Some Love for the Infrastructure We Already Have.

Deferred maintenance is beginning to get the attention it needs.

Leaders in Washington, in both the executive and legislative branches, cite infrastructure as a top priority for the new Congress. All agree that the case for serious investment has been made. But while federal policymakers prepare to debate how they might provide more funding for new or improved infrastructure, state and local governments are beginning to tackle the long-neglected issue of deferred maintenance with money, muscle and spreadsheets.

This is an important development after decades of postponing scheduled upkeep and routine repairs on roads, schools, bridges and water lines as pleas for additional funding to maintain these critical workhorse assets were drowned out by the allure of new shiny-pony assets. More and more, public finance officials are taking stock of their existing assets, their condition and the costs to address the consequences of deferred maintenance. These efforts mark a profound change in focus.

One of the forces driving this change is the realization that current accounting practices do not require governments to recognize deferred maintenance obligations as liabilities on their balance sheets. This is similar to the dawning that took place about unfunded public pension obligations, which governments did not begin to book as liabilities until after Government Accounting Standards Board guidance to that effect was issued in 2012.

Like pension debt before, the cost of deferred maintenance has largely gone unmeasured and unreported, with staggering multi-trillion-dollar estimates repeated again and again. No one really knows, though, because there is no standard practice for defining, measuring and reporting deferred maintenance. This led credit ratings agencies to announce last summer that they would begin to focus on deferred maintenance in reviews of municipal debt levels.

Instead of waiting for regulatory directives, some state and local governments are already taking action. At the state level, Alaska, California, Hawaii, Tennessee and Utah, along with the District of Columbia, are among governments that are disclosing deferred maintenance obligations on their balance sheets and in annual financial reports.

To do so, they developed asset inventories and condition-assessment practices — the building blocks for tracking deferred maintenance needs — to make regular calculation of the costs they face in repairing and replacing the assets they own. While more work is needed to standardize how deferred maintenance is assessed, jurisdictions like these are leading the way toward clearer depictions of maintenance liabilities and more accurate municipal financial reporting.

Even better, credit agencies are rewarding governments for taking charge of deferred maintenance. Case in point: the District of Columbia. All three of the major credit rating agencies raised the District's credit rating on the strength of its plan to fund deferred maintenance, which was developed using D.C.'s centralized system for managing asset inventories, condition assessments

and needs prioritization across all departments.

Infrastructure maintenance may never get its due beyond the credit rating agencies' lens — unless John Oliver does a sequel to "Infrastructure: The Movie" — but it is one of government's most critical obligations. Awards and fanfare are rare; maintenance projects are not often given names or tracked by industry market data providers. And our public finance officials are more used to fielding complaints about inconveniences caused by maintenance work than receiving thanks or credit for tackling it.

But there are plenty of deferred maintenance projects that deserve recognition. Here are just a few:

• Libraries: Against an accumulation of $100 million in deferred maintenance needs, the Denver library system is using a $31 million voter-approved bond issue to modernize the central library and the 10 of its 25 regional branches that have gone the longest without renovation. Soon, the some 2,600 patrons who use those branches every day will enjoy updated HVAC systems, elevators, computer access and other basics.

• Roads: The Louisville, Ky., Metro Council developed a "fix it first" strategy expressly to address deferred road maintenance needs. It resulted in 130 roads being repaved, besting all previous efforts. An additional $190 million in street and sidewalk repairs is on deck.

• Levees: In addition to a $100 million repair program dedicated to through-levee conduits that had been compromised by deferred maintenance, the California Department of Water Resources funded an experimental flood control project for the Dos Rios floodplain to test a methodology that reconnects rivers with natural floodplains. It changed hearts and minds not only in California but also in Mississippi and Missouri, where similar projects are now underway.

Notable projects across more infrastructure sectors can be found here. These projects show that in an era of diminished budgets, public finance officials are making the case to taxpayers to take care of the assets we already have. They are increasingly advocating for using tax dollars to fix potholes, dredge port channels, replace pipes, modernize HVAC systems, paint schools, rehabilitate bridges, service parks, green wastewater systems, strengthen levees and fortify dams. Experience has shown that a hundred routine-maintenance projects will yield a much higher return on taxpayer money than any single big, new project ever will.

By taking responsibility for the assets that are delivering services taxpayers need and those that are no longer performing, public officials will be able to make smart decisions about which assets should be repaired, replaced or recycled based on long-term asset management strategies. More importantly, they will be better able to help taxpayers differentiate between fiscal responsibility and political folly in the dialogue on infrastructure.

GOVERNING.COM

By Jill Eicher | Contributor
Director of the Infrastructure Lab at the Bipartisan Policy Center

FEBRUARY 4, 2019 AT 6:15 AM

Rust Belt Cities Should Try Embracing the Suburbs.

Merging aging urban centers with surrounding municipalities shows promise as a path to revival.

Some U.S. cities have seen their fortunes rise in the new economy. Technology hubs such as San Francisco and Seattle, as well as coastal metropolises like New York and Los Angeles, are thriving. But some less-glamorous cities — especially in the Midwest — have been struggling. St. Louis isn't the worst off, but it's definitely in the latter category.

The numbers aren't all bad. Unemployment in St. Louis is low — only about 3 percent. Poverty in the city has fallen slightly, though at 25 percent it's still very high. But people are still streaming out of the city (which may be one reason for the low unemployment rate:

Continue reading.

Bloomberg Opinion

By Noah Smith

February 5, 2019, 7:37 AM PST

Plans to 'Fix the Damn Roads' May Help U.S. Hold Off Recession.

- **States and cities gave expansion biggest tailwind in two years**
- **Tax revenues for states soared 8.8% in the first half of 2018**

Minnesota leaders are starting work on a $2 billion light rail project, the state's largest infrastructure project — and the kind of spending that may help keep recession risk at bay.

Spending by cities and states is a bright spot that could help to extend the expansion, now in its 10th year and within months of becoming the longest ever. Economists see it helping to offset other drag from the trade war, slowing global growth and a fading boost from federal fiscal stimulus and the effects of the longest government shutdown in U.S. history.

States and municipalities contributed 0.22 percentage point to annualized growth in the third quarter, the most in two and a half years, Commerce Department data show. State and local spending will add as much as 0.3 percentage point to growth in 2019 and the first half of 2020, estimates Neil Dutta, head of U.S. economics at Renaissance Macro Research LLC.

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Bloomberg Economics

By Steve Matthews and Margaret Newkirk

February 3, 2019

State, Local Leaders Urge Congress to Act on Infrastructure Plan.

SPEED READ:

- **Minnesota Gov. Tim Walz and Los Angeles Mayor Eric Garcetti testified on Capitol Hill Thursday, pleading with lawmakers in Congress to pass legislation that would provide new revenue for infrastructure improvements.**
- **Both the governor and the mayor have pushed for tax increases to fund transportation needs in their own jurisdictions — and have emerged unscathed.**

As the new Congress looks to reignite a national conversation on investments in infrastructure, two politicians — a governor and a mayor — pressed lawmakers Thursday on the importance of raising revenues to fund necessary transportation improvements across the country. Both officials, Minnesota Gov. Tim Walz and Los Angeles Mayor Eric Garcetti, have at points staked their political careers on raising taxes for infrastructure improvements and emerged victorious.

"It's usually pretty good advice: Don't run on raising people's taxes," Walz told members of the House Transportation and Infrastructure Committee, "except in the case of infrastructure."

Walz, a Democrat who served in the U.S. House before becoming governor last month, called for raising the gas tax in Minnesota by 10 cents a gallon as part of his campaign. When his opponent ran TV ads attacking him for the proposal, Walz said his own polling numbers actually went up. "People aren't begging you to raise their taxes, but the way I framed it was, what is your alternative?" Walz said. Voters, he said, "know they're spending [the money] anyway" in lost time on congested roads and on car repairs.

Congress has struggled for more than a decade to find money to pay for highways, bridges and other surface transportation infrastructure. Both Republicans and Democrats have shied away from raising the gas tax, the traditional way of funding those improvements. Other areas, including locks and dams on rivers, port dredging, and investments in new air traffic control technology, have languished as well.

But industry experts and their allies in Congress hope infrastructure is one area where Democrats, who now control the House, and Republicans, who control the Senate, can find common ground in the new Congress.

President Donald Trump made a similar point during his State of the Union address on Tuesday.

"Both parties should be able to unite for a great rebuilding of America's crumbling infrastructure," Trump said. "I know that the Congress is eager to pass an infrastructure bill, and I am eager to work with you on legislation to deliver new and important infrastructure investment, including investments in the cutting-edge industries of the future. This is not an option. This is a necessity."

But Trump's brief mention of infrastructure did not give lawmakers any guidance as to what the president wanted to see in an infrastructure package, or what, if anything, he would accept as a way to fund the new spending. The White House released an infrastructure plan last year that would have relied on states and local governments to pay for the vast majority of its spending, but that idea went nowhere in Congress. Meanwhile, Senate Majority Leader Mitch McConnell has been skeptical of calls from Democrats to pass a major new infrastructure spending legislation.

That leaves the task of fashioning a new infrastructure plan to the House Transportation and Infrastructure Committee. But the most politically dicey question of any new infrastructure plan – how to pay for it – would be up to the House Ways and Means Committee.

How to Rally Voters Around Tax Hikes? 'Keep It Visceral.'

Walz and Garcetti, along with former U.S. transportation secretary Ray LaHood, talked with lawmakers about the nuts-and-bolts of infrastructure concerns, including everything from airport landing fees to state revolving funds to finance local water infrastructure.

But the key to selling the idea to the public, Garcetti said, is to translate all of those policies into real-world changes in people's lives.

"Keep it visceral. Keep it human," he urged. "Don't talk about policies and statistics."

Garcetti noted that he was re-elected even after pushing a half-cent sales tax hike in 2016 to expand rail lines, fix streets and make other transportation improvements in Los Angeles County. The $120 billion ballot measure was the largest local transportation funding measure in U.S. history. But it very nearly failed.

California law required the measure to pass by a two-thirds vote to take effect, because it called for raising taxes. Polling showed that only about 63 percent of potential voters supported it before the campaign launched TV ads. "It was going to be a tough lift," Garcetti told U.S. Rep. Greg Stanton, a former Phoenix mayor. (Stanton successfully ran for re-election as mayor on the same day he pushed a tax increase for light rail expansion and road improvements.)

Garcetti said the Los Angeles ad campaign included the "typical" images and arguments in favor of big infrastructure initiatives: new trains, new roads, workers paving streets and people moving around the city. They explained how many jobs would be created and how much time people would save on their commutes. After two weeks and $5 million worth of ads, support for the measure had dipped to 61 percent, Garcetti said.

"I said, 'Oh no, this thing is going down,'" Garcetti told the committee. "I'd put all my political capital on the line."

Then his campaign consultant suggested a different tack. He told the mayor to get in the car and drive, while the consultant filmed him on his phone. There would be no script.

Not surprisingly, the mayor ran into traffic on the interstate. "Here we are stuck in rush hour traffic," Garcetti says in the video. "The only problem is, it's Saturday afternoon."

The message intrinsically resonated with voters, he told the committee. "Everybody in Los Angeles got that…. They got being stuck in traffic." The measure was approved by 72 percent of voters.

Urging Lawmakers to Act

When it comes to shaping a new federal infrastructure plan, Garcetti encouraged Congress to fund projects that bring in money from a variety of sources, including states, local governments and private investors. He said that programs should reward agencies that innovate, whether by using new technology or creative financing. And the mayor said federal lawmakers should consider paying part of the cost of maintenance for existing infrastructure, to prevent it from decaying further.

LaHood, a former Republican congressman from Illinois who served in the Obama administration, said lawmakers should not settle for little plans.

"It's got to be big and it's got to be bold. It can't be chintzy," he said. "Everybody knows what the problem is: America is one big pothole."

To get a new plan signed into law, LaHood urged the House members to get a signal from the White

House about what Trump would agree to in the plan. “If President Trump is not with you on this, it will be very difficult to pass through the Senate. [If president is with you] I think he will sell it in the Senate,” LaHood said.

Earlier this week, transportation committee chair Rep. Peter DeFazio told reporters he had not received a commitment from the White House about what it would support. Further complicating matters, many members on the committee from the greater New York area want the plan to include replacements to the century-old rail tunnels between New Jersey and New York’s Penn Station. But Trump has fought the so-called Gateway Program at every turn.

LaHood urged the lawmakers to move quickly with their plans. “We have a very short window,” he said. “If it doesn’t happen this year, folks, it doesn’t happen until after another presidential campaign.”

GOVERNING.COM

BY DANIEL C. VOCK | FEBRUARY 7, 2019

Association Press Congress for Bipartisan Infrastructure Revamp.

A day after President Trump called for improvements to the nation’s infrastructure in his State of the Union address this week, a coalition of more than 150 associations appealed to Congress for a bipartisan infrastructure bill, noting wide support for such a measure.

Even in an era of divided government, common ground can be reached on some of the nation’s priorities—in particular, a wide range of needed infrastructure improvements, a coalition of associations told congressional leaders in a letter this week.

More than 150 organizations signed on to the letter, calling for a “bipartisan, comprehensive package that transforms U.S. infrastructure systems beyond the status quo and maintains U.S. competitiveness in a 21st-century economy.” The Infrastructure Working Group, led by the National Association of Manufacturers and the Associated General Contractors of America, warned that a failure to invest risks increasing an already present “infrastructure deficit.”

“As this challenge persists and worsens, we encourage you to develop and advance a bipartisan infrastructure investment package that will improve the safety, reliability and efficiency of our nation’s infrastructure,” the coalition said in the letter [PDF].

Other groups signing the letter included the American Beverage Association, the American Society of Civil Engineers, the International Association of Fire Chiefs, the National League of Cities, and the U.S. Travel Association.

The group called for legislation to address six specific needs: an increase in direct federal infrastructure investment; a remedy for shortages in existing funds; stronger financial tools used for infrastructure investment, such as municipal bonds; more opportunities for private investment in infrastructure projects; an easier federal permitting process; and greater collaboration among all levels of government and between the public and private sector.

In a post on NAM’s Shopfloor website, Robyn Boerstling, the association’s vice president of infrastructure, innovation, and human resources policy, noted that all sides understand the need for

action.

“Manufacturers, Congress, and the president all agree the failure to upgrade U.S. infrastructure threatens U.S. economic competitiveness,” she wrote. “Now is the time for the business community, labor organizations, Republicans, and Democrats to work together to pass an infrastructure bill.”

It’s widely perceived that 2019 offers the best opportunity to pass infrastructure legislation during the current administration—though it faces many hurdles—and it was a key point in President Trump’s State of the Union address this week, though his speech was light on details.

ASSOCIATIONS NOW

BY ERNIE SMITH / FEB 8, 2019

Highway Backers Seek Proposals, Revenue for Trump Infrastructure Plan.

President wants Congress to unite to fix ‘crumbling infrastructure,’ but advocates say questions over revenue sources persist

Transportation advocates said they are happy to see President Trump raise the need for infrastructure investment in his State of the Union speech, but they also are anxious to see concrete plans and funding for improvements to U.S. roads, bridges and ports.

“It’s time to stop talking about investing in infrastructure and get to work fixing it,” said Dave Bauer, chief executive of the American Road & Transportation Builders Association, one of several trade groups that have been frustrated by the inaction in Washington despite broad bipartisan support for infrastructure spending.

The president in his address Tuesday night told lawmakers both parties should “unite for a great rebuilding of America’s crumbling infrastructure.”

“I know that Congress is eager to pass an infrastructure bill,” Mr. Trump said. “And I am eager to work with you on legislation to deliver new and important infrastructure investment, including investments in the cutting edge industries of the future. This is not an option, this is a necessity.”

Mr. Trump, who has said he supports spending $1 trillion on infrastructure, offered no details, however, and didn’t mention the spending plan for transportation programs his administration submitted in 2018.

An early draft of the address contained a line in which the president would urge Congress to “pass my proposal” for rebuilding the nation’s infrastructure, an administration official familiar with the drafting process said before the speech. When other officials saw the draft, they urged that the line be deleted because the president doesn’t actually want Congress to pass the only infrastructure proposal his administration has produced.

Mr. Trump has continued to tell aides and officials that he “hates” central elements of the 2018 infrastructure plan, especially public-private partnerships, according to two people familiar with the speech drafts. The plan would have required cities and states to put up at least 80% of the cost of the plan, likely pushing local government into the arms of private financiers.

That will leave Congress to wrestle with the gap between anticipated revenue and plans for a new spending once the existing $305 billion highway bill passed in 2015 expires next year. Many building programs are supported by the Highway Trust Fund, which gets its revenue from federal fuels taxes, but the flow of money into that fund has lagged behind needs, highway groups say, because the fuel taxes haven't been raised in nearly 25 years while improved vehicle efficiency has cut into gasoline and diesel consumption.

