipated impact on the company, if material. In doing so, the Division of Corporation Finance encouraged all companies to consider the following guidance:

- The evaluation and mitigation of risks related to the expected discontinuation of Libor may span several reporting periods. Consider disclosing the status of company efforts to date and the significant matters yet to be addressed.
- When a company has identified a material exposure to Libor but does not yet know or cannot yet reasonably estimate the expected impact, consider disclosing that fact.
- Disclosures that allow investors to see this issue through the eyes of management are likely to be the most useful for investors. This may entail sharing information used by management and the board in assessing and monitoring how transitioning from Libor to an alternative reference rate may affect the company. This could include qualitative disclosures and, when material, quantitative disclosures, such as the notional value of contracts referencing Libor and extending past 2021.

Office of the Chief Accountant

The Office of the Chief Accountant noted that it is actively monitoring the activities of financial statement preparers and auditors, standard setters such as the Financial Accounting Standards Board and other regulators to address financial reporting issues that might arise relating to the transition from Libor to an alternative benchmark rate. Specifically, the Office of the Chief Accountant noted that these issues could span a number of areas, including:

- modifications of terms within debt instruments;
- hedging activities;
- inputs used in valuation models; and
- potential income tax consequences.

Division of Investment Management

The Division of Investment Management noted that it also is actively monitoring the impact of the expected discontinuation of Libor on investment companies and advisers. Investment companies and advisers should consider whether any of the effects of the discontinuation of Libor constitute risks that should be disclosed to investors, even for funds that do not hold investments linked to Libor.

The Division of Investment Management also encouraged affected funds to provide investors with tailored risk disclosure that specifically describes the impact of the transition on their holdings. For

instruments extending past 2021 that reference Libor, advisers should consider the effect of the discontinuation of Libor when recommending those instruments to clients or monitoring them for clients.

Division of Trading and Markets

The Division of Trading and Markets stated that it is monitoring the impact of the discontinuation of Libor on broker-dealers, central counterparties and exchanges. These entities are encouraged to analyze how the discontinuation of Libor will affect them and whether their clients and markets should be informed of related risks.

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1 In the United States, a group convened by the Federal Reserve Board and the Federal Reserve Bank of New York has identified the Secured Overnight Financing Rate (SOFR) as its preferred alternative rate for US dollar Libor. SOFR is a measure of the cost of borrowing cash overnight, collateralized by U.S. Treasury securities, and is based on directly observable U.S. Treasury-backed repurchase transactions, representing a liquid market with daily volumes regularly in excess of $800 billion. Some market participants are also considering other US dollar reference rates for certain instruments.

Skadden, Arps, Slate, Meagher & Flom LLP

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July 25, 2019

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For His Star-Studded Client Base, A Top Advisor Bets On Boring Muni Bonds.

Wells Fargo advisor Joshua Glass knows that entertainment's full of fleeting moments, but he's spent 18 years helping fortunes last—even if the fame doesn't.

"You can make a great deal of money in a very short period of time in entertainment, but just because your movie's hot now doesn't mean it'll be hot later," says 38-year-old Glass, managing director of investments at Wells Fargo Advisors' West L.A. outpost.

"To make your money last and grow, you've got to manage risk, taxes and preservation of capital," adds the Forbes Next-Gen Advisor, whose star-studded client deck includes film execs, pro athletes and Oscar winners.

The son of CPAs, Glass grew up in Los Angeles and found early exposure to the entertainment industry through family and friends. Originally considering a career as a Hollywood agent, he

attended the University of Miami on a half-academic, half-athletic scholarship. Plans changed after sophomore year, however, when Glass quit football to spend time abroad and study finance.

After graduating in 2002, Glass took a job at the Beverly Hills branch of UBS. And from day one, Glass says, he was building up his book of clients, pitching for portfolios from prominent entertainers whose accounts were older than he was.

At the time, market sentiment was still battered from the recent dot-com bust, and clients were still shy on equities. Some had loaded up on tax-free floaters. These were municipal bonds that fared favorably for investors, but didn't add a penny to advisors' pockets.

"I wasn't making any money from it, but I was building trust," Glass says. And when the Great Recession roiled global markets, Glass' conservative strategy paid off; equities tanked, but bonds proved reliable.

"It's sad to say, but 2008 and 2009 really catapulted my business," says Glass. "At the time I was 27 or 28, I was managing over $100 million, and during that year when the equity markets lost 37% … my clients' worst losses were about 15%, and by August or September of '09, they were back at their all-time high."

Now married and with two young children, Glass manages about $305 million for more than 100 clients. He remains cautiously optimistic about the market in light of favorable macroeconomic conditions. Unemployment's still hovering around an all-time low, wages are increasing, and corporations are pouring billions into expansions.

"Do I see the economy closer to a downturn than an expansion? Of course," Glass concedes. "But there's plenty of room to grow."

In an age of information, during which a market uptrend has coincided with the rise of indexes, passive investing and robo-advising, Glass has adopted a mantra: "Keep it simple, stupid."

He reminds clients to remember fundamentals before being swayed by sensational news coverage. Wariness of bonds amid rising interest rates, for example, shouldn't make investors abandon bonds—the safe part of your portfolio, Glass adds.

"If you let the headlines tell you about it, you would've thought two years ago that bitcoin was going to make the U.S. dollar go out of business," Glass says. "Think about things logically. You have to filter out the noise."

Forbes

by Jonathan Ponciano

Jul 24, 2019

Now Is the Time to Be Cautious in Muni Market: Neuberger Berman

Jamie Iseliin, head of muni fixed income at Neuberger Berman, examines the municipal bond market with Bloomberg's Taylor Riggs in this week's "Muni Moment" on "Bloomberg Markets."

Watch video.

Bloomberg MarketsTV Shows

July 24th, 2019, 8:39 AM PDT

Future Returns: Investing in Bonds for Impact.

Community Capital Management's $2.1 billion fixed-income mutual fund has been investing for impact for 20 years—long before the term "impact investing" existed.

That's because the CRA Qualified Investment Fund was created as an investing vehicle for U.S. banks that are required by the Community Reinvestment Act of 1977 to support the communities where they operate.

But that focus, leading to investments in affordable rental housing, mortgages for low- and moderate-income borrowers, job creation, economic development, and affordable healthcare—among other areas—is also increasingly appealing to pension funds, endowments, foundations, and wealthy individuals and families who want to invest for impact in bonds as well as stocks.

Continue reading.

Barron's

By Abby Schultz

July 23, 2019

Has the Time Come for City-Run Public Banks?

A coalition of activists in 10 California cities is pushing for public banks as a bill to support this voter-run option works its way through the state legislature.

"We planted a seed," tweeted Public Bank L.A., the day the organization's ballot measure—which would have created the country's first city-led public banking institution—failed last year in Los Angeles. "This is just the beginning."

Turns out they were right. After voters in L.A. rejected the measure that would have allowed the city to divest funds from Wall Street banks and create their own public banking institution at the local level, Public Bank L.A. converged with Public Bank San Francisco and coalitions in eight other California cities and regions to form a united public banking front. And now, a state assembly bill, AB 857, that would make it legal for each of these cities to open local banks, cosponsored by San Francisco Assembly member David Chiu and Los Angeles Assembly member Miguel Santiago, has advanced through the California Assembly and into Senate committees.

Consider the way cities bank now: They collect thousands in tax revenue each year, then park that money in commercial banks that choose the projects and industries in which to invest the city's money in hopes of growing it. By opening local public banks, advocates say cities could decide where to invest those funds—and take out loans to finance other public projects for lower interest rates,

from banks they control. The banks' priorities would be set by voters, and they'd be run by civil servants and financial experts.

"When you're backed by a city, you have a democratic constituency to hold the bank accountable," said Sushil Jacob, director of Economic Justice for Lawyers Committee For Civil Rights SF and one of the architects of the state and local legislation. "The city is identifying the needs for the community, and they're turning to the bank to finance those needs."

Continue reading.

CITYLAB

SARAH HOLDER

JUL 17, 2019

Municipal Bonds: Funding The Infrastructure Of Connections

This is the third article in a series highlighting the most important aspect of municipal bonds: how the projects bonds finance help the community. It appropriately started with Municipal Bonds: Investing In Our Communities. This piece looks at how these days, infrastructure isn't just traditional big public works projects.

The Evolving Traditional Public Works Infrastructure

Infrastructure conjures visions of big public works projects: roads, bridges, tunnels, mass transit, and water and sewer lines. There is a reason for that. Every day in the U.S., we climb into our cars, trucks, SUVs and minivans to drive more than 8.4 billion miles on public roads, over bridges and through tunnels. Nearly 23 million people get on a train, bus or subway to connect with work, shops and family. An average of 2.1 million passengers catch a flight at the airport. More than 27 billion gallons of water gets used daily, an amount that could fill all the National Football League's stadiums in America four times over.

States, cities, counties and towns all issue municipal bonds to fund traditional infrastructure. In the past that usually meant plan-and-build. Today, public works projects integrate ESG (environment-social-governance) principles into design and use, taking into consideration that environmental impacts of projects can last for decades.

Continue reading.

Forbes

by Barnet Sherman

Jul 23, 2019

Why Regional Economics Matter For Municipal Bonds.

Summary

- At the most basic level, the credit quality of a municipal bond issuer is largely influenced by the economics of the region in which it's located.
- Knowing which areas are prospering and expanding today, and what to watch for in the future, can help muni bond investors avoid potential credit problems down the road.
- Be cautious of areas that are growing too fast and causing financial strain for the municipality.

When you buy a municipal bond, you're making a loan to a state or local government, for which it promises to pay you back an amount at some date in the future – potentially as long as 30 years in the future. How do you know if the municipality will be able to make good on its promise by then?

At the most basic level, the credit quality of a municipal bond issuer is largely influenced by the economics of the region in which it's located. Issuers in thriving economic regions with stable or growing populations generally have greater financial flexibility and can meet their debt payments more easily. Knowing which areas are prospering and expanding today, and what to watch for in the future, can help muni bond investors avoid potential credit problems down the road.

Continue reading.

Seeking Alpha

By Cooper J Howard

Jul. 16, 2019

Investors Want Municipal Bonds, but Issuance Is Rare.

The 2017 tax overhaul and economic strength filling government coffers discourage offerings

Municipal bonds are rallying, spurred by a broad surge in demand for global debt and a lingering decline in borrowing by state and local governments.

Investors have poured a net $47 billion into municipal bond funds during the first six months of 2019, a record for the first two quarters, according to Lipper data from Refinitiv. The bonds have provided positive returns, including price changes and interest, on the Bloomberg Barclays Municipal Bond Index every month since November 2018, the longest streak since the summer of 2016.

The surge in investor demand has met a decline in debt sales by states and municipalities. The drop was spurred by provisions of the 2017 tax overhaul that limited alternatives for refinancing, some state budget officers said. At the same time, recent economic strength has filled the coffers of state and local governments, reducing their need to borrow and decreasing the already-low risk of defaults.

"There are not many munis around," said Guy Davidson, the chief investment officer of AllianceBernstein LP's municipal business. And strong balance sheets mean "the downside is pretty limited at the moment."

Municipal bonds, which fund civic projects ranging from tunnels to school renovations, are considered almost as safe as U.S. Treasurys because they are backed by tax revenue or payments from such essential services as water. They are largely owned by ordinary investors and have long served as a key component of retirees' savings because their interest payments are typically tax-exempt.

The surge in demand further eases worries that the 2017 tax overhaul would hurt municipal bonds by reducing the appeal of those tax-free payments. Many also expected the tax cuts to boost growth and inflation. Investors tend to sell the bonds when they expect robust growth, while inflation erodes the purchasing power of the debt's fixed payments.

The yield on the benchmark 10-year Treasury note, which rises as bond prices fall, hit 3.23% in November. But diminishing growth expectations and signs the Federal Reserve will shift to cutting rates have spurred a bond rally this year, driving the 10-year note yield below 2%. The yield on the Bloomberg Barclays Municipal Bond Index, an indication of how much it would cost governments to issue new debt, stood earlier this week at 1.95%, its lowest level since October 2016, and down from a recent peak of 3.08% in November.

"It's really just amazing how aggressive this market is," said Matt Fabian, a partner at Municipal Market Analytics. "They want tax-exempt income, and you can't get that anywhere else except for the muni market."

The drop in yields has been a boon to state and local governments. Florida's board of education last week sold a Aaa-rated 10-year bond at a yield of 1.64%.

Issuance in general has remained low. Municipal bond issuance slipped about 25% in 2018 and has stayed at modest levels in 2019, according to data from the Securities Industry and Financial Markets Association, an industry trade group.

Ben Watkins, director of Florida's division of bond finance, said a provision in the tax overhaul limited alternatives for refinancing muni bonds by issuing new debt and that "the only way we would take advantage of favorable markets and interest rates has been handcuffed by Congress."

That is likely to keep supply low, even as financial stability has improved at city and state governments. There were only 40 defaults in 2018, the lowest on record in Municipal Market Analytics data going back a decade. Mr. Fabian estimated that the total was probably a "multidecade low."

If municipal finances and demand for the debt remains strong, low supply could make yields fall even further, according to some analysts. Still, Mr. Davidson said the municipal bond market includes numerous everyday investors whose sentiment can "turn on a dime."