Congress has periodically pushed general government revenues into the trust fund to make up for shortfalls, and spending advocates believe the fund will need another infusion as soon as next year.

Chris Spear, chief executive of the American Trucking Associations, said lawmakers must address the revenue gap to meet the country's needs. "A win on this issue will require real investment, not budgetary gimmicks as tried in years past," Mr. Spear said in a statement.

The Wall Street Journal

By Paul Page

Feb. 6, 2019 11:14 a.m. ET

—Ted Mann contributed to this article.

Fitch Ratings Publishes Updated Criteria for US Variable-Rate Demand Obligations & Commercial Paper.

Fitch Ratings-New York-31 January 2019: Fitch Ratings has published the following updated report: "U.S. Public Finance Variable-Rate Demand Obligations and Commercial Paper Issued with External Liquidity Support Rating Criteria". This report updates the report published on Jan. 22, 2018 titled "U.S. Public Finance Variable-Rate Demand Obligations and Commercial Paper Issued with External Liquidity Support Rating Criteria". The key elements of Fitch's external liquidity rating criteria remain consistent with those of its prior criteria report.

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GFOA Releases Primer on Infrastructure Financing.

Understanding Financing Options Used for Public Infrastructure

Report CoverUnderstanding Financing Options Used For Public Infrastructure ("the Primer") provides an overview of tax-exempt bond and other financings used by state and local governments and entities.

The Primer covers numerous issue areas related to tax-exempt financings. These sections include:

- The fundamentals of tax-exempt bonds and other financing tools that are available to state and local governments and related entities;
- The role tax-exempt bonds play in infrastructure financings and as an investment product; and
- Congressional actions over the past fifty years related to this market.

This Primer was prepared in coordination with several members of the Public Finance Network (PFN). The PFN is a coalition of organizations interested in preserving the tax-exempt status of state and local government bonds.

Download the report.

About the Public Finance Network

Formed in 1988, the Public Finance Network is a coalition of organizations united to preserve state and local government use of tax-exempt bonds. The Network represents the wide array of local and state government financing and infrastructure activities. The Public Finance Network is administered by the GFOA and its Director of the Federal Liaison Center, Emily Brock. For information about the Network and financing issues, contact any of its members, call (202) 393-8467 or write to 660 North Capitol St., NW, Suite 410 Washington, D.C. 20001.

GFOA Report: Infrastructure Funding in the New Budget Environment.

Infrastructure Funding in the New Budget Environment

Federal grants have helped maintain a quality standard of living for communities across the country for over a century. There are over a thousand federal grant programs that transfer funds to state and local governments in support of a multitude of policy issues. State and local governments rely on the funds from federal grants to assist in providing what the citizens of their localities need. Over the years, the federal grant system has grown and changed to accommodate the constantly shifting priorities of American communities. Transportation, healthcare and education initiatives are all supported in some way by federal grants. Today, federal and local lawmakers meet the challenges of updating and enhancing our nation's infrastructure through collaborative efforts; underlining the importance of federal transfers to state and local governments.

This report provides information on trends, key issues, and case studies related to infrastructure funding.

Download the report.

The Pros and Cons of 'Target Maturity' Bond Funds.

These new products combine the benefits of a traditional bond fund with a fixed maturity date. They have their critics.

There's a new type of bond fund that aims to solve a shortcoming of traditional bond funds. But the jury is out as to whether they are worth buying.

Bond funds offer investors broad diversification, professional management and regular income—benefits tricky to achieve with a collection of individual bonds. But they also have a downside: no fixed maturity date. Investors can't simply wait out a downturn, knowing the price will move toward face value as maturity approaches, as they can with an individual bond.

To address that perceived shortcoming, some fund providers in recent years have introduced a hybrid product offering the benefits of a traditional fund plus a fixed maturity date. Though some experts disdain these "target-maturity bond funds," others say they can be a good choice for some investors in today's volatile market, especially those looking for steady income and a return of principal for an expected need—such as paying for college, buying a home or starting retirement.

"In today's market, these target-maturity funds are especially appealing," says Jay Srivatsa, chief executive officer at Future Wealth, a wealth-management firm in Los Gatos, Calif. "It takes the volatility and randomness out of the equation and, most importantly, takes out the investor's emotional reactions to the stock-market gyrations. Knowing that X amount will be available on year X gives peace of mind."

Target-maturity funds are easier to research and purchase than individual bonds, he says, and they appeal to investors who don't want to face long-term interest-rate risk.

Older investors may find this option worth a look in today's environment, says Ankur Patel, vice president at Lenox Wealth Advisors' New York office.

"As we continue to see baby boomers enter retirement, an entire generation of investors will be looking to reduce risk, generate income and invest more in bonds," he says.

How they work

Investors who buy individual bonds know that, barring a default, they will receive a predictable income and a return of principal on the maturity date. Earnings in bond funds are less predictable because the fund must constantly buy and sell individual bonds to maintain an average maturity promised investors.

That means the fund can suffer a loss if it must sell bonds when prices are down. That's because rising rates drive down prices of older bonds that pay less than new ones. While falling rates can lift bond prices, they can be harmful if the fund must replace older bonds with new ones that pay less, reducing the fund's yield.

Target-maturity funds—not to be confused with target-date funds, which gradually shift assets from stocks to bonds to increase safety as the target date approaches—tackle these problems by purchasing bonds maturing at about the same time. When the fund's maturity date arrives, the fund closes and investors receive their principal just as they do with individual bonds, though the amount isn't guaranteed up front and can be subject to market conditions. Income is relatively dependable—but, again, not guaranteed—because the fund doesn't need to replace holdings along the way.

The two big players are Invesco, which offers a series of BulletShares corporate and emerging-markets "defined maturity" exchange-traded funds maturing every year from 2018 to 2028, and BlackRock Inc.'s BLK 0.42% iShares, which has corporate and municipal bond ETFs maturing from 2020 to 2028.

Fees are modest, typically below 0.5%, though that can add up over time. Of course, an investor owning individual bonds would have no annual fees. Investors also face commissions on ETF trades, though that can be minor for the buy-and-hold investor these funds are designed to serve.

Critics weigh in

Despite their appeal to some, these funds do have critics. "I do not typically recommend target-maturity bond funds because their annual costs are significantly higher [than index bond funds] for a buy-and-hold investment, and there is a lack of flexibility," says Debra Taylor, founder of Taylor Financial Group, a wealth-management firm in Franklin Lakes, N.J.

"The benefit is that the funds are packaged up in one place, and they do provide diversification for the smaller investor," she says. "However, the more-sophisticated investor may be better off purchasing the individual bonds and creating their own ladders." (A ladder is an assortment of bonds with various maturities.)

Most experts seem to agree that these funds are best for investors with an expected cash need at the maturity date, rather than those who will reinvest. The principal may be returned at an inconvenient time for reinvestment—when yields are low, for instance. Because the fund won't replace its holdings, you can't expect the fund yield to rise as rates go up, as it would with an ordinary fund that gradually adds new bonds that pay more.

In today's market, many experts recommend funds with short maturities of under three to five years, since longer-term bonds don't currently pay enough extra to justify their greater risk.

Young people with long investing horizons are especially unsuited to these funds, Ms. Taylor says, because they can ride out bond-price dips. With maturities out to only 2028, target-maturity funds serve investors who expect to need their money in 10 years or less.

Dennis Shirshikov, a financial analyst at FitSmallBusiness.com in New York, warns that many bonds in these funds will mature months before the fund closes, leaving cash to sit idle. And Mr. Patel of Lenox Wealth Advisors says investors should expect fund yields to drop in the final year to the level of bank savings. Also, many of these funds own bonds that can be called early, worsening the problem of cash buildup even before the year of maturity.

Getting out early

Investors also should know that they can lose money if they unload one of these funds before maturity. That could happen if rising rates drive down bond prices. Also, since these ETFs are traded like stocks, there's no guarantee an investor will find a buyer if he or she wants to get out early,

though experts say lack of liquidity hasn't been a serious problem.

"These are generally not a great short-term trading option," Mr. Shirshikov says. "In fact, you will likely be better served with other bond products if you are interested in trading on bond volatility or interest-rate movements.

"However, if you are considering locking your money away in a CD or purchasing government bonds with set maturity with the hope of taking the money out at a later date and earning some interest in the process, this is a great product to invest in," he says.

The Wall Street Journal

By Jeff Brown

Feb. 1, 2019 4:26 p.m. ET

PG&E Bankruptcy's Ripple Effects Will be Felt Beyond California.

- **Investors, utilities across the U.S. could share the pain**
- **Settlements for wildfire victims may be later and smaller**

PG&E Corp., owner of the largest electric utility in America's most populous state, plans to file for bankruptcy Tuesday, and the ripple effects are likely to stretch far beyond California and the company's stakeholders.

Power-plant operators that sell electricity to its utility are already being downgraded to junk. Federal taxpayers may get stuck with the bill for government loans to renewable-power projects in California if they can't be repaid. And the shape of the Golden State's electricity industry could fundamentally change, with delays to a clean-energy mandate and a bigger role than ever before for public power.

More directly affected, of course, are stockholders, bondholders and thousands of PG&E retirees and their families who are casting nervous eyes on the pension fund. Wildfire victims suing the company — PG&E's stated main reason for bankruptcy -- also risk later, smaller settlements.

Continue reading.

Bloomberg Markets

By David R Baker

January 28, 2019

Shutdown Dashes Wall Street's Hope Trump Would Boost Bond Sales.

- **'You would have to be crazy to think they could help at all'**
- **At conference, little chance seen for infrastructure bill**

If Wall Street's municipal-bond departments are looking for Washington to help them drum up

business, the prospects appear bleak.

Big underwriters would have liked for President Donald Trump to make good on his campaign promise to enact a major infrastructure plan, since states and cities would likely issue debt to cover their share of the projects.

But sales of new state and local government bonds tumbled 22 percent last year, and the record-long shutdown that tarnished Trump's relationship with the new Democratic majority in the House of Representatives left those at a Bond Buyer conference in New York pessimistic.

"Can you rely on the federal government for help at all?" asked Howard Cure, director of municipal-bond research at Evercore Wealth Management. "Based on what happened with the shutdown you would have to be crazy to think they could help."

There's certainly a need for help: The American Society of Civil Engineers estimates the country needs to increase its spending by $2 trillion through 2025 to get its roads, schools and other infrastructure in adequate shape. Trump spoke disparagingly of the state of affairs before taking office.

Dan Tomson, co-head of public finance at Citigroup Inc., the second-largest municipal bond underwriter, said it was "unlikely" that a federal infrastructure bill would be passed this year.

So the industry seems to have settled around a much more modest agenda in Congress, like expanding the use of so-called private activity bonds, issued on behalf of businesses, or resurrecting advance refundings, a refinancing tactic that was essentially killed off by Trump's tax bill. That was a big driver of the bond-sales slowdown last year.

"Our agenda as an industry — first and foremost, we have to keep what we have," said Bob Spangler, co-head of public finance at RBC Capital Markets. He said the preservation of the tax break for municipal bonds is crucial. "It is painfully aware to all of us that Washington's actions do matter in terms of our marketplace."

Bloomberg Markets

By Danielle Moran

January 29, 2019, 2:35 PM MST

A Few Lessons About Public-Private Partnerships in Higher Ed.

As many institutions look to public-private partnerships as a financing solution for their biggest and most important projects, Charles G. Renner describes some of the ins and outs.

It has been more than a decade since a report by the Institute for Higher Ed Policy first noted a worldwide shift away from public funding sources and toward private capital to finance higher education projects. The report appeared just months before the eruption of the global financial crisis that left an indelible scar on state and local public finances still seen today. The long-term effects of that crisis have only reinforced the logic that made private capital an attractive financing option in the first place.

The cold, hard fact is that available public funds for higher education have been shrinking. The Center on Budget and Policy Priorities, a Washington-based research and policy institute, reported that 46 of 50 states "are spending less per student in the 2015-16 school year than they did before the recession." Nine of those states have seen inflation-adjusted spending declines of greater than 30 percent. On average, states are spending 18 percent less per student than before the crisis. This trend has provided little evidence of reversing.

To compensate for the funding shortfall, colleges and universities have a limited range of options. Many have decided to raise tuition, but tuition costs had been outpacing inflation for a generation prior to the crisis, and the market can bear only so much. Indeed, many institutions, particularly private ones, are already offering significant discounts off of their sticker prices to entice students to enroll. Others have opted to curb their academic programs and offerings; over the past year, many have announced downsizing and consolidation initiatives, including the elimination of majors and degree programs, intercollegiate athletic teams, and faculty and administrative positions. But such measures, too, have limited use. An institution can cut only so much without jeopardizing its ability to fulfill its mission and attract students.

Finally, some colleges and universities have increased drawdowns on their endowments, but this is more a short-term act of desperation, not the application of a long-term, sustainable financing solution. Besides, despite the cachet of the larger endowments — Harvard University sports an endowment over $37 billion — most institutions have fairly modest endowments that are little more than rainy-day funds. Last year, in a study by the National Association of College and University Business Officers, the median endowment value of an American higher education institution was $127.8 million, and 44 percent of all endowments were valued at $100 million or less.

One should also consider that the financial and risk profiles of the average American college or university have changed significantly in the past generation. Notably, many institutions have seen their debt-to-endowment ratios increase because of poor investment performance, increased drawdowns on the endowment itself or larger amounts of debt. And even those with the largest endowments are confronting new threats and challenges. For instance, in the spring of 2016, members of the Connecticut Legislature sought to tax Yale University's endowment. The idea was quickly scotched a few weeks later, but the proposal gives context to the discussion over higher education funding — colleges and universities are being squeezed because the states themselves are under financial stress.

These are the factors that have created the difficult circumstances in which higher education finds itself. It is also the reason so many institutions are looking to public-private partnerships as a financing solution for their biggest and most important projects.

The P3 Delivery Model

A public-private partnership, or P3, is long-term agreement between a public entity and a private industry team that is tasked with designing, building, financing, operating and maintaining a public facility. The past decade has seen a steady increase in the use of P3 structures, both inside and outside higher education. In 2016, something of a watershed year for P3, multiple high-profile projects came online in response to a variety of public needs, including a $1-billion-plus water infrastructure project servicing San Antonio, and a $300-million-plus renovation of the Denver International Airport's Great Hall.

The emergence of the P3 option is happening where it matters most: projects that would be otherwise unattainable under the traditional public-improvement delivery models. For instance, 10 years ago, only a handful of higher education P3 projects were up and running; today, we are

approaching three dozen such projects.

The biggest challenge is, of course, the financing component, but P3 teams bring much more to the table than money — they give public entities access to expertise and innovation that can add significant value to projects at each phase of development.

Several recent higher education P3 projects demonstrate how the P3 delivery model and team approach can enable colleges and universities to take on projects they might not have otherwise been able to pursue.

Wayne State University student residential facility.

Wayne State sought out private partners for a project to demolish an existing 407-bed apartment building and replace it with new and renovated residential space. It went from issuing a request for proposals to obtaining financing in relatively record time and began leasing new beds in August 2018. To expedite construction, the private partner secured bridge financing as part of the overall capital stack, enabling the project to tap into generally favorable financing for the larger private placement of debt.

The university not only locked in favorable financing terms and paid off existing debt, but it also moved much of the worry and risk from operations onto the private partner by engaging in a full P3 approach. That includes design, construction, financing, operations and maintenance of the project over a 40-year life cycle, freeing up university resources to focus on academic and other needs.

University of California, Merced, 2020 campus expansion.

While residential projects have long been the focal point of higher education P3s, we are beginning to see more ambitious uses of the model. UC Merced 2020 is one example: a campuswide expansion covering some 219 acres and almost two million square feet of new facilities. The $1.2 billion project is likely the largest and most comprehensive P3 in American higher education. The mix of uses features academic learning, administration, research, residential and utilities, among others.

The project includes all project phases and employs an “availability” method of payment whereby the university will compensate a concessionaire directly according to a predetermined formula and schedule for the postconstruction operations and maintenance of the facilities over a 39-year life cycle.

Needless to say, a partnership of this size and scale requires solid relationships, as well as an agreement capable of accommodating changing conditions. The agreement contained flexible provisions to account for a variety of outcomes, including a 50/50 split among partners for any future refinancing gains, as well as a 50/50 split regarding potential cost-saving measures introduced by the developer.

Even when a college or university decides not to use a full P3 model, contemplating such a project often leads to a better result than only considering more traditional options. In 2014, the University of Kansas solicited private partners for a planned $350-million P3 that sought to add some 55 acres of academic, recreational, residential and utilities space to the campus. Ultimately, the university opted to create a nonprofit corporation and borrow the full project outlay from an out-of-state public finance entity rather than tapping private finance. But because the procurement process followed best practices for P3 selections, university stakeholders received the benefit of risk analyses and financial projections from multiple potential private partners, and an innovative debt-only financial approach was selected for the project.