"Demand is not always a given," said Mr. Davidson. "Mom and Pop are easy to scare."

The Wall Street Journal

By Britton O'Daly

July 18, 2019

Nuveen's Warning to Wall Street: Cut Off Our Muni Rival or Else.

- **December calls put pressure on banks, court transcripts show**
- **'The Street just has to choose,' Nuveen's Miller tells Goldman**

Nuveen LLC was giving Deutsche Bank AG an ultimatum.

John Miller, who oversees $160 billion of investments in state and local government bonds for the mutual-fund company, had watched in anger as a Dallas upstart muscled in on his lucrative corner of the municipal-securities market. The latest encroachment: the rival, Preston Hollow Capital LLC, landed $200 million of debt offered by a junk-rated university located in Nuveen's hometown of Chicago.

Now, Deutsche Bank was being told that Nuveen would pull business from the bank for providing financing for Preston Hollow, according to the transcript of a December telephone call filed in a Delaware court.

Miller's subordinate said Nuveen had already penalized Wells Fargo & Co. and Bank of America Corp. And other major banks were being put on notice for working with Preston Hollow, a firm Miller said was hurting the market by charging "predatory" interest rates on bonds it planned to resell to others.

"I have been working with John for 15 years and I have never seen him as serious about anything. I mean nothing gets him more upset than these Preston Hollow deals," said the employee, who wasn't identified by name in the transcript of the phone call with Deutsche Bank. "We are going to every single bank and broker-dealer today to examine what is the extent of their business, and the policy going forward is that if you are actively doing business with them, Nuveen will not be doing business with you."

The transcripts provide an inside look at a clash in the high-yield municipal market, a $500 billion corner where a flood of cash and relatively scant issuance frequently leaves firms fighting over new debt offerings. Few wield as much influence in that business as Nuveen, a unit of New York's TIAA.

In February, Preston Hollow sued Nuveen in Delaware Chancery Court, alleging the company used its market power to organize an industry-wide boycott against it. The telephone transcripts are at the heart of the case, with Preston Hollow arguing that they show Nuveen engaged in a "campaign of intimidation" to blackball it from the industry.

Free to Choose

A spokesman for Nuveen, Stewart Lewack, said Preston Hollow's claims have no merit and the company intends to "vigorously defend itself" when the case goes to trial later this month. He said the transcripts provide a distorted view of Nuveen's interactions with brokerage firms. He declined to comment on whether Nuveen pulled its business from banks over their ties to Preston Hollow. Miller didn't respond to an email seeking comment.

A spokesman for Deutsche Bank, Troy Gravitt, declined to comment. Jonathan Morgan, a spokesman for Preston Hollow, said Deutsche Bank didn't cut its financing to the company.

In court filings, Nuveen's lawyers argued that the firm can choose with whom to do business and select partners based on whether they work with competitors. They said Preston Hollow hasn't identified any lost business because of Nuveen's alleged conduct or demonstrated a reciprocal, collusive relationship among Nuveen and Wall Street banks, the filings said. This year, Preston

Hollow has purchased at least $136 million bonds in exclusive deals underwritten by Loop Capital Markets LLC, Stifel Financial Corp. and Piper Jaffray Cos., according to offering documents.

The lawsuit comes just as competition for the riskiest municipal bonds has intensified as rock bottom interest rates leave investors hunting for larger returns. High-yield municipal securities funds have picked up $10.5 billion of new cash in the first half of 2019, according to Morningstar Inc. data. Miller's $20 billion fund at Nuveen received 20% of it.

Striking Core Business

Spending the money isn't always easy. It's rare to see billion-dollar deals for large speculative projects, such as Virgin Trains USA's passenger railroad in southern Florida or the American Dream shopping mall in New Jersey's Meadowlands. Most low-rated municipal-bond deals come in chunks of $50 million or less from smaller borrowers like hospitals, charter schools or senior-living centers.

That's why even a firm like Preston Hollow could create a challenge for far bigger rivals. Rather than buy bonds in public offerings, the 5-year-old company negotiates to buy the entire deal in private. That saves borrowers costs for marketing and credit ratings.

In a phone conversation with Deutsche Bank, which extended financing to Preston Hollow through a so-called tender option bond program, Miller said the Dallas rival had initially only been doing a "handful" of $20 million to $50 million deals.

But it had started buying ones of $100 million or more, including from issuers whose securities Nuveen owned. Miller said that Preston Hollow was engaging in predatory practices by charging overly high interest rates for debt that it didn't intend to hold on to, creating financial risk for the borrowers and other bondholders.

"What's happened in the last two months really strikes more at the core of our business," Miller said, according to a transcript of his call filed in court. He later said that their "ability for them to move up the scale into deals that are really hurting us and really hurting our industry. That ability does come from your TOB financing."

'Devastating News'

One of Preston Hollow's deals was for Roosevelt University, a private school near Chicago's Grant Park that's seen enrollment shrink by 30% since 2014. In September 2018, Wells Fargo sold the entire issue, which was done through the Illinois Finance Authority, directly to Preston Hollow, even though Nuveen already owned some of its debt.

In the call with Deutsche Bank, the Miller subordinate criticized Preston Hollow for securing "exorbitant" yields and weakening protections for bondholders. "It's predatory," the employee said.

Allegations that Preston Hollow charged excessive rates and structured rushed deals are false and defamatory, the firm said in court filings. Roosevelt University's 2018 bonds had stronger financial protections for investors than prior bond issues by the university and Preston Hollow engaged in extensive discussions on the covenants with Roosevelt and its financial adviser, bond counsel and underwriter, said Morgan, the Preston Hollow spokesman.

Nuveen suspended its trading with Wells Fargo, the employee said, speculating that the move helped contribute to the ouster of the bank's public finance chief, Stratford Shields, after about a year on the job. Deutsche Bank needed to cut off the liquidity and unwind financing to Preston Hollow, the employee explained, or Miller would reduce Nuveen's business with the bank "to zero."

“It’s devastating news,” one unidentified Deutsche Bank employee said.

Shields said through a spokesman that the comments cast doubt on the company’s previously stated reasons for his ouster. A spokesperson for Wells Fargo declined to comment.

Deutsche Bank ignored the suggestion, according to Morgan, the Preston Hollow spokesman. But he said the Dallas lender is concerned about the effect the “extreme economic pressure” applied by Nuveen could have in the future. “We are thankful for Deutsche Bank’s willingness to stand up to Nuveen’s pressure and hope it will continue to do so in the future,” Morgan said.

Can’t Do Both

The transcripts show that Deutsche Bank wasn’t the only one to face such hardball tactics. Miller told Deutsche Bank he had commitments from Bank of America, Goldman Sachs Group Inc. and JPMorgan Chase & Co. and was soon meeting with Citigroup Inc. about not working with Preston Hollow. An agreement with Morgan Stanley, he said, was pending and similar deals were in the works with “a whole bunch” of smaller, region-based underwriters.

Morgan Stanley didn’t stop doing business with Preston Hollow following conversations with Nuveen, said Mark Lake, a spokesman. Spokespeople at Bank of America, Citigroup, Goldman Sachs and JPMorgan declined to comment.

“The Street just has to choose,” Miller said in a call with Goldman Sachs, according to a court transcript. “They have to choose who and what type of business they’re going to do because they’re not going to do both. At least not with Nuveen.”

“I’ve got 90% of the major top bracket muni broker dealer firms and banks to say absolutely never again, and I’m working on 100%,” Miller told Deutsche Bank. “I feel my chances are very good at getting there.”

Bloomberg Markets

By Martin Z Braun

July 18, 2019, 3:00 AM PDT

— *With assistance by Jef Feeley*

S&P U.S. Public Finance Midyear Outlook: Will The Sizzle Fizzle?

The current U.S. economic recovery is now the longest on record. It’s also the slowest, which has been the bigger story for U.S. public finance credit quality (see chart 1). Last year’s surge in growth–spurred largely by federal stimulus including tax reform–has contributed to strong revenue growth for many state and local governments and enterprise sectors this year.

Continue Reading

Jul. 18, 2019

How Bad Is the State and Local Pension Crisis Really?

State and local government pension plans hold nearly $4 trillion in assets and provide retirement income to over 10 million Americans. For most of these plans, the value of liabilities for future benefit payments exceed the value of plan assets. According to many journalists, academics, and policymakers, this failure to fully prefund state and local pensions constitutes a crisis. In a paper presented at the 2019 Municipal Finance Conference at Brookings, Jamie Lenney of the Bank of England, Byron Lutz of the Federal Reserve Board, and Louise Sheiner of Brookings provide an alternative view. Instead of focusing on a full prefunding benchmark, they focus on the sustainability of pension plans—whether plans will run out of assets and need to borrow money or be bailed out to meet benefit obligations.

Focusing on sustainability, Lenney, Lutz, and Sheiner argue, is appropriate for assessing the effect of pensions on state and local finances for several reasons. First, it provides a clear answer to the pressing question of whether public pensions are likely to spark a fiscal crisis. Second, it is consistent with history; in aggregate, these plans have always operated far short of full prefunding. Finally, getting to full prefunding is not necessarily welfare enhancing.

The authors use information in pension actuarial reports and state government comprehensive annual financial reports to project the benefit payments to current and future retirees for a sample of 40 pension systems. They find that benefit payments, as a share of the U.S. economy, are currently at their peak and will remain there for roughly the next two decades. Thereafter, reforms instituted by many plans to lower benefits will gradually cause a significant decline in the size of pension payments relative to GDP. This suggests that the cashflow pressure plans are currently experiencing will eventually recede.

Continue reading.

The Brookings Institute

by Finn Schuele and Louise Sheiner

Monday, July 15, 2019

What Crisis? The Case for Not Panicking Over Pension Debt.

New research released this week shows that even pension plans with big unfunded liabilities are likely to survive in the long term.

Over the past decade, public retirement costs have spiked while governments' unfunded liabilities –now totaling more than $1.2 trillion — have continued to grow.

But according to research that debuted this week, lawmakers shouldn't worry too much about accumulating pension debt. "There's an assumption that fully funding pensions is the right thing to do," said the Brookings Institution's Louise Sheiner at the paper's presentation. "Most of the work in this area has been about calculating how unfunded these plans are [and] that's led to a lot of concern that these plans are in a huge crisis."

Sheiner, along with co-authors Byron F. Lutz of the Federal Reserve Board and Jamie Lenney of the Bank of England, say that's not the case. They argue that pension debt is stable as long as its size relative to the economy doesn't increase. "When you approach the pension situation from a public finance [and sustainability] angle," Sheiner said, "there's less of a crisis than is typically portrayed."

The paper, which was presented at the Brookings Institution's annual municipal finance conference in Washington, D.C., finds that pension benefit payments as a share of GDP are currently at their peak level and will remain there for the next two decades. That's because the 2008 market crash came at a time when pension plans were starting to see baby boomers retire, meaning they dropped in value just when payments to retirees were starting to increase.

By 2040, however, the reforms instituted by many plans following the financial crisis will gradually cause benefit cash flows to decline significantly. Since those changes were to current employees' plans, governments won't see the full effect of those savings until those workers retire.

All of this means that, according to the research, the worst of it is over for most pension plans. For the next 40 or so years, the ratio of pension debt as a share of the economy is expected to remain the same, as long as the plans achieve moderate investment returns and governments continue to make consistent payments equal to or slightly higher than they are now.

Those, however, are two big conditions. Consistent payment schedules that last more than a few election cycles can be difficult for politicians.

Take Illinois. In 1994, it set a 50-year payment schedule that would fund the plan at 90 percent. For the first decade of the schedule, the payments were low. They've since started ramping up. As costs have increased, lawmakers have consistently found ways to avoid making them, meaning that the expected contributions are getting even bigger and bigger. Illinois now has one of the highest state contribution rates as a share of payroll, around 50 percent.

Sheiner said there are some plans, such as Puerto Rico's, that are essentially out of money and probably in need of a bailout. But most plans could achieve their definition of stability by maintaining or slightly increasing their current contribution rate as a percentage of payroll. (The U.S. average is 17.4 of payroll.)

The main concern, she adds, is with all this pressure to be fully funded, what are states giving up? And is that even necessary? "You do hear a lot of stories about people wanting to do things that are incredibly valuable, like getting lead out of water and investing more in education. These have huge rates of return that affect people's health, inequality, basically everything that's really important," she said. "And they can't do it because they have to fully fund their pension."

GOVERNING.COM

BY LIZ FARMER | JULY 19, 2019 AT 4:00 AM

High And Tight: Investment Options For A Rich Muni Market

Summary

- Muni CEFs have had a strong run-up in the last few months, supported by falling nominal rates, tighter credit spreads, and strong muni demand.

- Historically-high leverage costs, low long-term yields, and bond calls continue to pressure muni CEF earnings leading to continued distribution cuts.
- Investors who would like to take some chips off the table but maintain muni exposure can rotate into an ETF or CEFs with more robust coverage and UNII profiles.

Continue reading.

Seeking Alpha

ADS Analytics

Jul. 19, 2019

Muni Bond Defaults More Common than Rating Agency Tallies Suggest.

Defaults on local government bonds have been more frequent than credit rating agencies have reported, according to a paper by Lang (Kate) Yang of The George Washington University and Yulianti Abbas of the University of Indonesia prepared for the 2019 Municipal Finance Conference at Brookings. But because these defaults usually occur on bonds issued to fund specific projects, as opposed to general obligation bonds, the defaults do not tend to raise the borrowing costs of the defaulting local governments.

Using data on defaults reported by local governments from 2009 to 2015, including bonds that were not rated, the authors identify 2,563 defaults of all kinds – including technical defaults (for example, failure to file an audited financial report) and pre-monetary defaults (for example, unexpectedly drawing on reserve funds to maintain debt-service-ratios required for a loan) as well as failure to make interest payments. Excluding the highly publicized bankruptcies of Detroit, Jefferson County, and Puerto Rico, they count 2,049 defaults with par value of $7.2 billion – still a very small slice of all municipal bonds outstanding.

General Obligation (GO) bonds, the most common type of municipal bonds, are backed by the full faith and credit of the issuing municipality, and issuing governments can tap into all available revenue sources to meet their obligations to bondholders. Revenue bonds, in contrast, have a claim on a specified stream of revenues – tolls on a highway or ticket revenues at a stadium, for instance. Some revenue bonds are issued by a municipality on behalf of a private entity.

Most of these defaults that Yang and Abbas track are among bonds that haven't been rated by a credit rating agency, uninsured bonds, or bonds that are not GO bonds. They do not find an increasing number of defaults; indeed, excluding the three big municipal bankruptcies, they find a decline in defaults since 2012.

Comparing interest rates on government debt across counties and municipalities that experienced some form of default on non-GO bonds to those that did not, the authors find no significant effect of non-GO defaults on overall borrowing costs of the defaulting entity. These effects persist even when controlling for bond characteristics, as well as when looking only at municipalities that frequently default, are frequent borrowers, experience high unemployment rates, and have fewer legal hurdles to declaring municipal bankruptcy. The authors conclude that local governments should be comfortable issuing non-GO bonds or helping private entities access municipal markets despite the fact that such securities have a higher default rate than GO bonds, in part because there is no spillover from a non-GO default to municipal borrowing costs. They also conclude that local

governments should not bail out failing non-GO bonds with general tax revenues because the spillover effects are so minimal.

Read the paper here»

The Brookings Institute

Michael Ng and David Wessel

Monday, July 15, 2019

How Puerto Rico's Default Lowered States' Borrowing Costs.

The legal framework for state (as opposed to municipal) default is uncertain; no state has defaulted on its debt since Arkansas did so in 1933. In a paper, "Legal Uncertainty and Municipal Bond Yields: Market Spillovers from Puerto Rico," prepared for the 2019 Municipal Finance Conference at Brookings, Chuck Boyer of the University of Chicago Booth School of Business argues that markets view Puerto Rico's recent default as setting precedents for the legal framework should any U.S. state default. (In the U.S., municipal and county governments can declare bankruptcy; states cannot.) Using an event study methodology, Boyer finds that state bond prices had statistically significant reactions to legislation and legal decisions regarding Puerto Rico. By reducing the legal uncertainty surrounding a possible state default, the Puerto Rico decisions reduced the cost of state borrowing, he finds.

Boyer studies highlights four events in the Puerto Rico saga. First, in 2014, Puerto Rico enacted the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (Recovery Act), which allows state-owned corporations to restructure their debts. Two years later, in 2016, they passed the Debt Moratorium and Financial Recovery Act (Debt Act) that allowed Puerto Rico to stop making debt payments. Third, in the same year, U.S. Congress passed PROMESA, allowing Puerto Rico to restructure debts with more favorable terms toward creditors than Chapter 9, the means through which local governments declare bankruptcy. Finally, in 2018, a judge ruled that Puerto Rico's special revenue bond payments are optional during bankruptcy proceedings. These events "decrease market uncertainty as they have begun to create some precedent for a framework for state government default," Boyer writes.

Using data on individual bonds issued by state governments, the author estimates changes in the average bond spreads between state-issued bonds and U.S. Treasury debt of similar maturities, 15 days and 30 days following the announcement of each event. Bond spreads are a measure of the market's judgment on the riskiness of a security. Boyer reasons that "if an event leads to an increase in the expected recovery rate, one would expect to see a decrease in spread as the expected payout to debtholders is now higher." Controlling for factors related to the characteristics of each bond, Boyer finds that the three Acts lowered the bond spread between 0.03 and 0.08 percentage points. In addition, consistent with his hypothesis, the ruling that Puerto Rico does not need to pay its revenue bonds in bankruptcy, which decreases recovery rate, increased bond spreads by 0.08 percentage points. These results suggest that state bond prices reacted to the legal events in Puerto Rico.

The author also examines whether states in worse fiscal health are worse affected by the legal decisions in Puerto Rico as they are more likely to default. He finds mixed results for this hypothesis. Although bonds from states with credit ratings below the highest investment grade reacted

negatively to the Recovery Act, increasing spreads between 0.95 and 1.25 percentage points, neither the Debt Act nor PROMESA had a sizeable or significant effect. He concludes that there is no broad evidence that weaker state government are particularly affected, but suggests that a model of legal uncertainty may better illuminate reactions.

In short, Boyer finds that the legal decisions on Puerto Rico decrease bond spreads between state bonds and Treasury debt. This suggests that one channel affecting municipal debt is legal uncertainty. The author concedes that more research needs to be done on the legal uncertainty channel, but says that his results imply that establishing a legal framework for state government default could lead to lower borrowing costs for state governments.

The Brookings Institute

Jeffrey Cheng and David Wessel

Monday, July 15, 2019

What Is Driving Up the Cost of Highway Construction?

The cost of building one mile of interstate highway in the 1980s was three times what it cost in the 1960s, adjusted for inflation, Leah Brooks of The George Washington University and Zachary Liscow of Yale University find in a paper prepared for the 2019 Municipal Finance Conference at Brookings.

Brooks and Liscow marshal historical data from the Federal Highway Administration to try to explain these spending patterns. They rule out a few popular explanations: highway planners did not leave the most geographically challenging routes to do last. Changing costs for construction material or labor don't explain the increase in spending over time. Neither do the costs of acquiring rights of way or the costs of planning. And there were no large changing of federal interstate highway construction standards over time.

Instead, the authors find evidence that suggests two other explanations. One is what the authors call "the rise of 'citizen voice'" beginning in the 1970s, which brought costly environmental review delays. They suggest that "projects associated with wigglier highways may have encountered resistance that both led to less direct routes and also more expensive construction." They find that a 0.01 mile per year increase in the wiggliness of a highway is associated with a $9.71 million increase in costs.

The second possible explanation is an increase in the quantity (not the price) of labor. The authors use unionization rates and the average share voting Democrat in presidential campaigns (an indication of a state's political leanings) over time as proxies for the importance of labor in each state.

Brooks and Liscow also find substantial variation in spending among states: New Jersey, for instance, spent $35 million more per mile than Delaware. They find these differences are not explainable by observable differences in state policy or in the geography of the places where the roads are built. "This puzzling but striking unexplained residual," they write, "resembles the large explained residual in health care spending across states and merits further investigation."

Read the paper here»

The Brookings Institution

Manny Prunty and David Wessel

Monday, July 15, 2019

GASB Proposes Omnibus Statement Addressing Wide Range of Practice Issues.

Norwalk, CT, July 9, 2019 — The Governmental Accounting Standards Board (GASB) has proposed guidance addressing various accounting and financial reporting issues identified during the implementation and application of certain GASB pronouncements.

The issues covered by the Exposure Draft, *Omnibus 20xx*, include:

- The effective date of Statement No. 87, *Leases*, to address concerns regarding interim financial reports
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit pension plan or other postemployment benefit (OPEB) plan
- The applicability of Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for pensions and OPEB
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to pension and OPEB arrangements, and
- Measurement of liabilities and assets, if any, related to asset retirement obligations in a government acquisition.

The Exposure Draft is available on the GASB website, www.gasb.org. The GASB invites stakeholders to review the proposal and provide comments by October 4, 2019.

Fitch Ratings: FY18 Median Ratios Show Widening Credit Gap; Strong Fundamentals for U.S. Higher Ed

Fitch Ratings-Chicago-12 July 2019: Fiscal 2018 ratios show a more bifurcated sector and widening credit gap among U.S. universities and colleges, with higher-rated institutions getting stronger and lower-rated entities facing more operating, leverage and demand pressures, according to a new report from Fitch Ratings. Trends highlighted in the median report show relatively flat student-generated revenues and public funding continue to pressure margins, while solid fundamentals helped to support largely stable median liquidity and leverage levels in fiscal 2018.

Student-driven revenue remains paramount across the sector, and tuition pressures at the lower end of the rating spectrum continue to rise; with a range from marginal growth below 2% for 'A' category public institutions and 'BBB' category private institutions, and net tuition declines and volatility at lower ratings. Tuition discounting continues a steady rise across rating categories, and poses a real credit concern for those credits with weaker demand profiles and thinner balance sheet

resources.

Still, a strong year for endowment performance and ongoing expense control helped support liquidity-related metrics in fiscal 2018, which continue to be a distinguishing factor across rating levels. Median ratios of available funds (AF) to debt and AF to expenses increased for most Fitch-rated institutions in fiscal 2018, and were at worst flat in the lower rated categories.

Two new metrics related to the release of the new 'U.S. Public Finance College and University Rating Criteria' (June 2019) aid this analysis: adjusted cash flow margin and available funds to adjusted debt.

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Fitch Ratings Updates Criteria for U.S. Military Housing Rating Criteria.

Link to Fitch Ratings' Report(s): U.S. Military Housing Rating Criteria

Fitch Ratings-New York-12 July 2019: Fitch Ratings has published an updated criteria report titled 'U.S. Military Housing Rating Criteria.' The report replaces the existing criteria of the same title published on July 25, 2018.

The changes to the criteria mainly relate to further clarification of the data sources section and the addition of a disclosure section commenting on the disclosure of assumptions used in developing revenue projections at issuance and any significant changes to those assumptions in surveillance reviews. In addition, methodology for assessing investment quality and counterparty exposure was further clarified in the report.

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

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S&P When The Cycle Turns: U.S. Airport Balance Sheets - And Exposures - Increase With Traffic

Aside from America's roadway network, U.S. airports have been at the forefront of a national conversation related to aging infrastructure, congestion, and delays that inhibit growth and global competitiveness. These are on display every day to 2.7 million travelers on 44,000 flights across the U.S. aviation system.

Continue Reading

Jul. 9, 2019

For All But the Lowest-Rated State and Local Governments, Buying Bond Insurance is a Bad Deal.

State and local governments paid over $17 billion in insurance premiums on their bonds between 1995 and 2008. Insuring a bond should add a layer of protection against default for investors in the bond and reduce interest costs for borrowing municipalities. But after many bond insurers collapsed during the financial crisis, the benefits of bond insurance to state and local taxpayers became much less clear.

In a paper presented at the 2019 Municipal Finance Conference at Brookings, Kimberly Cornaggia and Giang Nguyen of Pennsylvania State University and John Hund of the University of Georgia find that today, only a handful of state and local governments benefit from insuring their bonds. The authors studied a sample of over 700,000 municipal bonds issued over the last 30 years. They find that, before the financial crisis, bond insurers tended to have high credit ratings, so buying insurance on muni bonds was a good way for state and local governments of all credit ratings to reduce interest rate costs on their debt. In that period, local governments saved about 0.1

percentage point in borrowing costs by paying to insure the bonds.

When bond insurers' credit ratings were downgraded during the crisis, however, investors began to consider insurance to be less valuable. Post-crisis, insuring led to lower borrowing costs only for state and local governments with the lowest credit ratings. The authors show that insurance is effective at reducing interest costs only when the insurer has a higher credit rating than the borrowing government; after the financial crisis, very few insurers continued to have credit ratings as high or higher than the municipalities they insured.

Still, many municipalities continue to pay insurance premiums today. There is no clear explanation why well-rated governments do this, and the authors say that doing so subsidizes lower-rated municipalities that benefit from the insurance. The authors say their findings indicate that moving away from bond insurance could result in significant savings for state and local taxpayers.

In addition to lowering borrowing costs for municipalities, bond insurance should make purchasing and trading bonds cheaper for investors. Cornaggia and coauthors show, however, that transaction costs tend to be the same or even higher for insured municipal bonds relative to their uninsured counterparts. This finding points to another avenue by which bond insurance doesn't deliver benefits.

Read the paper here»

The Brookings Institute

Sage Belz and David Wessel

Monday, July 15, 2019

The SOFR Primer, by SIFMA Insights.

Transitioning away from LIBOR

The publication of LIBOR is not guaranteed beyond 2021. To ensure financial stability, a significant, coordinated effort is underway to transition to alternative interest rate benchmarks. With an estimated $200 trillion of financial contracts referencing USD LIBOR, much work lies ahead in order to implement a successful reference rate change and time is of the essence.

In this primer, published as we gather for a LIBOR Transition Briefing with policymakers at the center of the transition, SIFMA Insights provides an overview of the LIBOR transition – as well as an actionable checklist – with a focus on the proposed U.S. alternative reference rate, Secured Overnight Financing Rate (SOFR).