Lessons for Other Institutions

The success of these projects suggests a few lessons for other higher education institutions. First, tapping into the full potential of the P3 model depends greatly on assembling the right partners. A well-rounded P3 team includes people with high-level expertise in private-development equity, architecture, engineering, contracting and law. Aside from the access to innovation and best-in-class skills, the team concept is important because P3 projects are long-term in nature. The relationships on which P3 projects depend will necessarily span many years; therefore, higher education participants need to carefully develop criteria for evaluating potential partners.

Also, few large-scale projects are finished without some kind of unanticipated challenge arising, so it is important to select partners who have demonstrated the stability and commitment required to see projects through to completion. Higher education administrators should study carefully their potential partners' portfolio of projects and evaluate how each dealt with the inevitable circumstances that challenge a team's ability to finish a project or to operate and maintain it afterward.

In addition, each of the foregoing projects had institutional champions who advocated for the P3 solution and oversaw the process through to completion. The role of champions in the P3 delivery model cannot be understated. They play a crucial role in securing buy-in for the project at the earliest possible stage and developing strategies to overcome obstacles. Establishing consensus on the campus also provides potential private partners the needed assurance to commit fully to a P3 project and helps to secure the best possible pool of P3 talent.

It is unlikely that the fiscal circumstances facing America's colleges and universities will improve greatly over the next decade, and the competition for students is fierce. When applied competently and in the right manner, a public-private partnership allows administrators to create solutions that differentiate their campuses and brand them as places capable of getting things done. More institutions should seriously consider this option.

Inside Higher Ed

By Charles G. Renner

January 28, 2019

Bio
Charles G. Renner is a partner in the Kansas City, Mo., office of law firm Husch Blackwell LLP and is the leader of the firm's public-private partnerships practice group.

[S&P Global Ratings Clarifies Its Rating Action And Display Of Ratings Following Various Credit Enhancement Rating Withdrawals.]

Recently, S&P Global Ratings withdrew various credit enhancement program ratings. In this report, we address frequently asked questions we have received from market participants to provide greater clarity on how we proceeded with the withdrawals.

Continue Reading

Jan. 29, 2018

[Report: 63 Out of America's Largest 75 Cities Can't Pay their Bills, Acquired $330 Billion in Unfunded Debt.]

According to a recent analysis of the 75 most populous cities in the U.S., 63 of them can't pay their bills and the total amount of unfunded debt among them is nearly $330 billion. Most of the debt is due to unfunded retiree benefits such as pension and health care costs.

"This year, pension debt accounts for $189.1 billion, and other post-employment benefits (OPEB) – mainly retiree health care liabilities – totaled $139.2 billion," the third annual "Financial State of the Cities" report produced by the Chicago-based research organization, Truth in Accounting (TIA), states.

"Many state and local governments are not in good shape, despite the economic and financial market recovery since 2009," Bill Bergman, director of research at TIA, told Watchdog.org.

The top five cities in the worst financial shape are New York City, Chicago, Philadelphia, Honolulu, and San Francisco. These cities, in addition to Dallas, Oakland, and Portland, all received "F" grades.

In New York City, for example, only $4.7 billion has been set aside to fund $100.6 billion of promised retiree health care benefits. In Philadelphia, every taxpayer would have to pay $27,900 to cover the city's debt; in San Francisco, $22,600 per taxpayer.

TIA analyzes state and city data to make it more accessible and easy to understand for taxpayers and citizens, who TIA argues, "deserve easy-to-understand, truthful, and transparent financial information from their governments."

By the end of Fiscal Year 2017, 63 cities did not have enough money to pay all of their bills, the report states, meaning debts outweigh revenue. In order to appear to balance budgets, TIA notes, elected officials "have not included the true costs of the government in their budget calculations and have pushed costs onto future taxpayers."

In order to determine the "taxpayer burden," TIA divides the amount of money needed to pay bills by the number of city taxpayers. The Taxpayer Burden equals the amount of money each taxpayer would need to pay to pay off their city's entire debt. Cities that can't pay their bills are identified as "sinkhole cities."

The Taxpayer Surplus is the amount of money left over after all bills are paid, divided by the estimated number of taxpayers in each city. Cities that have a surplus and or can pay their bills are called "sunshine cities."

This year, there were 63 sinkhole and 12 sunshine cities. The top five cities in the best financial shape are Irvine, Charlotte, Washington, D.C., Lincoln, and Fresno.

Despite the majority of cities' low rankings, financial conditions improved for most of the cities analyzed, TIA states.

"A favorable investment environment helped improve results, particularly in government pension funds [leading to a lower net pension liability]," Bergman said. "This helps illuminate a need for improving the timeliness of government financial reporting, and we've had a reminder in recent months that stocks can go down as well as up."

One major problem area TIA identifies is that city leaders have acquired massive debts despite the balanced budget requirements imposed on them.

"Unfortunately, some elected officials have used portions of the money that is owed to pension funds to keep taxes low and pay for politically popular programs," TIA states. "This is like charging earned benefits to a credit card without having the money to pay off the debt. Instead of funding promised benefits now, they have been charged to future taxpayers. Shifting the payment of employee benefits to future taxpayers allows the budget to appear balanced, while municipal debt is increasing."

As part of the ranking, TIA graded each municipal government with scores of "A" through "F." Governments that received a C grade came close to meeting their balanced budget requirement. "A" or "B" grades were given to governments that met their balanced budget requirements and have a Taxpayer Surplus. "D" and "F" grades apply to governments that did not balance their budgets and have significant Taxpayer Burdens.

No cities received an "A" grade. Twelve cities received a "B;" 24 a "C;" 31 a "D;" and eight failed.

TIA is a nonprofit, politically unaffiliated organization composed of business, community and academic leaders interested in improving government financial reporting.

By Bethany Blankley | Watchdog.org Jan 30, 2019

America's Largest Cities Are Practically Broke.

Sixty-three, out of America's most populous seventy-five, cities do not have enough money to pay all of their bills. Chicago-based municipal finance watchdog, Truth in Accounting (TIA) revealed these stark news in its third annual, Financial State of the Cities. According to TIA, "This means that to balance the budget, elected officials have not included the true costs of the government in their budget calculations and have pushed costs onto future taxpayers." TIA divides the amount of money needed to pay bills by the number of city taxpayers to come up with what it calls Taxpayer Burden™.

Based on TIA's grading methodology, for the second year in a row, not a single one of the 75 cities received an 'A'. TIA, however, was unable to rank and grade two of the most populous cities, Newark and Jersey City in New Jersey, because unfortunately, they do not issue annual financial reports that follow generally accepted accounting principles, GAAP.

A grade: Taxpayer Surplus greater than $10,000 (0 cities).

B grade: Taxpayer Surplus between $100 and $10,000 (12 cities).

C grade: Taxpayer Burden between $0 and $4,900 (24 cities).

D grade: Taxpayer Burden between $5,000 and $20,000 (31 cities).

F grade: Taxpayer Burden greater than $20,000 (8 cities)

Continue reading.

Forbes

Jan 29, 2019

by Mayra Rodriguez Valladares
Contributor – Banking & Insurance

TIA 2019 Financial State of the Cities.

On January 29, Truth in Accounting released its third *Financial State of the Cities* report, a comprehensive analysis of the fiscal health of the nation's 75 most populous cities based on fiscal year 2017 comprehensive annual financial reports.

This year, the study found that 63 cities do not have enough money to pay all of their bills, and in total, the cities have racked up nearly $330 billion in unfunded municipal debt. The study ranks the cities according to their Taxpayer Burden or Taxpayer Surplus™, which is each taxpayer's share of city bills after available assets have been tapped. Check out the data for your city at the State Data Lab.

Download the new report here.

January 28, 2019

Municipal Liability Under the ADA for Website Inaccessibility.

Executive Summary: Many business owners have faced litigation under the Americans with Disabilities Act (ADA) by disabled individuals who claim the businesses' websites are inaccessible. Now, many plaintiffs are turning their attention to municipalities and their websites.

Websites and the Americans with Disabilities Act: The ADA was enacted decades ago, before companies or municipalities even had websites. Yet courts across the country repeatedly have held that the law applies to internet accessibility, resulting in an increasing trend in ADA litigation over websites. Serial plaintiffs visit a multitude of websites and then pick a niche. Some sue art galleries without screen readers that enable the visually impaired to navigate the site, or hotels whose websites do not list their accessible accommodations. Lately, though, these plaintiffs and their attorneys have begun targeting cities, towns, and counties, alleging that their websites are inaccessible, most often for the visually or hearing impaired. Although the ADA offers a plaintiff only injunctive relief, the real damages come in the form of excessive attorneys' fees, which usually make it more prudent to simply settle a case as soon as possible. Yet in New York and California, two of the states with the largest volume of ADA lawsuits, local laws also offer plaintiffs monetary damages.

Implications for Municipalities: As a result, New York, California, and Florida lead the country in volume of website litigation. The trend is spreading to other states. Title II of the ADA prohibits a "public entity" from discriminating against "a qualified individual with a disability," on account of the individual's disability. The ADA regulations state that "a public entity shall take the appropriate steps to ensure that communications with applicants, participants, and members of the public with disabilities are as effective as communications with others." Further, "a public entity shall furnish appropriate auxiliary aids and services where necessary to afford an individual with a disability an equal opportunity to participate in, and enjoy the benefits of, a service, program, or activity conducted by a public entity." 28 C.F.R. § 35.160(a). Such auxiliary aids and services may include, but are by no means limited to, qualified interpreters on-site or through video remote interpreting

services; real-time closed captioning; and closed caption decoders. 28 C.F.R. § 35.104. The specific type of auxiliary aid needed will vary on a case-by-case basis, as people with various disabilities will need different accommodations.

Among the issues raised by recent lawsuits are a plaintiff's inability to attend or otherwise participate in a town board or city council meeting due to that person's disability, and the need to watch the meeting on the town's website. Without closed captioning, for example, a hearing impaired person would not be able to participate in the meeting. Although there is no explicit requirement to livestream or simulcast a municipality's council meetings, a municipality does have a duty to provide auxiliary aids to disabled persons attempting to take part in the meetings.

In Minnesota, a disability advocate who suffers from autism has brought multiple website lawsuits against towns and counties in that state. He alleges that, as a result of his condition, he has muscular problems that impede his use of a mouse to navigate a website. Serial plaintiffs in Florida have filed dozens (if not more) of lawsuits alleging website inaccessibility, including against municipalities. One plaintiff frequently claims that videos on municipalities' websites are inaccessible to people such as himself who are hearing impaired. Still other serial plaintiffs have begun virtually crossing state lines. For example, one Florida serial plaintiff has sued Nassau County, New York over the alleged inaccessibility of its website.

Bottom Line: In sum, although there is no blanket requirement that every city needs to livestream and provide real time captioning for their meetings, or to provide any specific auxiliary aides to use its website, the proliferation of municipal website lawsuits presents a real risk of liability. Municipalities are advised to work with their IT departments or otherwise to take proactive steps to ensure that their websites are accessible to those with visual, hearing, and muscular impairments.

January 30, 2019

FordHarrison

Along the Coasts, Communities Gird for Rising Seas.

Facing the threat of extreme weather, coastal regions of the U.S. are stepping up protection efforts

BOSTON — State officials along the East and Gulf Coasts are pushing for projects worth billions of dollars to protect populous coastal regions from rising oceans and extreme weather.

In Maine, Democrats are seeking a public vote on a $50 million bond to fund a steel waterfront infrastructure to protect against rising sea levels. Florida's new Gov. Ron DeSantis, a Republican, recently proposed investing $2.5 billion to protect the Everglades and the appointment of a chief science officer to address environmental concerns. Louisiana's Democratic Gov. John Bel Edwards pledged $55 million in state surplus and about $300 million in offshore oil revenue for coastal and levee improvements.

In Massachusetts—where a tidal surge last year pushed the water level at Boston Harbor to the highest ever recorded, causing flooding—Republican Gov. Charlie Baker proposed raising the tax on real-estate transfers by 50% in much of the state to generate more than $1 billion over the next decade. The funds would help local communities fortify infrastructure from sea walls to flood-control systems.

Continue reading.

The Wall Street Journal

By Jennifer Levitz and Cameron McWhirter

Feb. 3, 2019 11:00 a.m. ET

Infrastructure – Stays In the USA (Please Help)

According to the Federal Trade Commission's website, only products made with "all or virtually all" U.S. parts that are processed in the U.S. may bear the cherished *Made in the USA label*. In addition, according to the FTC's guidelines, products that include foreign parts, but that are assembled in the U.S., may bear an *Assembled in the USA* label. Although the FTC does not appear to have guidelines on a *Stays in the USA* label, or a *Comprises the USA* label, we can think of at least one sort of item that might qualify – our country's infrastructure – its roads, airports, hospitals, schools and utilities. (And if we tried to print up labels to slap on all of those, we would need to add "labelmakers" to that list, too.)

It will not surprise you that this blog will then make what is for you, our readers, an obvious progression – in order to have solid infrastructure, however, we will need for the #1 financing tool for infrastructure – tax-exempt bonds – to be strong. For more than a century, tax-exempt municipal bonds have provided a significant portion of all infrastructure financing. Let's keep it that way. In an effort to nip in the bud any future flirtations with the idea of eliminating or taking a road-grader to tax-exempt bonds (if you need a reminder of what happened in the fall of 2017 click here, here or here), Rep. Dutch Ruppersberger (D-MD) and Rep. Steve Stivers (R-OH), who are the co-chairs of the Municipal Finance Caucus, drafted a letter to the House Committee on Ways and Means highlighting the benefits of tax-exempt municipal bonds. There's something for everyone in the letter ("an expression of fiscal federalism . . . freeing up resources for other needs. . . "), which is all of one page (clear ideas don't require too many words, after all). We ask that you (yes, you) contact your Congressional representatives and ask them to sign onto the letter and, if you are feeling ambitious, also ask them to consider joining (if they are not already a part of) the Municipal Finance Caucus.[1]

Letter to House Committee on Ways and Means

[1] Extra credit for artistic renderings of your favorite local infrastructure with the "Stays in the USA" label.

The Public Finance Tax Blog

By Cynthia Mog on January 28, 2019

Squire Patton Boggs

'Green Bonds' May Be Our Best Bet for Environmental Damage Control.

The popularity of green bonds as a way to finance environmentally friendly projects is on the upswing, say Malcolm Baker and George Serafeim.

Municipalities have been selling bonds to pay for public works projects—fire stations, parking garages,s ewage treatment systems—for 200 years. It's only in the past decade or so, however, that they've been selling them with an extra perk: helping the environment.

In the absence of a global carbon pricing scheme, bond markets will be central to financing climate change and other environmental interventions. So-called green bonds appeal to investors who are looking for a safe place to park their money, as well as doing a little bit of good for the world.

Harvard Business School professors George Serafeim and Malcolm Baker have long been interested in investor motivations that go beyond pure financial return to include environmental, social, and governance (ESG) criteria. With the recent uptick in green bonds, they wondered how that might improve municipalities' ability to help the environment by accessing finance at better terms.

"The whole idea of ESG investing is predicated on the notion that by tilting their portfolios towards securities that have better ESG properties, investors might be able to change who has access to lower-cost capital," says Baker, Robert G. Kirby Professor of Business Administration at HBS. "In the process, they jump-start investing in areas that might be important for the environment."

They examine the phenomenon in a new paper for the National Bureau of Economic Research, Financing the Response to Climate Change: The Pricing and Ownership of U.S. Green Bonds, written with Daniel Bergstresser of Brandeis University and Jeffrey Wurgler of NYU's Stern School of Business.

While green bonds have been issued by banks and corporations as well, the researchers focused on municipal bonds, which are the most ubiquitous green bonds historically in the United States, and the easiest to track thanks to the availability of government data.

For starters, determining what bonds truly qualify as green—as opposed to just greenwashing—wasn't straightforward.

"There isn't a crisp definition about what is a green bond and what isn't," says Serafeim, a professor in the Accounting and Management Unit. "The test we used was to look at how the money from the bond flows into actual projects, and whether those projects are going to deliver environmental benefits."

The projects include efforts to create alternative energy by building solar panels and wind turbines, as well as projects to improve water efficiency, control pollution, create sustainable agriculture and forestry, or provide infrastructure for electric vehicles.

While not all projects have a climate-change benefit, many help reduce future carbon emissions or even remove carbon emissions from the atmosphere. In addition to looking at bonds self-labeled as green by municipalities, the researchers also considered certification by the nonprofit Climate Change Initiative, which provides a Climate Bond Standard (CBS) rating.

Green bonds priced at a premium

In the past eight or nine years, they found, the green bond market has gone from nonexistent to $160 billion. (The first green bond was issued in 2007 by the European Investment Bank.) When the researchers compared green bonds with other bonds issued by the same municipality, they found a slightly lower yield of 6 basis points (.06 percent) for self-identified green bonds, and up to 20 basis points (.2 percent) for certified green bonds.

That means that investors are placing a premium on green bonds and are willing to accept a lower

rate of return in exchange for the environmental benefits. Given the typical duration of municipal bonds, this yield difference amounts to a green bond price that is in the range of 0.6 percent to 2 percent higher than a comparable brown bond.

“The story is supply and demand,” says Baker. “If there is an element of a security that the investor desires for nonfinancial reasons, it will trade at a higher price than other securities.”

In addition, the researchers found that green bonds were more concentrated in their ownership in a small group of investors—reflecting the smaller subset of investors who place value on environmental benefits, such as funds that have some green or social investing orientation.

While the difference in return is admittedly small, it could be a factor in tipping the scales for municipalities favoring green bonds.

“One way to make them more appealing to issuers is to offer them at more favorable terms,” Baker says. “If I’m an entrepreneur or state government and I have to choose between a project that is green and one that isn’t, one factor in that decision will be the terms at which I can finance it. That is the sense in which green bonds can theoretically push firms and municipalities in the direction of doing something environmentally friendly.”

That would make green bonds attractive as part of the solution to improving the environment and combatting climate change. “It’s one of the many different actions in a larger menu of potential solutions, that would include investor engagement with corporate management and more powerful political interventions such as regulation and taxation,” Serafeim says.

As green bonds continue to gain in popularity, the researchers are interested to see if they continue to command a premium price. As more green bonds are issued, especially by government entities in Europe and China, their price could fall due to an increase in supply. On the other hand, as they continue to gain in popularity, more investors could value green bonds, pushing up price due to increased demand.

“It is a bit of a battle between the number of investors who place extra value on green bonds versus the total supply of these types of bonds,” Baker says. Either way, the positive trend towards seeing more interest in green bonds from both municipalities and investors can only help in the battle to address climate change.

29 JAN 2019 **|** by Michael Blanding

Harvard Business School

Infrastructure Must Be the Top Priority for Congress this Year.

With fresh crops of lawmakers on Capitol Hill, infrastructure is a popular topic again. Will the conversation change or will urgent infrastructure needs knotted with unending debate over failed delivery plans continue to go unaddressed? Lasting positive economic benefits require aligning public financial incentives with compelling projects. Thoughtful dialogue is necessary on risks, returns, operations, maintenance, state and local responsibilities, and the mix of sector funding for the coming decades.

Infrastructure is a broad subject area with a leading purpose to increase nationwide economic

productivity and social welfare. Our occasional infrastructure disruptions offer blunt reminders that essential services cannot be taken for granted. It is easy to project the long term fallout of critical infrastructure failure when it results in depressed productivity, stunted economic growth, and perhaps lower quality of life. Reducing federal regulatory red tape may no longer be the largest impediment.

While the federal government plays an important role, state and local governments are best positioned to advance new innovative solutions. Reinvigorating our infrastructure can be achieved through introduction of an updated process for the value over a full life cycle of the project including design, building, finance, operation, and maintenance. Better interagency coordination is also required. The challenges remain the same today as they always are with voluminous needs spread across multijurisdictional projects with far ranging levels of financial flexibility.

Greater consumption of data driven insights combined with changing economics, glaring upfront costs, dangling phantasmagoric federal incentives and impediments, and insufficient government interagency coordination make it virtually impossible to craft good policy addressing the nationwide needs in the short term. Finding the balance within legal and business frameworks to bring the best value to all regions, parties, citizens, and investors will be evolutionary rather than revolutionary.

Ideas embrace more than transportation, renewable energy, or water projects. Social infrastructure is ripe with opportunities such as health care, housing, and education. New construction is not required for every project. Years of pent up demand combined with innovative materials, engineering, and information can allow a publicly sponsored enterprise to provide a quality product while exhausting possibilities of each revenue stream, along with creating and capturing some value previously lacking.

Information technology can now precisely measure operational services including toll road use and electricity consumption. Many elements run under separate public agencies or governance structures. Exploiting value from existing operations through analytics can help achieve optimal utilization. Innovative financing strategies will also surface, but public private partnerships are establishing a strong beachhead. Diverse capital is available with many investors seeking to finance or take on projects.

In a public private partnership, the government transfers economic risks to the private sector for a set period while maintaining the ownership of public assets. Significant capital is available to finance viable projects through public private partnerships. Incentives are needed for projects with unclear economics such as rural broadband. Traditional municipal bonds remain reliable vehicles for financing costs. Publicly sponsored enterprises can create value previously lacking, but advancements offer their own challenges such as cyber threats to advanced infrastructure.

Public policy must keep the focus on cyber protections as we modernize our infrastructure. Incentives should include performance contracts and maintenance plans. Projects should use time tested financing options such as municipal bonds and incorporate public private partnerships. Regional initiatives may prove to be better investments than shovel ready multijurisdictional national projects. Lawmakers should streamline and expand interagency coordination and employ new technology to operate and maintain infrastructure. The process of aligning incentives must be updated to refocus on value over a full life cycle of the project. Congress should take up this important work. The conversation needs to change.

THE HILL

BY ROBERT AMODEO, OPINION CONTRIBUTOR — 02/01/19 06:00 PM EST

Robert Amodeo is the head of municipal investments at Western Asset Management, which is a subsidiary of Legg Mason. His opinions are not meant to be viewed as investment advice or a solicitation for investment.

State of the States 2019: Getting America Connected.

The nation's governors are laying out policy priorities for the coming year — some for the first time. Many are focused on technology-driven economic and workforce development as paths to prosperity.

The influx of new governors across the country cast a slightly different tone in this year's State of the State addresses. Typically the most notable policy speech given by each state's top elected official, veteran governors often make the address equal parts retrospective and prospective, pointing to their successes during their terms thus far, while hinting at their plans to take on issues that continue to need attention. But new governors don't have a record to point to just yet, so their speeches tend to be more forward-looking. Government Technology editorial staff reviewed each speech and rated it from 1 to 5 based on the strength of its technology initiatives.

Based on early speeches, common themes predominate, with most governors laying out plans to strengthen state education systems with a parallel focus on job creation. Technology factors heavily into both. Many speeches refer to specific programs aimed at injecting more resources into things like coding and other science, technology, engineering and math (STEM)-related curriculum. Likewise, luring and growing tech-related industry to their states is high on the list of many leaders who are eager to rattle off the names of new investments from familiar tech giants with footprints throughout the country.

In easily the most often discussed tech-related priority, about half of governors got specific about the importance of continuing to work on extending the benefits of high-speed Internet to every corner of their state. Incoming Virginia Gov. Ralph Northam said it was the top issue identified by his constituents, while many others included specific budget requests for broadband in their speeches. Colorado Gov. Jared Polis offered a familiar sentiment on connectivity: "In the 21st-century economy, broadband is critical infrastructure that everyone must have access to," he said, asking the Legislature to join him in delivering for Coloradans.

Connecticut Gov. Ned Lamont lamented the state's budget shortfall, and pointed to some specific ways technology could help address it. Advocating for a one-stop-shop-style experience for citizens interacting with government, he called on policymakers to support the creation of "the first all-digital government" in Connecticut, with an emphasis on shared services and tech-powered efficiencies throughout the enterprise. North Dakota Gov. Doug Burgum again delivered a tech-heavy speech, asking lawmakers to support nearly $200 million in IT infrastructure improvements to strengthen cybersecurity and modernize key programs with updated tools. Burgum was also one of a few state leaders to specifically talk about the potential of emerging technologies, asking for an additional $30 million for infrastructure to support the development of the drone industry in North Dakota.

See our analysis of how the rest of the nation's governors fared below. Evaluations will be added as additional speeches are delivered.

Continue reading.

GOVTECH.COM

BY NEWS STAFF / JANUARY 31, 2019

Policy and Politics Program Director Talks Effectiveness of Public-Private Water Systems.

On Monday, the Ford School of Public Policy hosted an event featuring Manny Teodoro, director of the Policy and Politics Program and associate professor at Texas A&M University, who has conducted significant research on the nation's water systems. The event, titled "Water System Finance: the Political Pitfalls of Public-Private Partnerships," covered the effects of public-private partnerships on water systems.

Teodoro started his talk by introducing a unique caveat in the water market — the disparity in the visibility of the price of water and its quality in the market.

"With water, the cost is much more visible than quality," Teodoro said. "Most of the contaminants in water are invisible to us. However, the price of water is very easily and readily observable."

As such, Teodoro argued if a water system is run by the local government, then it will naturally focus on reducing the price of water to appease residents — a stance that will also inadvertently lead to lower water quality.

"The goal of every politician who wants to get re-elected wants to minimize price and maximize quality," Teodoro said. "However, because of how much more visible prices are than quality for water, the long-run outcome is low prices and low quality."

Alternatively, in private-run water systems, the price companies are allowed to charge for water is limited by how much they invest in their water infrastructure, which is a limit enforced by the public utilities commission. Because of this, they are incentivized to over-invest in their water infrastructure, which will lead to high quality water but also high prices.

"The goal of every company is to make profit," Teodoro said. "As such, they are incentivized to maximize investment so that the public utilities commission will allow them to raise prices in conjunction with their higher investments. As such, private water tends to be high price and high quality."

However, Teodoro also argued public-private partnerships are not the solution to this dilemma.

"In public-private partnerships, the local government sets the price for the water and the private company has to figure out how to maximize its profits within that," Teodoro said. "As such, the incentive for these private companies is to reduce operating costs. This results in low-priced water but also low-quality water."

Furthermore, Teodoro disputed the perception that public-private partnerships are a solution for financially constrained water markets, emphasizing how they are a mechanism, not a self-sufficient source of revenue.

"Privatization of public partnerships are not sources of capital. In the end, the money's coming from the same people," Teodoro said. "The rate increases are still going to be needed to upgrade infrastructure, or else they will continue to fail."

After the talk, Sheny Puspita, a Public Policy graduate student, reflected on her views of the water systems and her main takeaways from the talk.

She discussed how more successful systems tend to be small, privately-owned water plants, but improvements are needed in larger, public water systems.

“The private-owned model only works with small-scale water plants, but we need to improve number of larger-scale water plants,” Puspita said.

Puspita also acknowledged private water plants do tend to produce higher quality water and operate more efficiently.

“I believe that private water plants will enhance the quality of water and efficiency of water plants,” she said.

Puspita spoke of her concern of how politicians would use public-private partnerships to shield themselves away from their responsibility for their constituencies’ water systems.

Marc Jaruzel, a Public Policy graduate student, echoed some of the skepticism for public-private water system partnerships.

“Public-private partnerships aren’t necessarily the fix-all,” Jaruzel said. “There is some evidence that it may be beneficial, but we just can’t say definitively whether P3s will be beneficial or not.”

Jaruzel commented on how having competing public water systems would not be a feasible solution either.

“I think public competition would be really challenging because you would have to have different pipes laying in the ground from different companies,” Jaruzel said. “I think it would take a really creative solution to get utilities to compete in a similar way as other businesses.”

THE MICHIGAN DAILY

MICHAEL ZHANG
Daily Staff Reporter

Monday, January 28, 2019 – 8:38pm

Tracking the Unequal Distribution of Community Development Funding in the US.

Abstract

There are clear winners and losers in the competition to attract this capital, including resources coming from the federal government, with some areas drawing more capital than others, even after adjusting for relative needs. Using our recently developed tool, Community Development Financial Flows, we measured flows of federally sponsored or incentivized community development capital to all US counties with more than 50,000 residents. We found that large counties received disproportionately more funding than small counties, and that the level of distress a county experiences does not directly relate to level of funding.

[Download report.]

The Urban Institute

by Brett Theodos & Eric Hangen

January 31, 2019

FINRA Bond Facts.

How much do you really know about buying and selling bonds? Although “bond” seems like a simple word, trading bonds is anything but simple, and vastly different from trading stocks. Wouldn’t it be nice if there were a tool that could give you the most important facts about a particular bond in an easy-to-digest package? FINRA has you covered.

To educate investors about their bond investments, FINRA recently introduced a new investor tool: FINRA Bond Facts. The tool helps investors understand common bond terminology and provides bond-specific information about corporate and agency bonds, including recent trade data. Bond Facts also provides sample questions that can help investors start a conversation with their brokers so they are in a position to make informed investment decisions.

What Bond Facts Will Tell Me

Bond Facts lays out the essential facts to know about any corporate or agency bond you are considering purchasing (or have already purchased) in a section called “This Bond at a Glance.” For example, who is issuing the bond? What is the maturity date? What are the coupon rate and yield? What is the credit rating? Is the bond callable-and when?

However, these essential facts don’t mean much to an investor who doesn’t have a basic understanding of what these key terms mean. To some bond investors, these terms might be new or unfamiliar. So, Bond Facts provides straightforward explanations to help educate investors to make informed decisions.

For example, investors might wonder what a 4.122% yield to worst means for their investment. Bond Facts provides a brief definition of the term yield (total return on the money you invested) and describes the differences between three common types of yield as shown below.

Talk To Your Broker

Bond Facts also creates an important action step for investors who use the tool. All of the key bond term explanations are followed by sample questions to ask your broker. In the yield example, Bond Facts provides three questions an investor can pose to their broker, such as “what is the yield for this bond and what type of yield is it?” You can use these questions to start a conversation with your broker and make sure you understand important information about your investment. You should never hesitate to ask questions about investments a broker is recommending to you.

Getting To Bond Facts

FINRA rules require that brokers include a link to Bond Facts on the trade confirmation you receive following a corporate or agency bond transaction. This means you can click on a link to the Bond

Facts site on an electronic trade confirmation or type in the URL from a paper confirmation. If you are accessing Bond Facts from your trade confirmation, the link will take you directly to information about the specific bond involved in your transaction.

If you want to research bonds before making a trade, you can use the bond's 9-digit CUSIP on the Bond Facts search page to pull up information about a particular bond. If you type in a CUSIP for a municipal security, Bond Facts will redirect you to the Municipal Securities Rulemaking Board's EMMA website, which provides investors with similar information to that available in Bond Facts.

For investors who want more information, Bond Facts provides a link to FINRA's Market Data Center where you can find additional information about a bond, including an extended trade history. Bond Facts also directs investors to more detailed investor education resources on FINRA's website for each of the key concepts covered.

January 25, 2019, 03:45:00 PM EDT By FINRA Staff (FINRAInvestorEducation@finra.org)

FINRA is dedicated to investor protection and market integrity. It regulates one critical part of the securities industry – brokerage firms doing business with the public in the United States. FINRA, overseen by the SEC, writes rules, examines for and enforces compliance with FINRA rules and federal securities laws, registers broker-dealer personnel and offers them education and training, and informs the investing public. In addition, FINRA provides surveillance and other regulatory services for equities and options markets, as well as trade reporting and other industry utilities. FINRA also administers a dispute resolution forum for investors and brokerage firms and their registered employees. For more information, visit www.finra.org .

S&P U.S. Public Power And Electric Cooperative Utilities 2019 Sector Outlook: Ratings Stability Persists In A Difficult Era

S&P Global Ratings expects that public power and electric cooperative utilities will continue facing significant uncertainties in 2019. Nevertheless, we believe that these utilities will maintain sound credit quality, as they have in recent years.

Continue Reading

Jan. 22, 2019

S&P Global Not-For-Profit Higher Education 2019 Sector Outlook: Credit Pressures Proliferate

S&P Global Ratings' outlook for the U.S. not-for-profit higher education sector in 2019 is negative. Supporting the negative outlook is rating performance over 2018 that showed a significantly higher level of downgrades (20) and ratings placed on negative outlook than upgrades (three) versus prior years.

Continue Reading

Jan. 24, 2019

S&P Health Care Credit Beat: It's Looking Like Another Down Year For Ratings

Happy New Year! We hope everyone had a good holiday season. The past year, 2018, was an active one for corporate health care ratings in terms of ratings activity. Following two years in which health care rating downgrades outnumbered upgrades (3 to 2 in 2018 and 5 to 1 in 2017), 2019 is already looking like another year of credit quality deterioration in the sector.

Continue Reading

Jan. 18, 2019

Chapter 9 Bankruptcy: An Overview

As investors familiarize themselves with their respective issuer's credit profile, they are essentially looking to ensure that the debtor is financially strong enough to pay back its obligations in a timely manner. Now, what happens when a municipality is unable to meet its financial obligations? The simple answer is the reorganization of municipalities, which includes cities, towns, counties, taxing districts, municipals utilities and school districts, under Chapter 9 of the Bankruptcy Codes.