Get the Primer.

Pressure Builds on Congress to Raise Debt Limit, Which Would Reopen SLGS Window.

The Treasury window for trading State and Local Government Securities will not reopen to the

municipal bond market, though pressure is building on Congress to raise the federal debt limit before its August recess.

The SLGS window has been closed since March 1 when Treasury began taking extraordinary measures to avoid breaching the debt limit, and an increase would reopen it.

The deadline for avoiding a potential default on the nation's debt obligations has not been expected to be until early October, but the Bipartisan Policy Center said Monday the risk has moved up to early September.

The Washington-based think tank said the most likely deadline remains early October but it cannot rule out a September date because federal revenue growth has run lower than earlier expectations.

That leaves the House with only three weeks to act prior to its plan for a seven-week legislative break that would begin July 26, while the Senate is planning to end its legislative session a week later.

Both chambers plan to return for legislative work on Sept. 9, but that might be too late to avoid the disruption to financial markets and other cascading effects that a default would cause.

Senate Appropriations Chairman Richard C. Shelby, R-Ala., acknowledged the new urgency to act on Monday.

"That could change the dynamic," Shelby told The Washington Post. "We cannot default. That would send chaos through the financial markets."

Shelby told The Wall Street Journal, "It's time now for a serious conversation."

Senate Majority Leader Mitch McConnell, R-Ky., told reporters Tuesday he is "in close communication" with Treasury Secretary Steven Mnuchin on the deadline for acting. "I don't think there is any question that we won't default," McConnell said.

SLGS are typically used by state and local governments and other entities that issue tax-exempt municipal bonds because of yield restrictions and arbitrage rebate requirements under the Internal Revenue Code.

The role of SLGS has been significantly diminished by the termination of advance refundings on Jan. 1, 2018, under the Tax Cuts and Jobs Act, with the amount of SLGS outstanding declining more than 49%.

There were 13,147 SLGS bonds and notes with a combined value of $47.9 billion at the end of June compared to 21,015 SLGS bonds and notes valued at $94.4 billion at the end of 2017, according to the Treasury.

There still are three uses for SLGS.

First, they are sometimes used for escrows in current refundings.

They are also sometimes used for equity defeasance escrows which are yield restricted.

The third use is for longstanding advance refunding escrows.

Michael Cullers, a public finance tax lawyer and partner at Squire Patton Boggs in Cleveland, said that based on what he's seen the closing of the SLGS window "hasn't created a lot of difficulties."

Because advance refunding of tax-exempt bonds is no longer allowed, a lot of the pressure to use SLGS has been alleviated, Cullers said.

“I would say it’s now definitely more a bump in the road,” said Cullers. “Even if you use them to refund taxable bonds, and you end up with positive arbitrage, you can make a yield reduction payment. It’s really made it a lot less difficult.”

Cullers noted that Treasury regulations on yield reduction payments were modified a few years ago to allow the use of yield reduction payments to comply with yield restriction where a defeasance escrow funded with proceeds of an advance refunding bond issue have a materially higher yield than the yield of the advance refunding issue, and the issuer was unable to subscribe for SLGS on the date that it entered into the agreement to purchase the escrow investments because the Bureau of Fiscal Service had suspended the sale of SLGS.

An agreement on raising the debt limit is expected to be part of a larger deal that would raise defense and domestic spending limits for the 2020 fiscal year that begins Oct. 1.

Without an agreement, budget caps would force onerous spending reductions.

CBO reported Monday the federal budget deficit was $746 billion for the first nine months of the 2019 fiscal year that began Oct. 1.

The deficit through June 30 was $139 billion more than the deficit recorded during the same period the previous year, CBO said. Outlays were $208 billion higher than during the first nine months of fiscal 2018 while revenues were only $69 billion higher.

Over the first nine months of the fiscal year total receipts have increased by 3%. The $69 billion increase in receipts included an additional $37 billion in payroll withholding for workers and a $20 billion decline in income tax refunds.

By Brian Tumulty

BY SOURCEMEDIA | MUNICIPAL | 07/09/19 02:52 PM EDT

Bridging Public Pension Funds and Infrastructure Investing: Nossaman

Nossaman attorneys Yuliya Oryol, Peter Mixon and Allan Ickowitz provided feedback and comments on drafts of “Bridging Public Pension Funds and Infrastructure Investing,” a white paper co-authored by Clive Lipshitz and Ingo Walter (NYU Stern School of Business).

The paper is a thoughtful evaluation of the sustainability of the largest public pension systems in the United States and the role of infrastructure investing in their portfolios. Lipshitz and Walter argue that infrastructure should become more central to pension portfolios despite the existing challenges for infrastructure development in the United States. In order for public pension plans to benefit from the gains of infrastructure investing, they discuss the importance of improved efficiencies and increased supply of deals – likely through public-private partnerships and other greenfield or repurposed brownfield investing opportunities.

Click here to download and read the paper

Nossaman LLP

By Yuliya Oryol on July 11, 2019

The Tool That Local Economic Developers Should Rely On.

A cost-benefit model is the best route to creating fiscally prudent incentive packages.

There's little doubt that the use of taxpayer-funded incentives will remain the subject of intense disagreement among public officials, researchers and the public. Regardless of the larger debate, however, local economic developers are often expected to offer incentives to attract and retain businesses. How can you provide them in a fiscally responsible way?

The local government's elected body sets a vision for the type of economic activity the community desires. Policies then need to be written stating when and what types of incentives can be used. At this point, economic developers need a good fiscal tool to ensure that incentives are being offered wisely.

There are three types of fiscal tools that can be used to look at economic projects: an economic-impact model, a fiscal-impact model and a cost-benefit model.

An economic-impact model, such as the ones produced by the federal Bureau of Economic Analysis as well as private companies, estimates the impact on taxes, jobs, wages and economic activity should a business move into a community. However, it often overlooks additional costs associated with this business, such as project-specific capital expenditures or increased demand for services from local governments, resulting in overstated benefits.

Conversely, a fiscal-impact model focuses on costs associated with business activity. However, it doesn't look at indirect revenues very well and tends to overstate costs. When reviewing a fiscal-impact study for La Plata County, Colo., for example, we found that the report did not credit any sales-tax revenue attributable to increased residential housing, even though half of all retail sales were from residents. It also did not account for property tax revenue from machinery and equipment for manufacturers and wholesalers, which comprise more than half of all property tax from these businesses.

A cost-benefit model balances the approaches of economic- and fiscal-impact modeling. It evaluates the change in economic activity, government revenues and costs for a new project, as well as the cost of any incentives offered, and it measures these impacts over several years.

One key element in a cost-benefit model is identifying both the fixed costs and variable costs to the governing body's budget. As a business generates new jobs and housing, there will be an increase in some public costs, such as police calls, as well as revenues, such as activity fees for a community recreation center. Other parts of the budget, such as the costs of city administration, may not change when a new business moves in. In Lawrence, Kan., we identified these fixed and variable portions of the city budget internally. Other communities, such as Lee's Summit, Mo., hired a consultant to create this analysis.

A good cost-benefit model allows you to more accurately assess the risk associated with the project, giving you answers to questions such as what happens if a project creates fewer jobs than forecast. In Lawrence, this proved quite helpful in responding to questions from residents about whether

proposed projects would perform according to the company's projections.

For a cost-benefit model to be effective, policy should require a "coverage ratio" similar to what banks use for issuing loans. For instance, the policy we had in Lawrence required that a project generate $1.25 in new revenue for every $1 in new incentives and costs.

Finally, the cost-benefit model should be managed in-house. This allows staff to be the experts and respond to questions from elected officials, city management or the public, and to provide more detail as needed.

When we built our cost-benefit model in Lawrence, two of biggest challenges we found were learning to negotiate and balancing the model's flexibility with ease of use.

City leadership can be nervous about negotiating with businesses. However, most businesses are used to negotiating and are willing to yield a little in their requests, if you can explain why you can't meet a request and what you can do as an alternative. Using negotiations, Lawrence was able to craft an incentive package that met the city's fiscal requirements and still allowed for a critical expansion for one of its largest employers.

Cost-benefit models also have trade-offs between ease of use and flexibility. Typically, the more flexibility you want, the more complicated the model is to use. Flexibility became a challenge in Lawrence, and after almost a decade with the same cost-benefit model, a new one needed to be found. Finding a balance between flexibility and ease of use and creating quality training documents are important for the longevity of the model.

Every economic-development project carries risk. However, with a solid vision, good policy and a quality cost-benefit model, local economic-development professionals can provide fiscally prudent incentive packages that increase the benefit to the community overall.

GOVERNING.COM

By Roger Zalneraitis

JULY 8, 2019 AT 4:00 AM

Municipal Bonds: Investing In Our Communities

As municipal bond investors, we sometimes get so caught up in where interest rates are headed or if the yield curve is flattening or rising, we lose track of the most important aspect of municipals bonds: how the projects they finance help the community.

At their best, bonds fund projects deliver essential public services to the community. The benefits can be both immediate and last long into the future. Schools get built, highways paved, water and sewer systems expanded, bridges and tunnels maintained, hospitals upgraded,and a host of other projects created or improved. Few other investment vehicles so positively affect our lives in such tangible ways. It's the reason municipal bonds are generally a credit-stable asset class.

While that's an important point for investors to keep in mind, it sometimes leaves the impression that municipal bonds are, well, a little dull.

Continue reading.

Forbes

by Barnet Sherman

July 9, 2019

The Importance of Monitoring Municipal Bonds.

The municipal bond market may not be as fast-moving as the equity or futures markets, but that doesn't mean that investors should stop monitoring bonds after they are purchased. In addition to the handful of high-profile defaults, investors must be mindful of smaller changes in credit and liquidity risk that can impact how they build and maintain their overall portfolio.

Let's take a look at why it's important to monitor muni bonds and what metrics to watch.

Why Monitor Muni Bonds?

Most investors do their due diligence before buying municipal bonds by assessing the financial health of the issuer and the bond's specific characteristics. However, many investors fail to monitor bonds once they become part of their portfolio, despite potential changes in risk over time. These changes can have a significant impact on their overall portfolio risk.

Continue reading.

municipalbonds.com

Justin Kuepper

Jul 12, 2019

Socking Away Money for the Bad Times Requires Strategic State Practices.

The Volcker Alliance report grades states on their reserve fund balances and policies and makes 10 recommendations for how states can control withdrawals from rainy day funds, replenish spent funds, and address revenue volatility.

From requiring specific financial conditions be met in order to withdraw money from a rainy day fund to setting a replenishment plan to pay back those drawdowns, a new report outlines some best practices for state governments to save money for an economic downturn.

The Volcker Alliance report, released Thursday, examined the practices of all 50 states and makes 10 best-practice recommendations that states can borrow from to strengthen their own fiscal stability.

The report details best practices in three areas: making withdrawals from rainy day funds, replenishing of funds, and addressing revenue volatility. It also grades states based on their reserve

fund balances and policies.

Continue reading.

Route Fifty

By Andrea Noble

JULY 11, 2019

Municipal CUSIP Request Volume Increases for Sixth Straight Month.

NEW YORK, NY, JULY 10, 2019 – CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for June 2019. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a sixth consecutive increase in requests for new municipal debt identifiers, while other major asset classes were flat in June.

Read Report.

What Is a CUSIP Number and What Does It Mean?

A CUSIP number is Wall Street's bar code for security identification. Here's how it works.

A CUSIP number is Wall Street's way of identifying an investment security, like a stock, bond or mutual fund.

Officially, a CUSIP number (more formally known as the Committee on Uniform Securities Identification Procedures) identifies all registered U.S. publicly-traded companies and all U.S. government and municipal bonds. A CUSIP also identifies less traditional investment securities, including preferred stock; funds; certificates of deposit; syndicated loans; and U.S. and Canadian listed options.

The CUSIP number is a powerful aid in helping investment companies, investors, and government regulators track a security, and is especially helpful in managing an efficient trade clearance and settlement process.

Continue reading.

thestreet.com

by Brian O'Connell

Jul 8, 2019 7:20 PM EDT

How a Blockchain Could Help Roll Out Berkeley's Next Fire Truck.

LAST YEAR, BEN Bartlett, a member of the Berkeley City Council, proposed an unusual idea to his colleagues: putting affordable housing on the blockchain. The city was facing an unprecedented housing crisis and the prospect of cuts to federal housing assistance. Why not turn to local residents to help fund a solution? The city would issue bonds, as governments often do when they need to finance big-ticket projects, and break them up into small pieces called “minibonds.” City residents could invest as little as $25. In return, they’d get a small amount of interest and perhaps a dash of civic pride, too.

The idea behind such tiny bonds, Bartlett says, is to “let the poor rebuild the country and profit from it.” The trouble is, issuing a $25 minibond involves a mess of paperwork and middlemen that can cost more than $25. That’s where he and Berkeley mayor Jesse Arreguin believe blockchain could help. The idea is to automate the financing process, keeping track of all the minibonds in a secure ledger and issuing interest payments in digital tokens.