Although Chapter 9 cases are rare and the restructuring laws can be very different for every state, recent local government's bankruptcies like Detroit, Michigan (2013); Jefferson County, Alabama (2011); Stockton, California (2012); and San Bernardino, California (2012), were few of the major examples in recent times that served as a rude awakening for many municipal debt investors who originally thought that municipal debt was the safest investment option out there and showed full faith in the taxing power of each local government.

In this article, we will take a closer look at the purpose of municipal bankruptcy, the eligibility requirements for municipalities, plan of adjustment and, finally, how it impacts the bondholders.

Continue reading.

municipalbonds.com

by Jayden Sangha

Jan 23, 2019

New House Budget Chair Champions Bond Proposals.

WASHINGTON – The new Democratic chairman of the House Budget Committee wants Congress to consider two proposals that would have a significant impact on the municipal bond industry.

Rep. John Yarmuth of Kentucky wants to end automatic across-the-board budget cuts that include a reduction in the subsidy for direct-pay Build America Bonds, he told The Bond Buyer this week.

He also favors creating a new category of 40-year Treasury bonds to capitalize a new national infrastructure bank with an infusion of $300 billion.

Both proposals are big lifts politically. But Yarmuth – a former Republican turned Democrat – thinks they are worth consideration.

“Nobody likes sequestration,” Yarmuth said in an interview, referring to the automatic spending cuts that are part of the Budget Control Act of 2011. This forced austerity on federal spending is disliked by members of both major political parties.

The Bipartisan Budget Act of 2018 suspended many of the automatic spending cuts for fiscal 2018 and 2019, but not the BABs cuts which are 6.2% in fiscal 2019.

“The absolute elimination of the risk of sequestration of direct pay bonds would be a step in the right direction,” said Emily Brock, director of the federal liaison center for the Government Finance Officers Association. “I think his statement goes a long way to show that lawmakers understand the next iteration, if successful, should fully address the risks that accompanied Build America Bonds for issuers as a result of sequestration.”

Yarmuth also plans to introduce legislation next month to fund a national infrastructure bank with a new category of bonds he is calling Rebuild America Bonds.The $300 billion in 40-year bonds would be sold by the federal government at a two percentage point premium over Treasuries for purchase by only pension funds to help them reduce their underfunding problems. The bonds would have to be held a minimum of 10 years.

The idea for Rebuild America Bonds came out of a discussion Yarmuth said he had with a businesswoman in his hometown of Louisville about infrastructure and the crisis faced by state pension funds. Kentucky’s state pension plan is among the 10 most underfunded in the nation.

The biggest problem in creating the bonds, according to Yarmuth, will be the cost. “Legislatively the one big problem we face is that in our initial talks with CBO Congressional Budget Office they would score it as a huge cost,” he said.

Build America Mutual released a one-page commentary on Jan. 7 saying that the attractiveness of Rebuild America Bonds will vary based on the status of each pension fund.

“While the option to invest in higher-yielding risk-free securities could improve the average risk profile of public pension funds nationwide, it would not be a universal benefit,” wrote Les Richmond, BAM’s vice president and actuary. BAM would still view the holding of the new RABs “in the context of an individual plan’s investment risk and liquidity needs,” he wrote.

How much support it will get among lawmakers in Congress is unknown. Much of the initial attention on infrastructure financing has been on House Transportation and Infrastructure Committee Chairman Peter DeFazio’s attempt to build political support for an increase in the federal gasoline tax.

Mayor Steve Benjamin, of Columbia, S.C., who is president of the U.S. Conference of Mayors and the Municipal Bonds for America Coalition, said he wants to learn more about Yarmuth’s proposal.

“We encourage innovation, but not to the detriment of tax exempt municipals,” Benjamin said, adding that he “would be happy to provide advice and counsel” to Yarmuth on his proposal.

The House Budget Committee will begin work in the coming weeks on a fiscal 2020 budget

resolution which Yarmuth hopes will include an end to sequestration and also will include fiscal 2021.

Yarmuth earlier this month told the newspaper Roll Call the budget resolution will call for raising the corporate tax rate to 28% from 21% to claw back some of the tax revenue lost under the 2017 Tax Cuts and Jobs Act.

Yarmuth said he expects his fellow Kentuckian Mitch McConnell, the Senate Republican Majority Leader, to support a two-year budget resolution. But Senate Republicans are virtually certain to oppose a budget resolution calling for partial repeal of their tax cuts.

A spokesman for Senate Budget Committee Chairman Mike Enzi, R-Wyo., declined comment on the sequestration issue.

Budget resolutions are a blueprint for spending that are used by the appropriations committees in the House and Senate to set budgets for each department and agency.

The last round of negotiations over a joint congressional budget resolution involving both the House and Senate began in 2017 didn't end until early 2018.

His proposal is under the jurisdiction of the Ways and Means Committee and is expected to compete with other proposals for improving the nation's infrastructure.

Yarmuth said he wants to pattern the infrastructure bank component of his Rebuild America Bonds bill after a bill authored by Rep. Rosa DeLauro, D-Conn., which had 87 cosponsors in the previous legislative session. All of the sponsors were Democrats and the Republican-controlled House did not consider it.

DeLaurore introduced her bill earlier this month. It's modeled after the European Investment Bank and would leverage private sector investment from institutional investors and pension funds. The infrastructure bank would issue Public Benefit Bonds to fund projects, and make payments to help states and localities cover their bond interest payments.

Earlier bipartisan discussions about capitalizing a national infrastructure bank centered on using the revenue from the repatriation of overseas profits made by U.S. companies. But that possibility was eliminated when Republicans used the repatriation revenue to help pay for the 2017 tax cut.

Yarmuth hopes his Rebuild America Bonds will be considered as an alternative financing option.

By Brian Tumulty

BY SOURCEMEDIA | MUNICIPAL | 01/24/19 07:02 PM EST

Guide to Understanding an Official Statement for Municipal Debt.

Prior to structuring or issuing any form of debt, the municipal issuer (local government) typically forms a team of experts to assist them with complying with all the legal requirements and structuring the issuance. While each issuance can be unique, this team typically includes an underwriting firm, bond counsel, financial adviser, rating agency, an insurer, etc.

One of the important tasks of the issuance process is preparing an Official Statement – which is

prepared by or on behalf of a state or local government in connection with a new issue of municipal securities. This statement is quite comparable to a fund prospectus that is often used in the sale of equities of mutual fund sales.

In this article, we will take a closer look at the use of an Official Statement in debt issuances and how investors can use this information in their investment decisions.

Continue reading.

municipalbonds.com

Jayden Sangha

Jan 09, 2019

Fitch Ratings: Teacher Labor Actions Hamper Spending Flexibility

Fitch Ratings-New York-24 January 2019: Recent and ongoing labor actions by teachers in California, Colorado and Illinois highlight the challenges facing school districts in maintaining flexibility over their most significant expenditure, says Fitch Ratings. Material erosion of spending flexibility caused by protracted labor disputes can affect a school district's credit profile.

A six-day strike by teachers in the Los Angeles Unified School District (LAUSD) ended on Tuesday with an agreement that appears to be a compromise between the district's offer and the union's demands. The terms of the contract have yet to be clarified but once they are, we will evaluate whether they have a meaningful negative impact on the district's already limited expenditure flexibility. Fitch's Issuer Default Rating (IDR) on LAUSD is 'A' with a Negative Rating Outlook.

Oakland Unified School District's teachers' union has also been gearing up for a potential strike. The district and its teachers are in a fact-finding stage that is expected to conclude at the end of the month. Teachers are then expected to vote on whether to authorize a strike rather than accept the recommendations of a neutral fact-finding panel, as did teachers in Los Angeles.

Recent 'sick outs' by teachers in Oakland highlight a trend for labor, with or without the backing of unions, to challenge management. The sick outs, in which a subset of teachers participated, were not sanctioned by the union. As in Los Angeles, teachers in Oakland are demanding both increased pay and additional personnel to reduce class sizes and increase support services. This is despite the district's announcement that it intends to cut $30 million in the fiscal 2020 budget. The district's 'BBB+'/Stable IDR reflects solid spending flexibility but only adequate gap-closing capacity owing to a lack of control of revenues and limited financial reserves.

Teachers at Denver School District No. 1, known as Denver Public Schools (DPS), have voted to strike after negotiating with the district for over a year. DPS' teachers are seeking pay hikes above the amount the district is offering and changes to the district's incentive compensation system. The district and union leaders are reportedly seeking the state's intervention in resolving the strike. While state intervention could help resolve the impasse, we believe it would reduce the district's control over the outcome. Fitch's IDR of 'AA'/Stable reflects the district's very strong gap-closing capacity, including solid expenditure flexibility and sound reserves.

Unionized teachers at four Chicago charter schools affiliated with Chicago International Charter

School and managed by Civitas Education Partners announced last week that they plan to strike on Feb. 5 if no agreement with management is reached. This would follow the first-ever charter school teacher strike, a four-day strike by teachers at the Acero charter school network in December that resulted in increased pay and smaller class sizes. Fitch does not rate any of the schools threatening to strike.

Unionized charter school teachers are unusual. A study by the National Alliance of Public Charter Schools indicates that 11% of charter school teachers were bound by collective bargaining agreements in the 2016-2017 school year.

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$400 Billion Is Looking For A New Home In Muni Land (Radio)

MUNIS IN FOCUS: Joe Mysak, Editor for Bloomberg Brief: Municipal Market, on PG&E and muni flows. Hosted by Abramowicz and Paul Sweeney.

Listen to Audio.

January 25, 2019

Citi Announces Inaugural Green Bond Issuance.

NEW YORK–(BUSINESS WIRE)–Citi today announced the issuance of the firm's first green bond, further enhancing its commitment to environmental and climate finance. The bond will fund renewable energy, sustainable transportation, water quality and conservation, energy efficiency and green building projects financed as part of Citi's $100 billion Environmental Finance Goal.

In the deal, which priced on 22nd January 2019, Citi issued €1 billion 3-year fixed rate notes. The transaction marks the first green bond offering from Citigroup Inc.

"We are proud to start the year with the launch of our inaugural green bond," said Jamie Forese, President of Citigroup and Head of the Institutional Clients Group. "This transaction represents an important next step in expanding Citi's commitment to sustainable growth. This bond also further enhances our green bond expertise, strengthens our partnerships with clients around the world and responds to increasing investor interest in sustainable finance."

In 2015, Citi announced a $100 Billion Environmental Finance Goal to finance and facilitate $100 billion within 10 years to support environmental solutions and accelerate the global transition to a low-carbon economy. Citi also recently announced that it will source renewable power for 100 percent of its global energy needs by 2020. Both initiatives are part of Citi's contribution to advancing the United Nations Sustainable Development Goals (SDGs). They are also key goals of Citi's Sustainable Progress Strategy, which sets out Citi's guiding principles, priorities and ambitions in environmental finance, environmental and social risk management, and the firm's own operations and supply chain.

"Since we co-founded the Green Bond Principles in 2014, Citi has played a leading role in the development of the green bond market, and we look forward to maintaining our commitment as this market continues to grow," said Michael Verdeschi, Treasurer of Citi.

Under Citi's Green Bond Framework environmentally eligible criteria have been defined as renewable energy, energy efficiency, sustainable transportation, water quality and conservation, and green buildings. The consultancy Sustainalytics has reviewed Citi's Green Bond Framework and has confirmed in their Second Party Opinion that it is aligned with the overall sustainability objectives of Citi and with the ICMA Green Bond Principles.

Citi

Citi, the leading global bank, has approximately 200 million customer accounts and does business in more than 160 countries and jurisdictions. Citi provides consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, transaction services, and wealth management.

January 22, 2019

Another Study Blames Uber and Lyft for Public Transit's Decline.

Ride-hailing services drive down bus and rail ridership in urban markets, a new University

of Kentucky paper claims.

When Uber and Lyft arrived on the urban scene a decade ago, they claimed to pair well with buses and trains. By shuttling riders to train stations, guaranteeing late-night returns, and plugging in as paratransit, on-demand transportation could encourage travelers to abandon private cars and use public modes, they said. A lot of people believed them.

But now, transit systems are in crisis. Some 31 of 35 major metropolitan areas in the United States lost passengers in 2017, including the cities with largest ridership bases. There are numerous factors at play, but a small mountain of research singles out the rise of Uber and Lyft. A new paper by University of Kentucky scholars piles on: For every year after ride-hailing companies enter an urban market, rail ridership can be expected to fall by 1.3 percent, and bus ridership by 1.7 percent, it shows.

"We are starting to piece together multiple parts to the story," said Gregory Erhardt, a University of Kentucky civil engineering professor and the lead author of the study. "For a long time it's been about ride-hailing complementing transit in different ways. That is true to a degree. But it's a question of whether it's happening enough."

Continue reading.

CITYLAB

LAURA BLISS JAN 24, 2019

BlackRock Can Blame One Investor for Record Muni ETF Outflow.

- **After-hours trade yanked $163 million from biggest muni ETF**
- **Outflow contrasts with mutual funds, which have seen big gains**

BlackRock Inc. can blame one investor for a record outflow from the largest municipal-bond exchange-traded fund.

The company's $11.5 billion iShares National Muni Bond ETF, which trades off the ticker MUB, saw an outflow of $163.6 million on Wednesday, the most since the fund launched in 2007.

The culprit? One investor who sold 1.5 million shares worth about $163 million in after-hours trading yesterday, accounting for all but a tiny fraction of the big pullback from the fund.

This year hasn't been off to a good start for the BlackRock fund. It has recorded $393 million in outflows so far in 2019, more than any other municipal-bond ETF tracked by Bloomberg.

The identity of the investor hasn't been disclosed. At least 11 firms held more than 1.5 million of the ETFs shares by the end of September, according to regulatory filings compiled by Bloomberg.

The pullback is curious, given that state and local debt is headed for a positive monthly return, and may be more about routine portfolio adjustments than a judgment call about the fund. There are no signs of a larger investor exodus from the $3.8 trillion municipal-bond market, with mutual funds reporting the biggest weekly inflow in a year, according to the Investment Company Institute.

Bloomberg Markets

By Amanda Albright

January 24, 2019, 7:24 AM MST Updated on January 24, 2019, 8:26 AM MST

— With assistance by Carolina Wilson

New Data Suggests Regulated Water Companies Deliver Higher Quality Water Than Publicly-Run Systems.

An expanded analysis of the largest and most comprehensive study conducted on Safe Drinking Water Act (SDWA) compliance suggests that community water systems owned by regulated water companies are less likely to violate the SDWA than water systems owned and run by local governments. The new analysis was funded by the National Association of Water Companies (NAWC), which represents regulated water companies.

The original study, published in the Proceedings of the National Academy of Sciences in February 2018, reviewed U.S. Environmental Protection Agency (EPA) data from 1982 to 2015 and found that "private ownership" of a water system was "significantly associated with higher compliance." The dataset included the compliance records of 17,900 community water systems from across the continental United States. The full study is available here.

A further analysis of the dataset was conducted by Dr. Justin Adams of Encina Advisors, an economics research and statistical analysis consultancy based in California. The finding that water companies have higher rates of SDWA compliance was evident both nationally and in each of the four states analyzed: California, Texas, Pennsylvania and New Jersey.

This marks the first time a state-level analysis comparing drinking water compliance records of regulated water companies and local governments has been conducted using this dataset.

"We wanted see how the ownership of water systems impacted drinking water compliance rates in different states," said Adams. "The data show very clearly that water systems owned by regulated companies strongly outperform water systems owned and run by local governments on Safe Drinking Water Act compliance."

"Flint provides an unfortunate example of how a government-run system was unable to ensure the delivery of safe water to its citizens. As a former state utility regulator, I have seen firsthand the harsh realities of what happens when communities are unable to properly manage their water systems, jeopardizing public health and safety," said Robert Powelson, CEO and president of the National Association of Water Companies. "The results of this study further confirm that regulated water companies nationwide are doing a better job than their municipal counterparts in delivering the highest quality water possible.

"Local governments across America face urgent water system infrastructure and operations challenges," continued Powelson. "That is, no doubt, one of the key contributors to what we see in this study as some small and midsized municipalities struggle to provide safe water to residents. NAWC member companies are well-positioned to bring the expertise and investment troubled systems need to ensure Americans can count on safe and reliable water service."

The initial study published in the Proceedings of the National Academy of Sciences was authored by Dr. Maura Allaire, University of California Irvine; Haowei Wu, Columbia University; and Dr. Upmanu

Lall, Columbia University. The state-level analysis of EPA data conducted by Encina Advisors was funded by the National Association of Water Companies.

The National Association of Water Companies (NAWC) represents regulated water and wastewater companies, as well as ones engaging in partnerships with municipal utilities. NAWC members provide 73 million Americans with safe and reliable water service every day and have an exceptional record of compliance with federal and state health and environmental regulations. Ensuring this high standard of quality requires extraordinary amounts of capital investment. NAWC estimates that its six largest members alone are collectively investing $2.7 billion each year in their water and wastewater systems. For more information about NAWC, please visit NAWC.org or follow on Twitter, Facebook and YouTube.

WATER FINANCE & MANAGEMENT

BY WFM STAFF

JANUARY 16, 2019

Mayors Express Support for Incentives.

Menino Survey of Mayors asked 110 US mayors for their opinions on economic development, recruitment competition and financial incentives.

- 84% stated that “recruiting economic investments with financial incentives is good policy.”
- 44% believe that incentives are unpopular with constituents but are good for the city.
- 40% believe that incentives are popular with constituents and are good for the city
- Yet 61% believe other cities offer too many incentives, and 62% believe it would be good for cities to refrain from offering incentives.

> “Essentially, most mayors see their own cities’ use of incentives as measured and effective, while also seeing others’ use as excessive.”

- 55% agree that cities see net benefits in the long run when they recruit a company or facility; 23% disagree.
- Cities promote workforce skills and perceived quality of life when recruiting new investment; only 16% mayors primarily emphasize incentives.
- 59% would prefer a new employer within the city’s borders even if it employs people who live outside the city (prioritizing tax base), while 41% would prefer a new employer outside the city that employs people who live in the city (prioritizing jobs).

While we are not surprised that most mayors see incentives as a good policy, it is interesting that so many perceive incentives as unpopular. Many surveys have shown high levels of popular support for incentives, including a recent poll in Virginia indicating 68% of registered voters support the announced Amazon HQ2 deal.

It is also not surprising that incentives play a secondary role in recruitment strategies. All good efforts focus first on location-specific factors that support company operations and strategy, with incentives playing a valuable but supporting role.

The most intriguing finding is that 84% consider financial incentives to be good policy, yet only 55% believe cities see "clear net benefits" from recruitment. Given the question's wording, city leaders may believe it is the other cities that fail to see clear net benefits. It may also point up the political disconnect between the immediate gains perceived from a successful recruitment versus the difficulties of documenting actual longer-term economic benefits when new investment occurs.

The Menino Survey of Mayors is conducted by the Boston University Initiative on Cities with support from Citi Community Development and the Rockefeller Foundation. You can download the Summary of Findings or access the full report here.

SMART INCENTIVES

by Ellen D. Harpel | Jan 22, 2019

Mayors Eye Two-Pronged Attack on FCC's Preemptive 5G Order.

The latest effort is a new bill in Congress that would overturn the agency on its rule that strictly limits how much local governments can charge providers and how long officials can take to process applications.

WASHINGTON — Mayors expressed optimism Thursday a new House bill could provide an alternative path to overturning a Federal Communications Commission order preempting local authority over fifth-generation wireless deployments.

H.R. 530, authored by U.S. Rep. Anna Eshoo, a California Democrat, would undo rules that went into partial effect on Jan. 14 requiring cities to move on wireless providers' small cell applications within set timeframes while capping fees to access public rights of way.

FCC restrictions on the aesthetic limits cities can impose on providers take effect April 15, unless Congress acts or cities led by Portland, Oregon, are successful in their lawsuit against the commission pending in the 9th U.S. Circuit Court of Appeals asserting irreparable harm.

Portland Mayor Ted Wheeler told his U.S. Conference of Mayors colleagues at their winter meeting in D.C. that the city's right of way—access to which is at the heart of its lawsuit—was its largest asset, costing taxpayers millions of dollars to establish and millions more to maintain and manage. Companies shouldn't just be able to take advantage of this public property without paying their fair share, he said.

"[Digital equity] can't be achieved without reliable, high-speed broadband to access essential services like education, employment opportunities and health care," Wheeler said. "But I will never ask Portland residents to subsidize multi-billion-dollar companies, who currently have no obligation whatsoever to serve low-income communities."

While the suing cities' attempt to stay the FCC order failed in the 10th Circuit, their cases were shifted to the 9th Circuit. The move should give cities "home-field advantage" because the FCC order overturned two long-standing rulings by that court, said Gerry Lederer, partner at the law firm Best Best & Krieger.

If the order is overturned, the FCC would be back to square one, said Alex Hoehn-Saric, chief counsel with the House Subcommittee on Communications and Technology.

U.S. Rep. Frank Pallone, a New Jersey Democrat, is the newly appointed chairman of the House Energy and Commerce Committee and believes in swift 5G deployment in collaboration with state and local officials, Hoehn-Saric said.

"Congress did not authorize or empower the FCC to trample on localities and effectively usurp our property rights, yet this is what they've done," said Piscataway, New Jersey Mayor Brian Wahler, whose city is in Pallone's district.

The FCC commissioners who backed the order, all Republicans, argued it would save $2 billion in the U.S.'s race to deploy 5G, the faster wireless service expected to boost economic opportunity, before other countries—thereby dictating the technology's applications.

Route Fifty

By Dave Nyczepir,
News Editor

JANUARY 24, 2019

S&P Priority-Lien Criteria Updates.

In this location we will provide links to reports that we publish as we implement our Priority-Lien Tax Revenue Debt criteria, published Oct. 22, 2018.

Continue Reading

Jan. 15, 2019

S&P Expected Completion Dates For U.S. Local Government Ratings Within Priority-Lien Criteria Scope.

BOSTON (S&P Global Ratings) Jan. 14, 2019–On Oct. 22, 2018, S&P Global Ratings published its revised criteria for Priority-Lien Tax Revenue Debt (Priority-Lien, on Oct. 22, 2018, on RatingsDirect). In accordance with our stated policies, we assess the rating impact of the revised criteria for credits within its scope within a reasonable period…

Continue Reading

Jan. 14, 2019

S&P List Of Rating Actions Due To Priority-Lien Revenue Debt Criteria.

DALLAS (S&P Global Ratings) Jan. 15, 2019–S&P Global Ratings has published a list of credit rating actions taken through Dec. 31, 2018, following the application of our Priority-Lien Tax Revenue Debt criteria. We expect to update this list monthly.

Continue Reading

Fitch Ratings Updates U.S. Public Housing Authority Capital Fund Revenue Bonds Rating Criteria.

Fitch Ratings-New York-18 January 2019: Fitch Ratings has published an updated criteria report titled 'U.S. Public Housing Authority Capital Fund Housing Revenue Bonds Rating Criteria.' The report replaces Fitch's 'U.S. Public Housing Authority Capital Fund Housing Revenue Bonds Bespoke Rating Criteria' dated Jan. 29, 2018. No changes to the ratings of existing transactions are anticipated as a result of the application of the updated rating criteria.

The full report is available at www.fitchratings.com.

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S&P U.S. Transportation Infrastructure 2019 Sector Outlook: Mostly Stable, Despite Expected Slower Growth And Unlikely Investment Package

S&P Global Ratings' 2019 outlook for business conditions and credit quality across most U.S. public transportation infrastructure sectors, including airports, ports, federal grant-secured, and parking, is stable. We are maintaining our positive outlook for the toll road and bridge sector and revising our outlook for the mass transit sector to negative from stable.

Continue Reading

Jan. 17, 2019

S&P U.S. Municipal Water And Sewer Utilities 2019 Sector Outlook: Stable,

Although Potential Disruptions Are Not Making Planning Easy

As the calendar flipped to 2019, many market participants did not use the word "happy" to precede "new year." January unfolded with a federal government shutdown, the uncertainty related to a new Congress, and a potential debt ceiling due date by August. This comes on the heels of a rising interest rates (which S&P Global Ratings believes will continue in 2019).

Continue Reading

Jan. 15, 2019

S&P: Five U.S. State And Local Government Pension And OPEB Trends To Watch For In 2019 And Beyond

In this economic recovery period since the Great Recession a decade ago, many state and local governments faced rising costs and risk further increases related to funding long-term pension and other postemployment benefit (OPEB) obligations.

Continue Reading

Jan. 16, 2019

S&P U.S. Charter Schools 2019 Sector Outlook: Despite A Stable Outlook, Disruptions Could Leave Their Mark

For U.S. charter schools, rating performance in 2018 resulted in fewer upgrades and downgrades compared with both 2016 and 2017, and S&P Global Ratings believes the sector's outlook for 2019 will continue being stable.

Continue Reading

Jan. 16, 2019

More Than Half of the U.S.'s Largest Cities are Issuing Bonds to Protect Against Climate Change.

Less federal and state assistance could lead to more cities turning to debt issuance to fund climate change protection

A majority of the U.S.'s biggest cities are now selling debt specifically to mitigate the impact of climate change as flooding from rising sea levels, extreme heat and natural disasters threaten to hurt the credit ratings of municipalities.

In a survey of the U.S.'s largest cities based on total debt outstanding, 54% of the respondents said they would issue bonds for funding projects on building up resilience against climate change,

according to Moody's Investors Services, in a Thursday report.

"Cities are increasingly adopting plans that detail specific projects designed to strengthen infrastructure and minimize economic disruption from natural disasters and long-term climate change. The increased focus on climate risks is a credit positive, particularly as climate change is forecast to increase the frequency and severity of extreme weather events," said Michael Wertz, senior analyst for Moody's.

Climate change bonds could benefit from the growing shift among money managers to include environmental, social and governance, known as ESG, criteria when making investment decisions, prompting more municipal bond issuers to label their debt as "green" to draw demand from socially conscious investors.

More participants in the municipal bond market have also called for credit ratings firms to acknowledge the growing risks from extreme weather events induced by climate change. They point to examples of S&P and Moody's slapping gold-plated credit ratings on flooding-afflicted municipalities like Charleston County, S.C., and Palm Beach, Fla.

Moreover, efforts to limit the impact from climate change have gained urgency after several natural disasters in recent years.

The vulnerabilities of low-lying areas to climate change were brutally exposed after Hurricane Harvey and Hurricane Florence devastated the Eastern coastline in 2017, inflicting around $175 billion of damage. The five most expensive hurricanes in U.S. history have all taken place since 2005, according to the National Hurricane Center.

As a result, most of the climate-mitigation efforts undertaken by cities were focused on flooding, with such measures accounting for nearly 60% of the efforts. The Fourth National Climate Assessment found that counties near the coastline held more than 40% of the U.S. population.

Last November, voters in Miami approved $400 million of bonds, with $192 million set to be diverted for spending on protection against rising sea levels and flooding.

Moody's recognized that climate change projects, though beneficial in the long term, were expensive and could present a strain on a city's spending. The surveyed cities reported that around $47 billion of projects were either in planning or in progress, with New York City contributing to the brunt of the amount.

The financial burden will be eased by assistance from federal and state governments, leaving only $21 billion of this total costs to be borne by city authorities. With less coming out of the pockets of city governments, many could avoid resorting to selling bonds for climate change projects.

"However, if the level of federal aid were to wane, cities would be more reliant upon state funds and their own money to finance substantial project costs and be more likely to turn to debt issuance to finance climate mitigation plans," the Moody's analysts wrote.

MarketWatch

by Sunny Oh

Published: Jan 18, 2019 1:04 p.m. ET

Are High-Yield Municipal Bonds 'High Yield' Or 'Junk'?

Summary

- High-yield municipal bonds typically offer higher yields than investment-grade munis, but carry additional risk.
- A small allocation to high-yield munis can make sense for more aggressive muni investors – but today's yields are low relative to alternatives.
- If you choose to venture into this part of the market, we suggest you do so via an exchange-traded fund (ETF), mutual fund, or separately managed account, to help with diversification and ongoing credit monitoring.

Continue reading.

Seeking Alpha

By Cooper J. Howard

Jan. 16, 2019

CUSIP Request Volume Dips in December.

NEW YORK, NY, January 10, 2019 – CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for December 2018. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found significant monthly volume decreases in requests for new corporate and municipal identifiers.

Read Report.

CUSIP: Monthly Decline in New Issuance Requests Drags Down Full Year 2018 Volumes.

"The second half of 2018 has been marked by a great deal of month-to-month volatility in CUSIP request volume, which is consistent with market uncertainty over the future of interest rates," said Gerard Faulkner, Director of Operations for CUSIP Global Services. "On the whole for 2018, total CUSIP request volumes trended down from the previous year, consistent with new security issuance activity over the course of the year."

Read Press Release.

Fitch Ratings: PG&E Bankruptcy Not Likely to Affect US Public Finance Ratings

Fitch Ratings-New York-17 January 2019: PG&E Corporation's planned bankruptcy filing is not likely to adversely affect the credit quality of the state of California, its local governments or publicly owned utilities (POUs), according to Fitch Ratings.

PG&E Corporation announced on Monday that it intends to file a petition for Chapter 11 bankruptcy protection on or about Jan. 29. The utility provides power to about 16 million natural gas and electric customers over 70,000 square miles in northern and central California and is among the largest taxpayers in several cities and counties that Fitch rates. Following the announcement, Fitch downgraded PG&E's Long-Term Issuer Default Rating (IDR) to 'C' from 'BBB-'. In addition, the company failed to make a scheduled interest payment on senior notes on Tuesday.

The imminent bankruptcy filing reflects the impact of potential enormous wildfire-related liabilities related to the 2017 Tubbs and 2018 Camp Fires without a clear path to timely recovery of such costs under California law. California applies the doctrine of inverse condemnation to privately-owned utilities. Inverse condemnation typically holds governmental agencies responsible for compensating property owners for the damage to or taking of property by the government.

Purchased Power Agreements Affected
Fitch has downgraded to 'C' from 'BBB-' trust certificates issued by Genesis Solar LLC and Topaz Solar Farms, LLC's senior notes as a result of PG&E's erosion in credit quality and pending bankruptcy filing. In addition to its own generating fleet, PG&E serves its load by purchasing power from numerous independent power producers (IPP) under power purchase agreements (PPAs), including Genesis and Topaz. Many of these IPPs are renewable generators – wind and solar projects – which depend on revenue from PG&E.

Project ratings are typically constrained by the rating of the revenue counterparty under fixed-price PPAs. PG&E's bankruptcy would not necessarily trigger a downgrade of the rated project debt if the projects are deemed critical vendors and PG&E continues to honor its revenue contract commitments. However, any attempt by PG&E to reject PPA commitments would be considered significant credit deterioration as prevailing power prices, either merchant or newly contracted solar PPAs, are lower than the current legacy prices and would lead to deterioration of project's coverage metrics.

Long-Term Concerns for POUs
California's POUs are not expected to see material erosion in credit quality as a result of PG&E's ongoing financial and legal challenges. That said, issues driving PG&E's current challenges, the state's wildfire risks and California's inverse condemnation rules remain a long-term risk for the state's POUs. A potential PG&E bankruptcy should be manageable for POUs in the short to medium term due to the nature of the relationship between most POUs and PG&E, POUs' generally healthy liquidity levels, and the market and operational constructs within the state.

Fitch-rated POUs have many connections to PG&E ranging from physical interconnections between systems, joint projects, operational agreements, and others. However, POUs have few direct contracts with PG&E for power supply and generally are not reliant on PG&E-owned generation to meet their system loads. Potential slowdowns in PG&E projects, some of which are joint projects with POUs, could result in delays and additional costs. However, Fitch views them as unlikely to significantly impact POU credit ratings. Indirect effects from a potential PG&E bankruptcy include market volatility that could increase the cost of purchased power for some POUs and, longer term, potential changes in market tariffs or operational rules and financial requirements that could increase the cost of operations. At this point, Fitch does not expect potential rule changes to materially affect POU cost of operations.

Minimal Impact to State and Local Government Revenue and Operations
Fitch's analysis of the potential impact on the state and local governments indicate minimal threat to revenues and financial operations. If the utility were unable to emerge from a bankruptcy, the state would likely step in in some fashion to ensure service continues without interruption. Fitch expects that either rates (if PG&E emerges from bankruptcy) or taxes (if the state steps in and the utility assets become non-taxable, which Fitch understands would likely take several years) would have to increase to fund legal liabilities. In either scenario, the increased cost of running the utility would not be enough to affect either the state's ability to remain economically competitive or its credit quality. Fitch also does not foresee a meaningful impact on employment or earnings as the utility would continue to function in some form.

Fitch assumes that as a regulated utility, PG&E will continue to provide service and be required to pay property taxes throughout a Chapter 11 bankruptcy as it did during its 2001-2004 bankruptcy. According to the company website, PG&E paid $461 million in property taxes and another $137 million in franchise fees in the tax year ended June 30, 2018 to the 50 counties and 247 cities in which it owns and operates infrastructure throughout the state.