At first, the idea met with skepticism, not least because Bartlett and Arreguin called their plan an “ICO.” That stood for an “initial community offering,” Bartlett clarifies—not an “initial coin offering,” the fund-raising mechanism often associated with cryptocurrency scams, hype, and regulation dodging. Bartlett says Berkeley’s ICO remained a mundane municipal bond at heart, even if it was to be divvied up into digital tokens. But some of his colleagues encouraged the city to slow down, and the council voted to have city staff examine if it would be feasible. Now, 13 months later, the city plans to seek a vendor for a minibond pilot. The city finance director suggested starting with a fire truck, financed by selling up to $4 million in bonds.

Continue reading.

WIRED

GREGORY BARBER

07.09.1907:00 AM

NLC Federal Advocacy Update: Week of July 2, 2019

In this issue:

- SCOTUS Throws Out Citizenship Question…For Now
- July 9 Housing Task Force Panel and Report
- Senate Introduces Companion Bill to Overturn FCC Small Cell Order
- EPA, Army Corps Seek Comments on Potential Revisions to Mitigation Rule
- Local Government Lawsuit Against FCC Small Cell Order Moves Forward
- Federal Advocacy Committees SBLM Recaps

National League of Cities

July 02, 2019

Outcomes-Based Project Assessment Tool.

Abstract

As funders and providers of social services seek to improve program impact through new funding models which tie outcomes to funding, they may ask, what makes a strong outcomes-based project? Building off of an existing tool designed specifically for Pay for Success projects, this Outcomes-Based Project Assessment Tool is designed to help stakeholders building any kind of outcomes-based project do so in a way that places evidence and data at the center and ensures partners have the appropriate levels of capacity and commitment. Launching an outcomes-based project can be a winding road. Use this tool to help navigate your course, figure out the critical points along the way, and ultimately arrive at your destination of improving social services and the public good.

Read the Full Report.

The Urban Institute

by Justin Milner, Matthew Eldridge & Kelly Walsh

June 28, 2019

Fitch Publishes State HFAs: Mortgage Insurance or Guarantee Fund Program Rating Criteria

Link to Fitch Ratings' Report(s): U.S. State Housing Finance Agencies: Mortgage Insurance or Guarantee Fund Program Rating Criteria

Fitch Ratings-New York-02 July 2019: Fitch Ratings has published an updated criteria report titled "U.S. State Housing Finance Agencies: Mortgage Insurance or Guarantee Fund Program Rating Criteria." The report replaces the existing criteria of the same title published on June 28, 2018.

There have been no material changes to Fitch's underlying methodology and no rating actions are expected as a result of the application of the updated criteria. The criteria will be used in conjunction with the master criteria "U.S. Housing Finance Agency Loan Program Rating Criteria" published on June 27, 2019.

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Additional information is available on www.fitchratings.com

Ripples From Puerto Rico's Debt Crisis Reach the Mainland.

A lawsuit to invalidate $14 billion of Illinois bonds draws inspiration from the island's restructuring.

Joe Mysak, Bloomberg News's foremost expert on the $3.8 trillion municipal-bond market, has a saying about Puerto Rico: It was technically "in" the market for state and local government debt, but not "of" it. That is to say, for a number of reasons, it has always been considered an outlier.

Indeed, munis are off to a blistering pace in 2019, with mutual and exchange-traded funds focused on the debt on track to pull in a record amount of cash this year. Investors are buying even though a closely watched gauge of relative value would suggest the bonds are a screaming sell. Never mind that at the start of the year, a federal oversight board argued that more than $6 billion of Puerto Rico's general-obligation bonds should be declared null and void because issuing them in the first place breached the island's constitutional debt limit. It's just an outlier, after all.

Or is it?

Continue reading.

Bloomberg Markets

By Brian Chappatta

July 2, 2019, 4:00 AM PDT

Recession, Recovery, Rivalry: 10 Years Of U.S. Higher Education Medians - S&P

Since the Great Recession ended 10 years ago, the higher education industry has experienced periods of recovery, increasing competition, and growing inequality. In the years following the recession, colleges and universities found themselves in a new, more competitive setting, and at the same time in a more constrained operating and budgetary environment.

Continue Reading

Jul. 2, 2019

Improving Transit Through Lyft and Uber? More Agencies Are Paying for

Ride-Hailing Rides.

Experts and transit leaders say that there could be real benefits to working with ride-hailing companies. But data is needed to assess how successful these programs really are.

Transit agencies are increasingly partnering with ride-hailing companies to expand transportation options for residents, including by offering discounted rides home for late night workers or last-mile transportation to transit hubs.

But whether partnerships work has not always been easy to figure out. Pilot partnerships have gotten off the ground in cities ranging from Philadelphia to Monrovia, California—with Washington, D.C.'s transit agency becoming the latest to announce a program providing discounted rides to late-night workers. And while some local leaders say the experiments are successes, others say they don't have the data necessary to fully assess the programs.

Yet transit experts don't see the trend fading anytime soon, particularly in small municipalities.

Continue reading.

Route Fifty

By Andrea Noble

JULY 3, 2019

Bank Not Covered for Claims Over Alleged Bond Market Manipulation.

Defense costs incurred by UBS Group AG over litigation allegedly linked to securities law violations in 2009 are not covered by an insurance policy the Swiss banking giant later bought, a U.S. appeals court ruled, upholding a lower court ruling.

The liability policy, issued by XL Specialty Insurance Co. and supported by excess policies issued by units of Axis Capital Holdings Ltd. and Hartford Financial Services Group Inc., specifically excluded legal expense claims related to subsequent litigation, the 1st U.S. Circuit Court of Appeals, which is based in Boston, ruled on Wednesday.

The case pits giants from the banking and insurance industries against each other, Judge Juan R. Torruella wrote in *UBS Financial Services Inc. of Puerto Rico and UBS Trust Co. of Puerto Rico v. XL Specialty Insurance Co., Axis Reinsurance Co. and Hartford Fire Insurance Co.*

"In this case, titans of their respective industries clash as to the interpretation of an exclusion clause in an insurance policy representing millions of dollars in potential coverage. In the process of deciding this appeal, we are granted a glimpse into the ethics that apparently prevail in some sectors of the financial industry," the judge wrote in the ruling.

The case involves allegations against UBS related to its handling of Puerto Rican municipal bond investments. UBS, through its various units, was an underwriter for the bonds and sold shares in closed-end funds containing municipal bonds and was involved in managing 23 closed-end funds.

According to court papers, the U.S. Securities and Exchange Commission began investigating UBS

in 2009 for violations of securities laws. The SEC ultimately concluded that UBS misrepresented risks associated with shares in the funds and effectively controlled the prices of the shares by controlling sales in the secondary market for the shares, among other things. UBS paid $26 million to settle the SEC charges.

In 2010, investors from the funds sued UBS claiming the bank operated on all sides of the fund transactions and manipulated the bond market to the detriment of investors and used the funds as a "dumping ground" for "toxic pension bonds," court papers say.

In 2011, UBS sought new insurance coverage for legal disputes through its broker Marsh LLC. XL, which is now a unit of Axa SA, provided primary coverage with a $10 million limit, Axis provided $5 million in coverage on the first excess layer and Hartford provided another $5 million in coverage on a second excess layer.

In the coverage negotiations, UBS requested numerous wording changes, many of which XL agreed to, but it did not agree to changes to the "specific litigation exclusion," court papers say.

The exclusion barred coverage for claims connected to the 2009 SEC investigation and the 2010 investor lawsuit or "in any way" involving the proceedings, the ruling states.

"Crucially, during negotiations, UBS attempted to narrow the scope of the specific litigation exclusion, but XL rejected the proposed changes," the ruling states.

After the coverage was purchased, UBS faced additional lawsuits, arbitration proceedings and another SEC investigation related to its activities in the Puerto Rico bond market.

In 2013, UBS notified XL of expected claims related to the later litigation, but XL denied coverage of defense costs citing the specific litigation exclusion.

UBS and the insurers both filed for summary judgment in 2017. UBS argued the insurers interpreted the exclusion too broadly and that the later legal costs were covered and that claims that occurred after the policy period were "interrelated" with claims during the period the policy was in force. The district court in Puerto Rico ruled for the insurers.

On appeal, UBS argued among other things that the exclusion only applied when there was "substantial overlap" of relevant facts between the prior and current cases.

The appeals court ruled, however, that the terms of the policy are broad "and do not require that the overlap be substantial."

"Although the language is undoubtedly broad, it was the language UBS bargained for," the ruling states.

A spokesman for UBS declined to comment on the litigation.

Business Insurance

by Gavin Souter

July 05, 2019

How Federal Tax Reform Is Changing Government Borrowing.

Fearing more changes from Congress, states and cities are turning less and less to the municipal bond market.

While the most direct effects of the 2017 federal tax overhaul have been on tax revenue, the law has also impacted the way governments borrow money.

With banks making fewer direct loans to governments, many expected them to turn to the municipal bond market. But that hasn't happened.

Governments have continued to be reluctant to increase their debt, a trend that started following the Great Recession. According to the latest report from Moody's Investors Service, the total net tax supported debt issued by all 50 states in 2018 was essentially flat for the eighth straight year with just $523 billion issued. This puts average annual state debt growth since 2011 at just 0.6 percent.

Moody's said in its analysis that lagging infrastructure investment has contributed to limited growth in state debt. "State governments are remaining cautious when it comes to bond issuance," the report continued, "and are increasingly relying on operating revenue to meet their transportation infrastructure needs."

As a result of this quiet market, the cost of borrowing has dropped — saving governments millions even as interest rates are rising.

Governments have been reluctant to issue municipal bonds in part because officials fear that Congress may once again meddle with the bonds' tax-exempt status, says Hilltop Securities analyst Tom Kozlik. The 2017 law already eliminated the federal tax-exempt status of advanced refunding bonds, which effectively killed them. Advanced refunding bonds allowed governments to refinance debt earlier and thus take advantage of lower interest rates years sooner.

Koxlik warns that Congress will be looking for more ways to save money this fall because it will likely face another debate about how to reduce the deficit. "Time could be running out on the municipal bond tax exemption," he says, "and it's possible that the advanced refunding repeal is just the beginning."

Other Programs at Risk

Ksenia Koban, vice president and municipal strategist at the investment firm Payden & Rygel, is more worried that Congress will do away with grant or matching fund programs.

State and local governments use the money from these programs in two main ways. They can use grant money to directly pay back bonds they have issued. Matching funds, on the other hand, offer an incentive for states and localities because money raised by issuing bonds can be at least partially matched by the federal government.

Municipal bonds are commonly used to finance infrastructure projects. Combined with tax reform, Koban says the uncertainty around the federal government's commitment to infrastructure funding is also creating uncertainty in the municipal bond market. "It's definitely changing the landscape," she says. "We're already seeing a lot more hybrid projects or public-private partnerships while local governments are stepping back from traditional types of projects."

Banks Bowing Out

Meanwhile, the 2017 tax law gave banks less of an incentive to invest in municipal bonds. The law slashed the corporate income tax rate from 35 percent to 21 percent. That, combined with rising interest rates, has made low-interest-rate munis less attractive to banks.

Bank holdings of municipal bond debt in 2018 were down $40.9 billion for the year, reports George Friedlander, a managing partner of the Court Street Group.

At the same time, banks' direct loans to governments have also drastically declined. The loans spiked to $40.2 billion in 2017 but are on pace to total just under $7 billion this year.

The severity of this development has been masked by the lack of investment in the municipal bond market. "The implications of this shift would be far greater in a 'normal' muni market, with more total issuance," Friedlander says.

Low Supply, High Demand

2018 was one of the slowest years for municipal bond issuance in the past decade. The market hasn't picked up this year, either.

Through the first half of this year, government issuers have sold more than $166 billion in bonds. That's nearly identical to the $165 billion sold halfway through 2018, according to figures compiled by The Bond Buyer.

But even though governments aren't issuing as many bonds, the demand for them hasn't changed. In some places, such as California, demand has increased because of the federal tax overhaul's cap on state and local tax deductions. Taxpayers are looking to shelter more of their income in municipal bonds.

All these events have led to lower interest rates for governments that are selling bonds — despite the fact that the Federal Open Market Committee has raised interest rates by a percentage point since early 2018.

"There's so much more demand than supply," says Koban, "the market's actually sort of behaving unintellectually. It's just not pricing uncertainty and risk the way it should. It shows there's not a whole lot of other places to go if you're looking for quality-adjusted, positive-yield instruments."

GOVERNING.COM

BY LIZ FARMER | JULY 3, 2019 AT 4:00 AM

The 7 States That Started the New Fiscal Year Without a Final Budget.

Gov. Gina Raimondo's unwillingness so far to sign to sign the proposed new $9.9-billion budget for the year that began on July 1 has landed Rhode Island on Moody's list of states with "weak governance."

The national credit-rating agency — Moody's Investors Service — issued a special report on Wednesday titled: "Late budgets reflect governance weaknesses."

The seven states that slipped into the new fiscal year on July 1 without a full year budget include: Massachusetts (Aa1 stable), New Hampshire (Aa1 stable), North Carolina (Aaa stable), Ohio (Aa1 stable), Oregon (Aa1 stable), Rhode Island (Aa2 stable) and Wisconsin (Aa1 stable).