A handful of Fitch-rated local governments have PG&E as a major taxpayer. The largest are San Luis Obispo County (AAA IDR), in which PG&E is the largest taxpayer at about 5% of assessed value (AV) in fiscal 2018 and Fresno County (A+ IDR), in which PG&E (also the largest taxpayer) makes up about 3% of AV in fiscal 2017 (latest data available).

San Luis Obispo County reports it received about $10 million in property taxes from PG&E in fiscal 2018 (about 2% of governmental revenues). Even if PG&E failed to pay any property taxes going forward or the assets in the county eventually became non-taxable, Fitch does not believe such a loss would affect San Luis Obispo County's credit quality. The county retains solid expenditure flexibility and the highest gap-closing capacity with approximately $260 million in unrestricted fund balance (52.5% of spending) as of the end of fiscal 2018. PG&E AV in San Luis Obispo County is comprised mainly of the Diablo Canyon Nuclear Power Plant. PG&E plans to close the plant by 2025. In September 2018, the Governor of California signed legislation directing the PUC to fully fund a community mitigation settlement meant to soften the decrease in taxes.

If PG&E failed to pay property taxes to Fresno County or the assets became non-taxable, Fitch estimates the impact would be even smaller at about 0.5% of governmental revenues based on 3% of the $255 million (roughly 17% of governmental revenues) in property taxes the county received in fiscal 2017. The county retains solid expenditure flexibility and adequate gap-closing capacity to address a moderate revenue decline. The county had about $157 million in unrestricted fund balance at the end of fiscal 2017, equal to almost 12% of spending.

Total fiscal 2017 license, permit and franchise fee revenues from all payers in San Luis Obispo County were $11 million, or 2% of governmental revenues; franchise fee revenues were $17 million or 1% of governmental revenues in Fresno County.

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How New Governors May Impact the Municipal Bond Market.

Jamie Iselin, managing director of muni fixed income at Neuberger Berman, examines the municipal bond market in states with new governors. He speaks with Bloomberg's Taylor Riggs in this week's "Muni Moment" on "Bloomberg Markets."

Watch video.

Bloomberg MarketsTV Shows

January 16th, 2019

Libor's Heir Hindered by Repo Volatility in Battle of Benchmarks.

- **Concern over SOFR's viability grows after year-end spike**
- **Yet some borrowers have been embracing it for new issuance**

The benchmark being eyed as a potential replacement for dollar Libor is facing renewed scrutiny after a year-end surge in the market underpinning the new rate. With more volatility possible, Wall Street is increasingly wondering if the nascent Secured Overnight Financing Rate will be up to the task.

Last month's jump in rates on overnight Treasury repurchase agreements — the market that supports SOFR — pushed the benchmark higher by almost 70 basis points over a two-day span. It has since retreated and was set at 2.43 percent for Wednesday. But given that both repo and SOFR are also susceptible to swings in Treasury-bill supply, which itself could become more erratic as the U.S. grapples with the reintroduction of the debt ceiling, some market veterans are forecasting

further fluctuations ahead.

Concerns about SOFR range from a lack of term structure to tepid volumes in derivatives that are tied to it. And that has traders and strategists saying the new rate needs to make significant headway in 2019 if U.S. regulators expect it to eventually take the baton from Libor, which still underpins more than $200 trillion of dollar-denominated instruments.

Continue reading.

Bloomberg Markets

By Alex Harris

January 17, 2019, 4:00 AM MST Updated on January 17, 2019, 7:46 AM MST

Risk Rises in Municipal Bonds.

Money has poured into high-yield munis even as investors have pulled money from the sector overall

When The Spires at Berry College sought to borrow money to build retirement homes recently, the Georgia-based senior-living center sold municipal bonds.

Even though investors typically consider retirement homes riskier borrowers, and these bonds came without a credit rating, there was enough investor demand that the project landed interest rates below officials' expectations.

There has been a surge in sales from the riskiest parts of the $3.9 trillion market for state and local debt. Retirement communities like The Spires, charter schools and student-housing projects were among sectors in 2018 that issued a greater share of municipal bonds than at any time since the financial crisis.

That increase came even as bond yields, which rise as bond prices fall, climbed for much of past year. Overall municipal-bond issuance fell about 25% in 2018 from the prior year to the lowest level since 2013, according to data from the Securities Industry and Financial Markets Association. Money flowing into municipal mutual- and exchange-traded funds also slowed.

The riskiest sectors in the municipal bond market—including junk and unrated borrowers in categories that tend to have the highest rates of default or impairment—made up about 20% of total bond sales in 2018, up from 17.4% the prior year, according to Municipal Market Analytics data. That was the most since 2008, when they made up 24% of issuance.

Municipal investors in December even welcomed Detroit's first stand-alone bond sale since the city's bankruptcy. Demand was so robust that yields on the junk-rated deal came in below city leaders' expectations, they said. They were still high enough to lure investors.

"The yields got pretty attractive," said Daniel Solender, director of municipal bonds at Lord Abbett & Co. "There was a good range of opportunity available."

State and local debt remains historically safe for investors, with few defaults, because bonds tend to be backed by issuers' taxing power or revenue from essential services like water or power. Many

retirement communities, charter schools and hospitals can use the market to sell tax-exempt debt because they play important community roles, but they aren't government entities—and analysts said a downturn could cause financial difficulties for some.

About 4% of continuing-care retirement-community bonds were in default as of Jan. 1, compared with the 1.8% of the broader market, according to MMA. Excluding Puerto Rico, which is in restructuring talks with creditors, 0.3% of municipal bonds were in default.

Junk and unrated municipal issuers continued to borrow in December, traders say, even as market turmoil halted bond sales by junk-rated corporations for 40 days through Jan. 10—the longest stretch in more than two decades.

Still, there was enough demand for higher-yielding debt that Adam Heffernan, a consultant who works with The Spires, said the retirement community's final bonds priced with lower yields than expected, by at least a quarter of a percentage point for some bond maturities.

High-yield municipal bonds posted a 4.8% total return in 2018, counting price changes and interest payments, above the broader market's 1.3% return, according to Bloomberg Barclays data. Money poured into high-yield munis even as investors pulled money from the sector overall, Lipper data show.

Nicholos Venditti, a portfolio manager overseeing municipals at Thornburg Investment Management, said he had largely avoided lower-rated and riskier bonds. But at the end of 2018, as equity markets roiled and investors fled high-yield corporates, at least one deal looked attractive for him: a bond issuance linked to natural gas.

"It's not a sector that we held prior to late November or early December," Mr. Venditti said. "When we saw the market for those change, we did take on a little bit of a position."

Issuance of these bonds more than quintupled in 2018 from the year prior, hitting at least a nine-year high, the MMA data shows.

Some worry the riskiest bonds could be hardest hit if concerns about slowing economic growth, which have rattled markets lately, and stock turbulence rise.

Adding to some investors' worries is the concentration of the high-yield municipal market. Nuveen and Invesco Ltd., which recently acquired Oppenheimer Funds Inc., hold at least 40% of assets in municipal mutual and exchange-traded funds classified as high-yield by Morningstar Direct, according to a Wall Street Journal analysis of the data.

"Imagine a situation in which high yield hiccups….they're both selling the same things at the same time," said Mr. Venditti. "Where is that stuff going to go?"

The Wall Street Journal

by Gunjan Banerji

Jan. 21, 2019 11:00 a.m. ET

The State of Socially Responsible Investing.

In 2007, the European Investment Bank issued its first green bond, a EUR 600 million equity index-linked security, whose proceeds were used to fund renewable energy and energy efficiency projects. A year later, the World Bank followed suit, and by 2017, over $155 billion worth of public and corporate green bonds had been issued, paving the way for the Seychelles government to issue the first ever "blue bond" last year— a $15 million bond to fund marine protection and sustainable fisheries.

The success of these instruments reflects the fact that investors are increasingly conscious of the social and environmental consequences of the decisions that governments and companies make. They can be quick to punish companies for child labor practices, human rights abuses, negative environmental impact, poor governance, and a lack of gender equality. Pair this with an increase in regulatory drivers post-2008 crisis, and a deepening understanding of the impacts of climate change and associated risk to performance, and we begin to see more clearly the need for investment models that will better address investors' concerns.

The result has been an increasing demand for integrating Environmental, Social, and Governance (ESG) criteria into investment decisions. In the beginning of 2018, $11.6 trillion of all professionally managed assets—one $1 of every $4 invested in the United States—were under ESG investment strategies, a sharp increase from 2010, when the amount was close to just $3 trillion overall.

Inevitably, the financial services sector has responded with a host of innovative financial instruments, some like those mentioned above, others quite different. The through-line that ties together these new investing models and strategies is quite simple: While they have generated competitive returns, it so happens that they all positively benefit society as well. Essentially what investors want is the performance promise of financial engineering combined with the assurance of a better tomorrow.

Many of the innovations have been driven by a collaboration between public, private, and philanthropic institutions. At The Rockefeller Foundation, we recognize the value of engaging private capital markets for societal good and have stepped in to fund the research and development of new instruments that can bring capital to cause. We have increasingly seen, firsthand, how readily these instruments meet not just investor needs but also values, and how interrelated the two can be.

Let's look at some particularly interesting examples.

Risk-sharing Impact Bonds

Continue reading.

Harvard Business Review

by Adam Connaker and Saadia Madsbjerg

JANUARY 17, 2019

Five Trends to Watch in Community and Economic Development in 2019.

With divided government in 2019, we shouldn't expect much new at the federal level in community development this year. But there are still several trends to watch for. We highlight five.

1. Opportunity Zones will take effect in force

No surprise here. Opportunity Zones were the big community development story in 2018 and will continue to be in 2019. Proposed regulations should be finalized this year, creating more confidence for investors. Opportunity Funds are already being set up, and investment volumes will grow rapidly.

But because of variation in the economic standing of Opportunity Zones, the incentive's effect will likely vary. Some weak-market Opportunity Zones can expect no or little new investment because of the incentive. In Opportunity Zones that are already attractive to investors, especially those likely to gentrify, investment levels will be appreciably higher. This is because one of the three benefits for investors from Opportunity Zones—the permanent exclusion of taxes on new gains when their investment is held for 10 years—is a generous subsidy but only where investments appreciate in value.

Disclosure requirements will also be worth watching. It is important for the Internal Revenue Service to require transaction-level reporting on Opportunity Fund investments and to make detailed data available to help local governments and stakeholders track the program's progress and find ways to improve it.

2. Geographic winners and losers continue to solidify

Amazon's process of opening a new headquarters got the most attention, but Google, Microsoft, Apple, and Salesforce also made recent decisions to move jobs to new metropolitan areas. Leaving the Bay Area might make it appear that tech profits will be more broadly distributed, but leading firms are actually reinforcing a broader trend of concentrating wealth in a dozen or more large metro areas, with many parts of the country falling behind.

Compare, for example, Amazon's decision to move into Long Island City, New York, and Arlington, Virginia, with General Motors' announcement that it would soon close a plant in Youngstown, Ohio, putting 1,500 people out of work in addition to the 3,000 autoworkers already laid off. Youngstown's population peaked in 1930 and has lost ground ever since, dropping 21 percent since 2000.

The concentration of jobs and wealth in a few metro areas is concerning for the strength of our nation's economy and democracy, as smaller communities may continue to dwindle in population, opportunity, and quality of life. Local efforts can help, but addressing these challenges will require federal commitments we have not seen in decades.

3. Alternative ownership structures raise opportunities

Alternative ownership structures are gaining prominence in policy circles, even if the enterprises themselves face challenges in growing. In an economy where business start-ups are at all-time lows and income inequality is at a modern high, co-op businesses offer alternatives to traditional shareholder- or proprietor-owned business structures. Expect more policy and philanthropic interest in co-ops in the year ahead, especially among worker cooperatives.

Co-ops are important in housing as well—including both high-end housing and affordable shared ownership, like what ROC USA does with mobile home parks. But other models of shared ownership are growing, too. Community land trusts (CLTs), like DC's new Douglass CLT, are getting attention in new ways.

For example, a recent survey of hospital CEOs shows respondents were interested in supporting CLTs. In a CLT, a nonprofit corporation buys or holds land and makes that land available for development that aims to improve the community while preserving access in communities undergoing rapid economic change. This model, among others, can help community anchor institutions like hospitals, churches, or universities take an even more active role in leveraging their land for community development in 2019.

4. Climate change will bring new disasters and the need for new funds

Natural disasters of increasing severity will continue to pose a threat in 2019, even while the recovery from 2018's hurricanes and wildfires remains unfinished. We anticipate that more states and localities will emphasize preparedness, and even the federal government will start to do better, rather than continuing to focus so heavily on recovery after disasters strike.

Yet, most federal disaster funds will still go toward recovery—for example, via the Community Development Block Grant program. There will be continued need to help communities build back in ways that are more resilient to future disasters and that take advantage of federal disaster funding—one of the few new, large federal supports available.

5. Reimagining public assets can boost safety and connectedness

Communities are also regaining an appreciation for public assets. Broadening from a purely economic lens, cities and counties will continue to rely on and repurpose their public assets—like parks, libraries, schools, and community organizations—to bring people together. "Creative placemaking" can build new economic bridges across communities while reducing the divisions that can jeopardize public safety.

These placemaking efforts also offer opportunities for residents to contribute to the reshaping of their community's places and spaces. In this way, placemaking activities are the connective tissue that brings together resources, capital, and actors to focus on revitalizing public assets.

The Urban Institute

by Brett Theodos & Erika C. Poethig

January 17, 2019

Struggling Law Enforcement Museum Defaults on Its Bonds.

- **Just months after opening, museum fails to make debt payment**
- **Joins ranks of financially struggling museums in muni market**

Not enough Americans are interested in what it's like to be a police officer to keep the National Law Enforcement Museum afloat.

The museum defaulted on a Jan. 1 payment due on some of the $103 million of bonds that financed its Washington, D.C., facilities near the Smithsonian, just months after it opened in October. It attributed the lapse to a failure to reach its fundraising goals and lower-than-anticipated revenue, according to a transcript of a conference call held with bondholders on Jan. 10.

The payment shortfall makes the museum — which bills itself as a place where people can "walk in

the shoes” of law enforcement officers — one of the rare borrowers in the $3.8 trillion municipal-bond market to default on its debts. It joins other museums that have struggled financially, including one in Nebraska devoted to the pioneers and the American Folk Art Museum in New York.

The National Law Enforcement Officers Memorial Fund, which borrowed the money for the museum in 2016, slashed its attendance forecasts to just 300,000 visitors in the first year from the 420,000 initially expected, according to the call transcript. It also cut its staff by 12 percent and raised ticket prices for adult visitors by $1 to $21.95.

It opened in October, during what museum officials said is a tough quarter for tourism in the nation’s capital. During the fourth quarter, the museum posted a total operating loss of $1.9 million and is expecting a net loss of $5.6 million in 2019.

This month’s default affected subordinate taxable bonds, according to the filing. About $460,000 of interest on those bonds wasn’t paid.

Bloomberg Markets

By Amanda Albright

January 14, 2019, 10:46 AM MST

[What Did the Midterm Election Results Mean for Water?]

This year’s midterm elections had the highest turnout in a half century, with 49 percent of the population voting for candidates at the national, state and local level.

In the U.S. House of Representatives, control flipped with Democrats poised to pick up nearly 40 seats. In the U.S. Senate, Democrats lost the seats they needed to defend in North Dakota, Florida, Missouri, and Indiana, but they did flip seats in Nevada and Arizona. Although the race in Mississippi headed to a runoff into late November, Republicans retained control of that seat, finishing the cycle with a net gain of two seats.

At the state level, Democrats flipped seven governor’s mansions, while the GOP flipped the governor’s seat in Alaska. That change in Alaska means Republicans control the governorship, the state house, and state senate. Democrats gained control of both houses and the governorship in six states: Maine, New York, Colorado, New Mexico, Nevada and Illinois. These changes at different levels of government will affect infrastructure and water policy, but some of the most significant support of those issues was demonstrated through ballot measures. Statewide ballot measures supporting investment in water infrastructure projects passed in Rhode Island and Maine, and a measure in Florida passed to ban offshore drilling beneath all state waters.

At the local level, there were even more ballot measures in support of water infrastructure investment. In Los Angeles, voters enacted a parcel tax to fund stormwater projects; in Denver, voters raised property taxes to fund flood warning systems and waterway clean-up; and in Houston, an amendment passed to establish a fund for flooding and drainage projects. These examples, as well as others in Philadelphia, Baltimore, Austin, and San Francisco, reinforce polling data that shows strong public, and bipartisan, support for water infrastructure investment.