Moody's notes that some states have "continuing appropriation bills" — or laws, as Rhode Island does — that allow spending until a permanent budget is enacted. Those laws "together with state bond laws make it unlikely that the delays will pose any risk of missed debt payments."

"Nonetheless, late budgets are a sign of governance weakness which, in extreme cases, can be negative for state credit quality. Late budgets can also expose local governments and other downstream entities to an interruption in state payment," the rating agency said.

Two of the late budgets were vetoed in their entirety, Moody's said. North Carolina's governor vetoed the legislature's budget due to insufficient funding for Medicaid expansion and teacher salaries, while New Hampshire's governor vetoed a spending package due, in part, to increased education funding.

In Rhode Island's case, Raimondo has simply — and without explanation — let days go by without signing the budget bill the Rhode Island House of Representatives approved June 22, the Senate approved unchanged on June 27, and the Senate leadership "transmitted" to the governor last Sunday, June 30.

If Democrat Raimondo does not sign — or veto — the budget bill by midnight Saturday, it will become law without her signature.

Her press team has not answered Journal questions about the reasons Raimondo has not signed the budget bill, except to say her staff is still reviewing the legislation. On Wednesday, her spokesman Josh Block said again: "The Governor is continuing to review the budget with her staff."

He acknowledged, however, that Raimondo is concerned about the ability lawmakers gave the state controller to refuse to "authorize payments for additional staff, contracts, or purchases for any department or agency not projected to end a fiscal year within amounts appropriated unless necessitated by immediate health and safety reasons."

Frustrated lawmakers approved $173,613,232 in over-budget spending for the year that ended June 30, and while most of that was covered by federal dollars, it included $25 million in additional state dollars to cover deficit spending..

"While I support better tools to help control spending, it's also critical that we have flexibility to address increases in the number of children and families we serve and other unforeseen circumstances," Raimondo said in a statement released by Block.

"We have made efforts to fill our frontline vacancies in order to meet our legal and moral obligations to care for all Rhode Islanders," she said. "But I am concerned that new provisions added to the budget could further limit our ability to care for these vulnerable populations and could also create wait lists for these critical services. Over the past four years we've made significant progress, and these budget changes could not only put that progress at risk, but halt services for people who rely on them."

By Katherine Gregg

BY TRIBUNE NEWS SERVICE | JULY 8, 2019 AT 7:49 AM

(c)2019 The Providence Journal (Providence, R.I.)

NASBO: States Finalize Fiscal 2020 Budgets

As of July 5, five states with a July 1 fiscal year start date have not yet completed a full-year budget for fiscal 2020. Of the five, one state is awaiting the governor to complete action on the budget bills (Oregon), two governors have vetoed the budget (New Hampshire and North Carolina), and two are awaiting legislative completion (Massachusetts and Ohio). Michigan's legislature has not yet finalized the budget but the state's fiscal year does not begin until October 1. Below is additional information on the states that have yet to enact a full-year budget for fiscal 2020:

- Massachusetts – House and Senate members are trying to iron out differences in a conference committee. An interim budget has been signed that authorizes spending through July 30.
- Michigan – The legislature has not finalized the budget yet. However, the state fiscal year does not begin until October 1.
- New Hampshire – The governor vetoed the budget on June 28. A continuing resolution has been approved through October 1.
- North Carolina – The governor vetoed the budget on June 28. State law allows spending to continue at current levels until a new budget is enacted.
- Ohio – House and Senate members are meeting in a conference committee. An interim budget has been signed that authorizes spending through July 17.
- Oregon – Oregon legislature's completed action on budget bills on June 30. The governor is currently reviewing the various budget bills. A continuity resolution was approved that authorizes spending through September 15, or until an agency's budget is signed.46 states begin their fiscal year on July 1 (New York begins its fiscal year on April 1, Texas on September 1, and Alabama and Michigan on October 1). Governors in 47 states proposed new budgets for fiscal 2020 (30 states will enact an annual budget, while 17 states will enact a biennial budget covering both fiscal 2020 and fiscal 2021). Last year, 3 states enacted budgets covering both fiscal 2019 and fiscal 2020.

Please click here for links to proposed and enacted budgets, as well as budget summaries.

State Savings Policies Evolve Amid a Decade of Economic Growth.

The amount states have in reserve is at a high mark and savings practices have become more sophisticated. But lawmakers are at times still drawn to tap the large pots of money.

When Myron Frans came on the job as Minnesota's revenue commissioner, the state's finances were stretched thin. It was 2011, less than two years after the official end of the Great Recession and the state was facing a $6 billion budget deficit.

"Those were tough times," recalled Frans, who now leads the Minnesota Management and Budget office.

Disagreements between Republican lawmakers and then-Gov. Mark Dayton, a Democrat elected the prior year, over how to contend with that shortfall would contribute to a state government shutdown that lasted about three weeks.

Continue reading.

Route Fifty

By Bill Lucia

JULY 5, 2019

Report Highlights US Pension Shortfall.

Funding shortfalls for state and local pension funds are a key source of fiscal fragility in the United States.

Research by IMF economists indicates that government employee pension fund assets are significantly smaller than their rapidly growing liabilities.

A severe shock in the future could affect resources significantly, making fiscal adjustment necessary, the research indicates.

In the IMF working paper, *Public Wealth in the United States*, economists Fabien Gonguet and Klaus-Peter Hellwig analyse the evolution of the US public sector balance sheet between 1945 and 2016.

They conclude that the country faces "large fiscal adjustment needs" that will require policy changes in the long-term either to raise public revenues in order to keep social promises – or to cut in other areas.

"Under our baseline assumptions, we find that current fiscal policies in the US are not viable in the long-term," write Gonguet and Hellwig.

Continue reading.

Public Finance International

by Gavin O'Toole

4 Jul 19

Gap Grows Between Well-Off and Troubled State Public Pension Plans.

The findings from The Pew Charitable Trusts come as the U.S. enters a record phase of economic expansion.

Poorly funded pension plans for state and local public employees saw their finances erode in recent years despite strong investment returns, as the gulf between states with better and worse-off retirement systems has grown wider.

These findings are presented in a new report from The Pew Charitable Trusts that surveys the health

of state-run public pension systems.

The current economic expansion in the U.S., which began in June 2009, is now the longest on record at about 121 months. It has unfolded in the wake of the Great Recession, which took a heavy toll on state and local budgets and the financial health of their pension systems.

Investment losses for the 230 pension plans in Pew's data caused the value of assets held by those plans to drop by 24% during 2008.

In general, public pension plans generate the money they use to pay retiree benefits from employee contributions, taxpayer dollars that flow from state and local agencies in the form of employer contributions, and returns gained from investing this money.

The extended growth cycle has given state and local governments about a decade to rebuild their finances.

But overall in 2017 the pension plans the Pew researchers examined only had about 69% of the assets they needed to fully fund their anticipated pension costs in the coming years.

That level is down from around 86% before the recession.

States in 2017 reported $4.1 trillion in benefits owed to workers and retirees but just $2.9 trillion set aside to cover those costs, leaving a shortfall of $1.28 trillion, the report says.

It adds that the pension funding gap is down from $1.35 trillion in 2016, but this marks only the second time since the recession that the shortfall has decreased.

Illinois, Kentucky and New Jersey, well known for their pension funding woes, reported an average 15 percent decrease in the funded ratios for their retirement systems between 2012 and 2017—even though investment returns were generally strong during that time.

The Pew report emphasizes that these states' pension plans are troubled in part because policy makers did not regularly set aside the amount of money that actuaries estimated would be required to cover the cost of providing promised benefits to retirees.

Shortchanging a pension fund in this way tends to increase costs in the long run.

The report points out that from 2007 to 2017, pension contributions went up 424% in Illinois, 267% in Kentucky, and more than 100% percent in New Jersey.

But the states together still faced an $11.5 billion shortfall to keep their pension debts from growing, the researchers add.

To help put that figure in proportion: total general fund spending in Kentucky during fiscal year 2018 was around $11 billion. And Illinois and New Jersey each reported about $35 billion, according to figures compiled by the National Association of State Budget Officers.

Colorado and Connecticut had less than 50% of the assets in 2017 needed to cover their pension costs, while another 15 states had less than two-thirds of the assets needed to do so.

Other state pension systems are performing quite well. For instance, South Dakota, Tennessee and Wisconsin all have systems that were between 97% to 103% funded in 2017 and that have not fallen below a funded level of 89% in the past two decades.

The Pew researchers note that these states have followed practices like regularly making the full recommended contributions to their funds, automatically lowering benefits or increasing contributions during market downturns and planning based on conservative assumptions.

State and local pension debt as a share of the nation's gross domestic product was roughly in the 1% to 3% range in the years leading up to the recession. But around the time of the downturn it shot upwards, and has been in the ballpark of 8% to 10% in the past few years.

When pension costs rise as a share of state and local government spending, it can reduce the amount of money that lawmakers have available to devote to other priorities.

A full copy of the Pew report can be found here.

Route Fifty

By Bill Lucia,

JULY 2, 2019

Wall Street Beware: The Public Banking Movement Is Coming for You

It may not come as a surprise to hear that the majority of Americans don't trust the banking system in this country. Only 27 percent of those surveyed in a 2016 Gallup poll said they had "a great deal" or "quite a lot" of confidence in the institution — less than half of the record high set in 1979. And the lack of trust is spread relatively evenly across the political spectrum — it's not just liberals or those on the left: Almost everyone is fed up with the banks.

And if banking institutions don't exactly spark joy, their lead characters — morally bankrupt investment bankers whose greed and arrogance almost singlehandedly collapsed the entire country's economy — certainly don't spark joy either. It's an old story: Bankers made obscene amounts of money destroying the economy, we bailed them out, they walked away from it all without a shred of accountability and there's nothing anyone can do about it. But that's not where the story has to end. Spurred by the need for an alternative to the for-profit, extractive model of finance exemplified by Wall Street, there is a budding movement in the United States that is working to reimagine banking as an institution that truly serves the public.

Public banking is an old idea, but it has never been very common in the United States. The first and only public bank in the country was founded exactly 100 years ago in North Dakota, and it wasn't until relatively recently that the idea has begun to find new life in cities and states across the country. Growing largely out of the need for more democratic ownership over capital, the aim of this budding movement is to create a robust public banking infrastructure across the nation that is rooted in the principles of economic, environmental, racial and social justice.

Continue reading.

Truthout

by Robert R. Raymond

July 5, 2019

Hedge Fund Challenges $14 Billion in Illinois Debt as Unconstitutional.

New lawsuit mirrors tactics by Puerto Rico's financial oversight board to drive down public debt

A hedge-fund manager claiming Illinois has piled up more debt than its constitution permits is suing Gov. J.B. Pritzker and other state officials in an effort to wipe out $14.3 billion in municipal bonds.

New York-based Warlander Asset Management LP and John Tillman, chief executive of the conservative Illinois Policy Institute think tank, said Illinois broke a state rule prohibiting deficit financing by selling debt in 2003 to close a pension gap and in 2017 to pay down government vendors.

Warlander, which holds $25 million in other Illinois bonds, said the outstanding portions of the 2003 and 2017 debt sales should be declared "unconstitutional and unenforceable." The Illinois constitution bars the state from taking out long-term debt except for "specific purposes" or to refinance longer-term debt, according to the complaint filed Monday in Sangamon County Circuit Court.

Illinois instead borrowed to bridge deficits and to speculate on financial markets, the lawsuit said, lowering the state's creditworthiness and heightening the likelihood of default.

No U.S. state has failed to pay bondholders since Arkansas in 1933, although the U.S. island territory of Puerto Rico defaulted in 2016 and was later placed under a court-supervised bankruptcy.

Emily Bittner, a spokeswoman for Mr. Pritzker, said the lawsuit "is simply a new tactic from the extreme right to interfere in capital markets." Several layers of bond attorneys and former Attorney General Lisa Madigan signed off on the bond offerings, Ms. Bittner said.

The complaint mirrors ongoing efforts by the board overseeing Puerto Rico's tattered public finances to drive down bondholder claims. In January, the board filed court papers arguing that $6 billion in general obligation bonds should be considered worthless because they layered more debt on Puerto Rico than its constitution allowed.

While no court has ruled on those arguments, a bankruptcy-exit framework proposed by the board last month takes them into account and offers a comparatively lower recovery to investors whose claims have been challenged.

Unlike Puerto Rico, Illinois lacks a bankruptcy mechanism to push bondholders into a centralized court proceeding to hammer out restructuring terms. But the state's finances have been stressed for years, pushing its bond rating to the lowest among U.S. states as pension obligations ballooned and a budget stalemate under former Gov. Bruce Rauner from 2015 to 2017 racked up billions of dollars in unpaid bills.

Illinois Comptroller Susana Mendoza, who was also named as a defendant in Monday's lawsuit, said in a statement that the 2017 bond sale helped pay down vendor bills stemming from the budget stalemate and lowered the state's interest rate on that debt to 3.5% from 12%, saving taxpayers billions of dollars. She said the complaint was meant "to scare investors in the bond market for political ends."

While state and local governments nationwide are grappling with how to cover bond payments,

pension benefits and infrastructure needs, few are as strained as Illinois, where state courts have largely barred lawmakers from scaling back retirement obligations.

Illinois has found willing lenders despite its precarious finances, demonstrating how investors' appetite for returns can help governments borrow even with credit ratings teetering on junk territory.

Yet analysts have questioned how long the municipal market will continue lending to Illinois at reasonable rates, especially if the economy dips into recession and the state's tax base shrinks. Warlander said interest and principal payments on the 2003 and 2017 bonds will eat up $20 billion over the next 14 years, roughly half the state's overall scheduled debt service.

"Debt service payments on unconstitutional debt like the challenged bonds are an unconstitutional misuse of public funds that will cause irreparable harm to Illinois taxpayers," the lawsuit said.

The 2003 bond sale, still the largest ever by any city or state, generated $10 billion for the Illinois pension systems but didn't solve their funding problem. The persistent shortfall prompted discussion last year of another pension bond more than 10 times as large, though the proposal didn't gain momentum.

The Wall Street Journal

By Andrew Scurria

July 1, 2019

—Gunjan Banerji and Heather Gillers contributed to this article.

Traders Shrug Off Suit Challenging $14 Billion of Illinois Debt.

- **Citigroup calls the legal challenge by hedge fund unjustified**
- **State bond prices dipped slightly, but then bounced back**

A lawsuit Monday seeking to have $14.3 billion of Illinois bonds thrown out by a court lit up the phone lines of Wall Street trading desks, where analysts fielded calls from investors worried about the odds their investment in the state's debt could be worthless.

But trading prices show bondholders see little chance that the legal challenge will succeed.

Taxable Illinois debt issued in 2003, which was targeted in the lawsuit, slipped early Tuesday, when a customer sold $5 million worth for about 103 cents on the dollar, down from an average of 104.5 cents Monday. They swiftly rebounded, however, rising back to 103.8 cents by mid-morning to yield 4.73 percent.

That yield is nearly a full percentage point less than what it was at the start of the year, before Illinois bonds rallied as Democratic Governor J.B. Pritzker paved the way for an income tax increase on the highest earners and ended the political gridlock that dogged his Republican predecessor.

"Illinois had rallied very hard, it was more sensitive to downside recently, but the show of support once it did gap wider also shows the market's lack of belief that this has legs," said Gabe Diederich, municipal-bond fund manager for Wells Fargo Asset Management, which holds Illinois debt among

its investments.

Pritzker and Illinois Comptroller Susana Mendoza dismissed the lawsuit as a political tactic by John Tillman, the chief executive officer of the Illinois Policy Institute, a conservative think tank, that will be tossed out of court. The case, also filed by New York hedge fund Warlander Asset Management claims the state's record pension bond sale in 2003 and debt issued in 2017 to pay a backlog of unpaid bills were deficit financings prohibited by the constitution.

Warlander owns $25 million Illinois general-obligation bonds issued in 2001, 2014, 2017 and 2018. Those bonds would be more secure if the firm succeeded in having the other securities invalidated, since there would be more money available to service the debt.

The Illinois Constitution says the state may issue long-term debt only to finance "specific purposes" if approved by three-fifths of the legislature or by popular referendum. Warlander and Tillman argue that deficit financing isn't a "specific purpose" and doesn't encompass the general purposes for incurring debt discussed in the constitution, such as refinancings or short-term borrowing to paper over temporary cash shortfalls until tax revenue comes in.

Analysts are skeptical. Citigroup Inc.'s Vikram Rai and Jack Muller published a note on the case after the bank was inundated with calls. They said the lawsuit is unjustified because the Illinois Constitution allows debt to be incurred as long as the law details the specific purpose of the debt and how it will be repaid. Even if it did succeed, they said, the government would likely find a way to repay the debt to avoid being penalized in the bond market.

"The state will not want to pay zero to the bond holders as it was never their intent to harm the investors," Rai and Muller wrote. "They are more likely to want to make the bond holders whole even if that entails amending the constitution."

Jason Appleson, a portfolio manager at PT Asset Management LLC, said he believed market consensus is that the lawsuit was frivolous.

"I was somewhat surprised to see the initial market reaction that spreads widened out, I would have expected the reaction to be a bit more muted," he said.

Appleson attributed the initial widening to "a couple of scared buyers" affecting a light trading day in a slow market. "If this moves forward in court, I think we could see some more widening but if it's shut down we could see a snap-back in spreads given the market conditions."

Bloomberg Markets

By Martin Z Braun and Danielle Moran

July 2, 2019, 10:50 AM PDT

Hedge Fund Sues Pritzker to Void $14 Billion of State Debt.

- **Joins with conservative think tank chief to challenge bonds**
- **Governor's office sees 'new tactic from the extreme right'**

A hedge fund run by a protege of Appaloosa Management's David Tepper and the chief executive officer of a conservative think tank sued Illinois Governor J.B. Pritzker, saying $14.3 billion of bonds

should be invalidated because their issuance violated the state constitution.

Warlander Asset Management, a New York-based hedge fund formed by Eric Cole, and John Tillman, the CEO of the Illinois Policy Institute, said the state's record pension bond sale in 2003 and debt issued in 2017 to pay a backlog of unpaid bills were deficit financings prohibited by the constitution. The lawsuit was filed Monday in Sangamon County circuit court.

The goal of the debt limits in the state constitution "was to ensure that the state's elected officials would act in a fiscally responsible manner — that they would cut spending or make structural reforms when needed, rather than continually using deficit financing to 'kick the can down the road' for future generations to resolve," the complaint said.

"The state's elected officials have done just the opposite. They have mortgaged the state's future to pay for the present."

The lawsuit comes two months after the federal board overseeing Puerto Rico's bankruptcy and a group of hedge funds sought to have more than $6 billion of the island's bonds declared null and void and shows how the island's effort to cut its debts is reverberating in the $3.8 trillion U.S. municipal-bond market. The Puerto Rico overseers want to have the debt tossed out on the grounds that it was sold after the territory breached its debt limits, a step that some analysts said could undermine confidence in a market that's seen as a haven.

Illinois officials dismissed the lawsuit, saying it was a politically motivated maneuver by small-government advocates that won't advance in court.

"It was meant to generate headlines to scare investors in the bond market for political ends before the filing is laughed out of court,'' Comptroller Susana Mendoza, who was named in the suit, said in an emailed statement. "The markets should see this as nothing more than garbage.''

Tillman's Illinois Policy Institute has been at the forefront of legal challenges to public employee unions and progressive taxation. The institute backed an Illinois employee named Mark Janus in his challenge to the constitutionality of mandatory union fees. In 2018 the U.S. Supreme Court ruled in Janus's favor, dealing a heavy blow to the labor movement.

In 2014, the institute helped defeat a movement to amend the Illinois Constitution and replace the state's flat income tax with a progressive income tax. Pritzker, a Democrat who took office this year, persuaded lawmakers to put a progressive income tax back on the ballot in 2020.

Several layers of bond counsel and the Attorney General signed off on the 2003 and 2017 bond offerings, Emily Bittner, Pritzker's Deputy Chief of Staff for Communications, said in an email.

"This is simply a new tactic from the extreme right to interfere in capital markets," said Bittner. "We're done with the far right's dangerous financial games to pull Illinois underwater. We saw this repeatedly under Bruce Rauner, who funded and executed on John Tillman's pathological focus to drive Illinois into bankruptcy."

Swelling Debts

In addition to Pritzker, the lawsuit names as defendants state Treasurer Michael Frerichs and Mendoza. Warlander owns $25 million Illinois general-obligation bonds issued in 2001, 2014, 2017 and 2018. Those bonds would be more secure if the firm succeeded in having the other securities invalidated, since there would be more money available to service the debt.

In a statement, Treasurer Frerichs called the suit a “political stunt.” The governor and lawmakers passed a budget that begins to undo the financial harm done during Rauner’s term, he said.

“I intend to let Attorney General Kwame Raoul do his job and ask the court to reject this absurd request from Mr. Tillman and the Illinois Policy Institute to have the courts entertain the extremist agenda that the legislature and the voting public have already overwhelmingly rejected.”

Illinois has struggled for years with its debts and swelling obligations to its employee retirement system even after it sold $10 billion of bonds in 2003 in an ill-fated bid to pay down some of its obligations. Since 2000, the state’s unfunded pension liability and bond debt have grown more than 600% to more than $168 billion, according to a copy of the complaint. Its credit rating is one-level above junk by Moody’s Investors Service and S&P Global Ratings Inc., the worst among U.S. states.

Matt Fabian, a partner at Municipal Market Analytics, said investors shouldn’t trade based on the lawsuit. Some of the pension bonds due in 2033 were little changed Monday, yielding about 4.6 percent, according to data compiled by Bloomberg.

“It’s when the issuer wants to invalidate the bonds where things get worrisome,” he said. “The last thing the state wants to do is default on bondholders. So even if, post-miracle, this hedge fund wins its lawsuit, the state is most likely going to do right by its lenders so as to preserve market access.”

Article nine, section nine of the Illinois Constitution says the state may issue long-term debt only to finance “specific purposes” if approved by three-fifths of the legislature or by popular referendum.

The state may borrow a limited amount in anticipation of revenue or to meet unanticipated shortfalls only through short-term debt, according to the constitution. In addition, the state can refinance higher-cost debt, but only if the refunding debt matures within the term of the debt that’s being retired.

In 2003, Illinois used more than $2 billion of the proceeds of its pension bond issue to reimburse the state for its required contributions in 2003 and 2004, which the lawsuit says was “simply a gimmick to mask the fact that the state was using GO bond debt to fill operating deficits.”

About $8.85 billion of the pension bonds remain outstanding and they’re among the most actively traded Illinois securities. Major owners include Samsung Life Insurance Co., Capital Group Cos. and Dodge & Cox, according to data compiled by Bloomberg. If the state ceases making principal and interest payments on the debt it could contribute an additional $13 billion to its pensions over the next 14 years, according to the complaint.

In 2017, the state issued $6 billion of of general-obligation debt backed by income taxes to pay off a portion of a $15.2 billion backlog of unpaid bills that had accumulated during the previous two years, when then-Governor Bruce Rauner and the legislature failed to pass a budget.

Using bond money to cover general expenses, speculate in the market, or pay past-due bills isn’t a “specific purpose” for incurring state debt, but rather another name for deficit financing, the complaint said.

“The burden of servicing this unconstitutional debt fall on the taxpayers of Illinois, including Plaintiff John Tillman” and harms holders of other GO debt like Warlander by reducing the state’s ability to service the debt.

Bloomberg Markets

By Martin Z Braun

July 1, 2019, 7:52 AM PDT Updated on July 1, 2019, 3:15 PM PDT

— With assistance by Boris Korby

Cyberattack Forces Georgia Agency to Shut Down Websites.

ATLANTA — A Georgia state agency says a cyberattack has forced it to shut down some court websites.

News outlets report hackers demanding a ransom infected computers with malware at the Georgia Administrative Office of the Courts. Agency spokesman Bruce Shaw said Monday that officials have "quarantined our servers and shut off our network to the outside."

It wasn't immediately clear how many Georgia courts were affected, or to what degree their operations were interrupted. The agency's website, www.georgiacourts.org , was offline Monday. Websites for the Georgia Supreme Court and court clerks in the state's larger counties appeared to be operating.

The Georgia Administrative Office of the Courts provides computer applications to some local probate and municipal courts. Shaw said the agency doesn't store private information aside from what's in public court documents.

By The Associated Press

July 1, 2019

The Week in Tech: What Should Your City Do if It's Hit by Ransomware?

Hi, I'm Jamie Condliffe. Greetings from London. Here's a look at the week's tech news:

Imagine you're a mayor trying to spend your city's money wisely. You've heard about ransomware attacks, where hackers locking I.T. systems using encryption and demanding money for their release. But what should you do about them?

Ideally, you'd ensure systems are up-to-date and properly backed up. But it's "unrealistic" to expect many cities to afford big security overhauls, according to Gregory Falco, a cybersecurity entrepreneur who teaches at Columbia, Harvard and M.I.T. as well as researching at Stanford.

And it might never happen, right?

Continue reading.

The New York Times

By Jamie Condliffe

July 5, 2019

A City Paid a Hefty Ransom to Hackers. But Its Pains Are Far From Over.

LAKE CITY, Fla. — Audrey Sikes, city clerk of Lake City, Fla., has a thing for documents: She does not like losing them.

It falls to Ms. Sikes, as official custodian of records for this city of 12,000 people about an hour west of Jacksonville, to maintain Lake City's archives. She keeps a log of public record requests and has spreadsheets that track things like property deeds and building permits. She spent years digitizing all the papers of a city that incorporated before the Civil War.

"It's everything I do," Ms. Sikes said.

Did.

Continue reading.

The New York Times

By Frances Robles

July 7, 2019

Post Platte Default: Sell All Your Appropriation-Backed Municipal Bonds?

The failure of Platte County, Missouri to appropriate funds to pay debt service on the Zona Rosa Retail Project raised questions as to the enforceability of the security pledge of appropriation bonds in general in the municipal bond market.

Appropriate Appropriation

Municipal borrowers' issue annual appropriation-secured debt to fund various projects for numerous reasons. The central reason is that annual appropriation debt is not general obligation debt. It doesn't count against the general obligation debt caps, constitutional, or statutory limits most municipalities have. Not being directly secured by property taxes, there is no immediate economic consequence to residents.

Equally, there may be other revenues pledged to pay debt service. In Platte County, it was expected the sales taxes from the Zona Rosa shopping area would cover debt service. The appropriation was viewed as a back-stop security.

Continue reading.

Forbes

by Barnet Sherman

June 26, 2019

Cyberattacks On Municipalities Can Tank Your Bond Portfolio.

When you think of cyberattacks you probably assume attacks on your bank account, your credit cards, or your brokerage accounts. There's a new risk. Now, when you hear of such breaches add your municipal bond issuers to the victim list.

Ransomware—the weapon of choice

Cyberattacks use ransomware viruses as the preferred infection vector. This is now an enormous risk to municipalities that issue bonds. These include cities, water districts, wastewater facilities, hospitals, utilities—really any entities that issue municipal bonds.

Don't for one minute think that such attacks are only inflicted on small cities or systems. The city of Atlanta was hacked and it affected nearly 6,000,000 people.

Hackers recently stole the infamous Stuxnet cyber worm developed and deployed to attack Iran's nuclear centrifuges. Somehow this cyber-weapon got out into the wild and is now among the hacker's tool of choice. Hackers have breached the city of Baltimore's computers. Erie County Medical Center in New York was hacked, bringing down the computer that ran their level one trauma center for six weeks.

The thread of commonality is simple: cyber criminals hack a facility, disable it, demand a ransom often in untraceable bitcoin, then promise to release the data after payment. That may or may not happen.

Municipalities as cyber-attack targets

Cyber criminals hack large and small systems, creating total chaos. It's easy to understand the necessity for computer assistance at hospitals. Cities, on the other hand, are more difficult. In the Baltimore hack residents couldn't pay water bills or parking tickets. Permits of all kinds were held up. There were no government emails nor emergency services deployed via the automated dispatch system. In other words, things ground to a halt. Baltimore's cost of recovery was around $18 million—money for which the city hadn't budgeted.

The small city of Riviera Beach, Florida (population 35,000) was hacked with a ransom demand of $600,000 payable in bitcoin. Riviera Beach had cyber ransom insurance. Still, like any policy questions arose of how quickly the insurance company would pay the ransom. In general, insurance payoffs take weeks. There may also be protracted litigation. Not a good thing when critical systems are down.

Now mix into all these cyberattacks the very real risk that even if the hospital, utility, city, or water district pays the ransom, will the frozen data be released. Maybe, maybe not. Cybercriminals have proven themselves totally untrustworthy.

Risk to investor's bond portfolios

At Envision Capital we once had a client who transferred into his account municipal bonds issued by a city that was hacked. The city paid the outsized ransom. Still, questions arose as to what this will

do to that city's finances and to its credit rating.

It's imperative that you connect the dots regarding your individual municipal bonds. If a city council, hospital board, or utility commission does not have updated cybersecurity then your investment is on borrowed time. Disabling any of the aforementioned entities means lost revenue, ransom they probably cannot pay, insurance that may or may not pay, uncollected bills, missed payroll—the falling dominos can be numerous.

Protecting your bond portfolio

The only way to protect yourself as a municipal bond investor is to keep your allocations between 3%-5% in any single large or medium-sized hospital, utility, city, water district, or other municipal issuer. Over-allocating beyond that maximum range allows a cyber hack that kidnaps the issuer's computer systems and holds them for ransom to have a worse effect on your bond portfolio than it should.

As hackers test vulnerabilities of cities, municipal systems, infrastructures, and facilities the underlying municipal bonds are in jeopardy. It's a bond investor best practice to add cyberattacks to your list of municipal credit risks.

Forbes

by Marilyn Cohen

Jun 25, 2019

Fitch Rtgs: Coal Power Pressured Despite Affordable Clean Energy Rule

Fitch Ratings-New York-25 June 2019: The US Environmental Protection Agency's (EPA) new Affordable Clean Energy rule has a limited near-term effect on public power issuers and will not change the long-term pressure on most public power utilities to reduce carbon dioxide (CO2) emissions, says Fitch Ratings. The new rule may result in a slower decline in coal-fired generation; however, it will not change the dynamics that have driven dramatic increases in both natural-gas fired and renewable generation. Competition from natural gas, state level renewable mandates and increasing interest in renewables from consumers, local governments and investors are expected to drive public power issuers toward emission reduction strategies.

The rule allows states to set carbon emission standards for coal-fueled power plants. States have three years to submit plans. The timeframe and the flexibility provided to the states allow coal-dominant public power issuers more leeway as they pursue economic dispatch of their resources. Issuers could opt to delay plans to shutter coal-fired capacity, benefitting from the continuance of capacity payments. Public power and cooperative utilities operating in states subject to high electricity and carbon reduction costs will benefit the most in the short to medium term from the new rule, as compliance costs will be less onerous.

Any increased flexibility, however, is expected to be short lived as cheaper natural gas and renewable energy, state carbon reduction targets, and consumer and investor decisions will increasingly pressure fossil-fired generation and facilitate the move toward lower CO2 emissions. There are 20 states that adopted renewable energy standards or goals applying to municipal and/or cooperative utilities. These initiatives, together with voluntary policies aimed at limiting investment

in thermal coal, will push issuers to consider resource strategies and capital investments promoting reduced emissions. Furthermore, existing EPA rules, including those designed to reduce mercury, air toxins, effluent emissions and address risks related to the disposal of coal combustion residuals are expected to weigh on coal-fired power plants over time, requiring meaningful capital investment and limiting or raising the cost of operations.

The US Energy Information Administration forecasts that coal-fired generation as a share of US total utility electricity generation will continue to decline, averaging 24% in 2019 and 23% in 2020, down from 27% in 2018. Approximately 69 gigawatts (GW) of coal-fired capacity were retired since 2007. Existing coal-fired capacity totaled 239 GW at YE 2018. Total capacity is expected to decline to 223 MW by YE 2020 reflecting anticipated retirements.

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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 Publishes U.S. Housing Finance Agency Loan Program Rating Criteria.

Link to Fitch Ratings' Report(s): U.S. Housing Finance Agency Loan Program Rating Criteria

Fitch Ratings-New York-27 June 2019: Fitch Ratings has published a consolidated master criteria report titled "U.S. Housing Finance Agency (HFA) Loan Program Rating Criteria". The report replaces the following existing criteria, which will be withdrawn upon publication of the master: "U.S. State Housing Finance Agencies: Single-Family Mortgage Program Rating Criteria" (dated Feb. 4, 2019); "U.S. State Housing Finance Agencies: MBS Pass-Through Bond Rating Criteria" (dated April 29, 2019); and "U.S. State Housing Finance Agencies: Pooled Multifamily Housing Bonds Rating Criteria" (dated Dec. 14, 2018).

The master criteria report sets out broad attributes for each key rating driver that is part of Fitch's general methodology for assigning ratings for HFA affordable housing loan securitization programs. The three appendices, formerly stand-alone criteria reports, more fully define the key attributes and provide indicative metrics and stress levels for the following HFA loan programs: (1) single-family loan programs; (2) pooled multifamily loan programs; and (3) mortgage backed security (MBS) pass-

through programs.

As part of the consolidation, the scope of the criteria was broadened to include bonds issued by local HFAs that are similar to those of state HFAs in terms of portfolio size, debt outstanding, and management oversight (in the criteria, all referred to as 'HFAs').

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

The full report is available at www.fitchratings.com.

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Additional information is available on www.fitchratings.com

Opioid Judge Calls Proposed Settlement Group a 'Novel Approach.'

- **Judge wants input from state AGs, some defendants on idea**
- **Such classes are usually formed only after reaching deal**

A judge backed a push by U.S. cities and counties suing opioid makers such as Purdue Pharma LP and Johnson & Johnson to negotiate a settlement as a group but put off until August a final decision on the request.

U.S. District Judge Dan Polster, overseeing more than 1,900 lawsuits by U.S. municipalities, said Tuesday that the idea of creating a negotiating class of local governments to spur settlement talks was an innovative one. Normally, such classes are formed only after a tentative deal has been struck.

Reaching an accord in a case where cities and counties seek hundreds of billions of dollars from makers and distributors of opioid painkillers "may need a novel approach," the judge said at a hearing in Cleveland. He delayed his final ruling until Aug. 6 so he could hear comments about how the class should be structured.

But some state attorneys general, along with opioid distributors such as McKesson Corp. and Cardinal Health Inc., asked Polster to hold off on approving the class. They say that it's too early in the case to create such a group and that it could force some municipalities to join the litigation when they're not yet ready.

Setting up this type of class “constitutes a new and novel procedure that could result in a grave miscarriage of justice and do significant harm to the ability of states to protect their own people,” Attorney General Ken Paxton of Texas said in a letter to Polster.

Kristin Hunter Chasen, a McKesson spokeswoman, didn’t return a call seeking comment on whether the company opposes the creation of the class. Brandi Martin, a Cardinal Health spokeswoman, didn’t have an immediate comment.

The governments, along with some Native American tribes, fault opioid makers and distributors for creating a national public-health crisis by illegally promoting and handing out the addictive painkillers despite multiple warning signs that they were being abused. The cases have been consolidated before Polster for pretrial information exchanges and test trials. The first two cases are set to be heard by juries in Cleveland in October.

Settlement talks involving the companies, states and local governments have been ongoing for more than two years, but they’ve snagged because opioid makers and distributors want to resolve all of their liability in one deal.

“Everyone agrees these cases can’t be settled piecemeal,” Polster told a packed courtroom. “The defendants won’t settle without closure. There needs to be a vehicle to do that.”

The proposed class would bring together the more than 24,000 U.S. municipalities –- the vast majority of which haven’t yet filed suit –- for negotiation purposes. The only way cities and counties can escape the class is to file a so-called opt-out notice.

Some of the companies involved the cases consolidated before Polster have already settled some state claims against them. Purdue Pharma LP agreed in March to pay $270 million to Oklahoma to pay for opioid treatment efforts.

Teva Pharmaceutical Industries Ltd. followed suit last month and agreed to pay $85 million to settle the state’s claims over its opioid painkillers. Attorney General Mike Hunter of Oklahoma is pressing ahead with a trial against J&J over its handling of the opium-based drugs.

The case is In Re National Prescription Opioid Litigation, 17-md-2804, U.S. District Court, Northern District of Ohio (Cleveland).

Bloomberg Business

By Jef Feeley

June 25, 2019, 11:50 AM PDT

Wall Street Muni Analysts Say Best of 2019 Is Already Behind Us.

- **Market largely seen steadying after best start since 2014**
- **No dramatic shifts seen, with yields seen holding low**

An unbroken flow of cash into the municipal-bond market since early January has driven the securities to a 5.1 percent return, the best start to a year since 2014, according to Bloomberg Barclays indexes.

At the same time, the pace of new debt sales have yet to fully rebound from the steep slowdown of 2018, rising some 6 percent to about $164 billion. The mismatch between supply and demand helped push prices to record highs relative to Treasuries until last month, when the less volatile state and local government bonds lagged amid the rally set off by speculation that the Federal Reserve will cut interest rates.

Wall Street municipal-debt analysts foresee few dramatic shifts in the next six months, largely anticipating that most of the market's gains have already been reaped.

- Mikhail Foux, Barclays Plc: Says new debt sales may fall short of his initial target of $370-380 billion. Expects yields to end the year lower than they are now. But he doesn't anticipate that munis will gain as much as Treasuries and expects that the ratio of muni yields to Treasuries — a key measure of relative value — will rise. That would indicate the tax-exempt securities have gotten cheaper in comparison.
- Peter Block, Ramirez & Co: Expects a modest pickup in debt sales, with an additional $170-180 billion during the rest of the year. He said it's a "reasonable assumption" that mutual funds will continue to pull in cash, barring some dramatic change to the outlook for interest rates or the economy.
- Ian Rogow, Yingchen Li, Bank of America Corp.: Predict that muni prices will get more expensive, relative to Treasuries, pushing down yield ratios. New debt sales are on pace to fall short of their $365 billion annual target for 2019, despite an expected pickup in the next six months.
- Alan Schankel, Janney Montgomery Scott: Foresees only about $320 billion of debt sales this year, far short of his original expectations. Total returns should end year "somewhere in the neighborhood of 6%," largely because of coupon payments, not price appreciation, as benchmark yields hover around current levels. Expects 10-year yields to end the year at around 80% of Treasuries, roughly where they are currently.
- Chris Mier, Loop Capital Markets: Anticipates returns of "something like 6-8%" for the year and sales of $340 billion. He expects inflows to continue but says the rate may slow slightly, and envisions yields will end 2019 close to 75% of Treasuries. "I don't think we'll revisit the lows or set a new low for ratios, but we are likely to improve from where we are," Mier said.
- Patrick Luby, CreditSights: Expects positive returns in the second half, but said any specific target "would be too long of a guess." He said benchmarks yields could go lower, but not by a lot, and he wouldn't be surprised if muni prices richen from current valuations. Expects new sales to be in the lower end of his original forecast of $365-390 billion for the year.

Bloomberg Markets

By Donald Moore and Jon Dominick Querolo

June 27, 2019, 10:33 AM PDT

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