According to research from the polling firms FM3 and Public Opinion Strategies, rebuilding

America's infrastructure is increasingly important to constituents. In a poll of 1,600 individuals across the country earlier this year, 89 percent of Americans see rebuilding the nation's infrastructure as very or extremely important, up from the 67 percent who said the same last year. There are many variables for why support is growing, but it is worth noting the overall composition of the electorate is changing, with younger, more diverse generations voting in larger numbers – and we know those demographics support investment in infrastructure.

Their polling research shows that voters of color are more likely to place importance on rebuilding infrastructure, with 94 percent of African-Americans and 92 percent of Latinos ranking the issue as extremely or very important, compared to 74 percent of white voters. It is important for elected officials to recognize that water infrastructure is widely supported across party lines.

For organizations working with incumbents or newly elected officials joining Congress in January, be mindful to frame water infrastructure in a way that illustrates the benefits of investment, and there are no political ramifications to supporting this issue. According to Lori Weigel of Public Opinion Strategies, people best understand the value of water through the lens of public health. By framing messages in terms of water quality's effect on health and safety, groups educating new Congressional members can help convey the urgency of rebuilding our aging infrastructure.

There are reasons to be optimistic for the chance of an infrastructure bill in the new Congress.

While politics may affect Democrats desire to work with Republicans and the President, many in the Democratic majority want to show that government can still be effective. Infrastructure would be a logical place to show the potential of bipartisanship.

Water Finance & Management

By Scott Berry

JANUARY 4, 2019

What Cities Are Getting Wrong About Public Transportation.

Cities could get more people walking, biking, and riding transit, according to a new report, if they just know where to look for improvement.

Each year, the U.S. Census releases an update in "commuting mode shares" in its American Community Survey. This is an annual accounting of the share of people in every U.S. city who bike, walk, or ride public transit to their jobs, as well as drive. Mostly the latter: Nationally, about 75 percent of the country is sitting alone in their cars every morning. About 10 percent carpool, 5 percent ride transit, and the last 10 percent either walk, bike, or work from home.

If you peruse this data-dump every year, you'll probably notice something: Despite the tireless efforts of transit planners, bike-lane boosters, and other actors in the mobility arena, the mode-share percentages don't seem to budge much in the any given growing city as they add more people, despite massive investments in transit infrastructure. Take Dallas, Texas, for example: In 1996, that city opened the first stage of its light-rail network, which has since grown into the largest system in the U.S., at a total cost of something around $5 billion. But the share of commuters in the city who ride transit has remained below 6 percent since 1990.

Continue reading.

CITY LAB

by ANDREW SMALL

JAN 17, 2019

How Placemaking Can Empower Urban Communities, Not Tear Them Apart.

Late last month, *The Guardian* published a piece with the somewhat incendiary title "How placemaking is tearing apart social housing communities." The article tells a distressing story of a local east London council forcing the relocation of social housing residents so the estate could be refurbished, and how years later, hundreds of units remain empty as displaced residents have yet been able to return. The details as described are a little murky — or perhaps I just got lost in the British English — but the author, Nye Jones, was crystal clear on one point: placemaking was to blame.

Having just launched the new Anne T. and Robert M. Bass Center for Transformative Placemaking, I was understandably anxious about how Jones was defining placemaking, as by the article title alone I was confident he didn't get it quite right. More than that, I had the foreboding feeling that placemaking might now be on the same slippery linguistic slope as "gentrification" — a word that Jason Segedy, in a recent City Observatory article, suggested has become "useless," with no agreed upon meaning.

Upon opening The Guardian article, I was even more disheartened to see in the subtitle that Jones was actually conflating the two terms, referring to placemaking as "gentrification by any other name." Indeed, Jones goes on to say that "placemaking" reflects developers' quest for culture and luxury whereby social housing tenants are "shooed out of the way" to make room for the affluent. So if I understand correctly, it appears that "placemaking" is now being used — by Jones and others in the UK, anyway — to describe the phenomenon of displacement once connoted by the now meaningless term "gentrification." Yikes.

Continue reading.

The Urban Institute

Jennifer S. Vey
Senior Fellow – Metropolitan Policy Program Director – Anne T. and Robert M. Bass Center for Transformative Placemaking

Wednesday, January 16, 2019

To Save the Planet, the Green New Deal Needs to Improve Urban Land Use.

The Fourth National Climate Assessment, released in November 2018, pulls no punches. United States communities are already experiencing tangible harms from climate change, and without substantial changes in human behavior, the situation will get worse. Environmental legislation may

get more attention in the current Congress: Rep. Alexandria Ocasio-Cortez (D-N.Y.) and other prominent progressives have called for a Green New Deal (GND). Early outlines for such a plan include a broad package of policies, such as transitioning to all renewable energy sources, restoring forests and wetlands, and upgrading infrastructure to be more resilient. However, the current plan does not address a major underlying cause of environmental harm—decades of poor urban land use decisions. Specifically, better urban land use would reduce greenhouse gas emissions (GHGs) from cars and limit the human and financial costs caused by developing environmentally risky land.

In developing an effective plan to address our climate challenges, proponents of the Green New Deal should consider the following tenets to improve urban land use.

Continue reading.

The Brookings Institute

David M. Rubenstein
Fellow – Metropolitan Policy Program

January 15, 2019

S&P U.S. State Sector 2019 Outlook: Caution - Slower Speeds Ahead

For the U.S. states, S&P Global Ratings' baseline economic forecast of slower growth in 2019 holds the potential for renewed fiscal strain. Although now long in duration, the economic expansion that began in mid-2009 has been shallow.

Continue Reading

Jan. 8, 2019

Fitch Rtgs: Data Breaches Highlight US Public Institutions' Cyber Risks

Fitch Ratings-Austin-09 January 2019: The recently reported data breach at San Diego Unified School District, affecting the personal data of as many as 500,000 students, underscores the heightened threat of cyberattacks that educational, governmental and healthcare organizations face due to the sizable amount of personal data housed on their networks, says Fitch Ratings. Cyber risk is not a driver of credit risk or rating actions. However, our ratings reflect issuers' overall resilience to manage and respond to changes in its operating environment, including risks associated with cyberattacks.

Data breaches in the education, governmental (including federal and military) and healthcare sectors (including private concerns) accounted for about 40% of total data breaches in 2017 and 2018, according to the Identity Theft Resource Center (ITRC). Approximately 27% of total breaches occurred in the healthcare sector. Combined data breaches for these sectors have increased 160% since 2005, with healthcare having the highest attributable growth, while governmental organizations realized modest improvement. The growth of Internet of Things (IoT), interconnected sensors embedded in technology, such as WIFI networks, building maintenance systems, medical

devices and traffic sensors, further contribute to cyber risk. IoT devices outnumbered the world's population in 2017 and are projected to double by 2020, according to Gartner technology consultants.

Cyberattacks create service disruptions for educational, healthcare and governmental organizations, adversely affecting their public service missions and resulting in increased costs. Incident response, crisis management, forensic services and restoration can cost millions of dollars for resource-challenged operations. Some organizations have also paid ransomware demands to retrieve data. Public confidence can also be affected if an organization is perceived to lack preparedness or if their response is seen as insufficient. Exposure of personal and sensitive data can lead to direct costs to personal consumers and loss of confidence in public organizations. Fifty-three percent of data breaches during 2017 exposed Social Security numbers and 19% exposed credit/debit card numbers, according to the ITRC.

The Department of Education has suggested that schools conduct security audits and train staff and students on data security best practices to mitigate cyberattacks. However, there are challenges to adopting cybersecurity best practices within schools as laws do not generally mandate comprehensive standards. Furthermore, these activities compete for scarce budget dollars. Governmental resources are available for guidance and support, such as those provided by The National Institute of Standards and Technology (NIST). However, NIST services have been recently curtailed due to the current lapse in governmental funding.

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S&P U.S. Not-For-Profit Health Care 2019 Sector Outlook: Stable Overall, Yet Key Risks Remain.

S&P Global Ratings believes the outlook for the U.S. not-for-profit health care sector for 2019 remains stable. This reflects continued balance-sheet strength, a long-term trend of improving business profiles mostly from mergers and acquisitions, and a growing array of diversifying joint ventures.

Continue Reading

Jan. 10, 2019

S&P U.S. Local Government 2019 Sector Outlook: Showers For Some, Downpours For Others

Although 2019 is starting out with growing economic uncertainty in the U.S., S&P Global Ratings believes the U.S. local government sector remains stable and resilient for now. Local governments benefited from positive economic trends in 2018 (such as higher GDP growth and low unemployment), but 2019 already show some signs of slowing, including lower GDP projections and higher interest rates.

Continue Reading

Jan. 9, 2019

Fitch U.S. Public Finance Prepaid Energy Transaction Rating Criteria.

Read the Criteria.

Taking a Tactical Approach to the 2019 Muni Market.

Robert Dimella, senior portfolio manager at Mackay Municipal Managers, discusses the municipal bond market and his firm's strategy for the year ahead. He speaks with Bloomberg's Taylor Riggs in this week's "Muni Moment" on "Bloomberg Markets."

Watch video.

Bloomberg Markets TV Shows

January 9th, 2019, 9:01 AM MST

How a Prolonged Government Shutdown May Ripple Down to States.

- **Economic impact seen in Virginia, elsewhere as paychecks halt**
- **Public housing projects, transit systems rely on U.S. grants**

Almost a third of the $2 trillion that U.S. states spend each year comes from Washington, so the partial shutdown of the federal government would seem to spell major financial trouble in America's statehouses. So far, the impact has been relatively limited, because only about a quarter of the government has been closed and funding for the biggest state-run program, Medicaid, will continue no matter how long the impasse persists.

While the president has said he'd be willing to keep some of the government shut for months if

lawmakers don't agree to fund a wall on the Mexican border, he may seek to circumvent Congress in a bid to end the standoff. But if the closure persists, the impact on states may grow, particularly in those with a large number of federal employees. Here's how:

Missing Paychecks

As some 800,000 employees begin missing paychecks, the impact will ripple through economies with a big share of federal workers, including Virginia, Maryland, Hawaii and Alaska, where about 5 percent of workers are employed by the federal government, according to Fitch Ratings. Virginia Governor Ralph Northam, a Democrat whose state has some 130,000 federal employees, said the 2013 shutdown cost residents in the area around the capital $217 million a day in wages — a hit that was minimized because Congress decided to pay them back.

The lost pay, however, will be felt far beyond the beltway in places like Florence, Colorado, a 3,800-person city home to a federal prison complex where more than 860 people are working without compensation. Nationwide, Moody's Analytics estimates the shutdown will slow economic growth by about 0.04 percentage points for every week that it lasts, which would crimp sales-tax collections for states and cities.

Saving Safety Net

The longer it drags on, the more states would be forced to tap their own funds to make up for numerous programs supported by federal grants, including Temporary Assistance for Needy Families, which extends cash payments to the poor. The shutdown has cut off funding for that program, among others, according to the Center for Law and Social Policy. That's left states relying on federal money from prior year budgets, but they'd need to step in once that runs out, said John Hicks, executive director of the National Association of State Budget Officers. "There is no default as to what the response would be by states," he said.

Renters at Risk

While vouchers for poor renters are expected to continue through February, about 1,150 Housing and Urban Development Department contracts with local housing projects that were up for renewal were put on hold this month, affecting 70,000 to 85,000 low-income households, according to the Campaign for Housing and Community Development Funding.

Over a thousand more come up for renewal through the end of February, and some of the developers count on the money to repay municipal bonds that financed the projects. "You're put in a pretty sticky situation where you have to make debt service but you don't have a significant part of the project income — so at some point, you might have to opt out and re-tenant the building with people that can pay the rent," said Thom Amdur, executive director of the National Housing and Rehabilitation Association. "There are millions of low-income families living in subsidized housing that are put at risk as a result of this."

Bond Market Spillover

A standoff that lasts past the end of the debt-ceiling suspension on March 1 could increase the risk of a technical default on the U.S. debt and raise the likelihood of a downgrade, according to some ratings analysts. A downgrade to the Treasury's rating would likely trigger municipal-bond rating cuts, which happened in 2011, when S&P Global Ratings cut the grades on thousands of state and local securities tied to the federal government.

Separately, Moody's Investors Service said the impact of the shutdown has been minimal on

municipal-bond issuers so far. If it goes longer, it could cut into tax revenue in areas that are reliant on federal workers, making it more of a challenge for governments, Moody's said.

Subways, Trains, Roads

Public subways, commuter trains and other transit systems rely heavily on federal grants that would be slowed if employees remain idled. Such funding can account for a fifth of some operating budgets, according to Moody's, which warned that a disruption could lead to weaker financial positions, delayed projects and higher debt costs. Problem-plagued New Jersey Transit Corp.'s available cash, as of 2017, was only enough to cover about one month's operations, the rating company said.

The uncertainty about the budget may also slow the pace of work on infrastructure projects because states can't say for sure how much they will get once the budget impasse ends. "States are not going to be letting new projects because of the uncertainty associated with the federal program," said Jim Tymon, executive director of the American Association of State Highway and Transportation Officials. One state has already done that: Oklahoma officials said they're delaying new contracts for about 45 upcoming projects totaling more than $137 million because of the shutdown.

Bloomberg Business

By Amanda Albright, Danielle Moran, and Martin Z Braun

January 11, 2019, 5:20 AM MST

— With assistance by Claire Ballentine

N.J. Mega Mall, Other High-Risk Muni Deals at Make-or-Break Year.

- **Speculative projects easily financed in market hunting yield**
- **Developers now facing openings, interest payments in 2019**

This year is the moment of truth for risky projects across the U.S. and the municipal-bond investors who bet big on them.

New Jersey's massive new shopping mall and a California rice-to-lumber facility are some of the projects financed in the $3.8 trillion market that are supposed to start operating or are scheduled to make payments to bondholders in 2019. It has been a great time to sell unrated debt because investors have been willing to take on more risk in return for higher yields. Soon, the buyers will find out if it was a worth it.

"Borrowers were coming out with deals that had weak covenants, more speculative plans, optimistic projections, and in categories that have not historically done so well," said Bill Black, senior portfolio manager for City National Rochdale, who oversees a $1.2 billion high-yield municipal fund. "In 2019, it's going to be interesting to see what happens."

Continue reading.

Bloomberg Markets

By Amanda Albright

January 8, 2019, 9:00 AM MST

Natural Disaster Forces Critical Decisions For Municipalities And Residents.

Last year, we wrote a post to mark the sixth anniversary of "Superstorm Sandy," a Category 1 storm that made landfall in October 2012. We also shared a preview of this year's series of posts on extreme weather, and its impact on municipalities. In this post, we focus on several decision facing property owners in a storm's aftermath: to rebuild, redevelop, or in some cases sell land to the state. While not as powerful as other storms to be covered in this series, Superstorm Sandy did cause damage in New York State, estimated as more than $32.8 billion along (according to CNN), including economic losses of nearly $19 billion in New York City (according to the Office of the New York City Mayor in 2013). As readers may remember, Sandy did not bring large rain totals nor extreme wind gusts to New York. Rather, it was the rain and wind together with spring tide that created a storm surge of more than 14 feet – followed less than one week later by a nor'easter. The neighborhood of Breezy Point, in Queens, was infamously hit by a possible transformer explosion and subsequent fire that destroyed or damaged over 130 buildings; while Suffolk County saw no fewer than 10 fires from downed trees on power lines followed by transformer explosions. Among the outer boroughs, Staten Island was hit hardest by Sandy. Its neighborhoods of Ocean Breeze, Midland Beach and Dongan Hills, which face the Atlantic Ocean, are between three and seven feet above sea level, resulting in massive flooding and destruction during Sandy. Some residents of these areas, and other areas of New York City and Long Island, sold their properties to developers. Others sold properties to New York state, understanding those parcels could be "returned to their natural state" as wetlands or open space. Those who sold to the state were reported by various outlets to have done so for a variety of reasons: fear of another storm; the financial costs of rebuilding; and the financial and emotional costs of future insurance coverage. The state of New Jersey, like New York state, implemented plans to buy back homes in certain counties that were damaged or destroyed by Sandy, leveraging state and federal funds to do so; and finding sellers for the reasons outlined above. Similar to homeowners and renters, municipalities were confronted with decisions regarding how to reconstruct, how to rezone, and whether to relocate existing equipment and/or existing amenities.

State and municipal incentives for reconstruction

Shortly after Sandy, Mayor Bloomberg adopted an executive order waiving height restrictions under zoning code so that reconstructed buildings could meet improved flood standards. This executive order was among the first steps in New York City's process to update both its building code and its zoning code for new construction, in light of the damage from Sandy and in anticipation of future weather events including flooding. According to the Bloomberg administration, absent this executive order, existing and newly-constructed buildings would be out of compliance with the Federal Emergency Management Agency ("FEMA") recommended elevations to address flooding concerns. In an attempt to stimulate immediate reconstruction, New York state and New York City announced multiple initiatives, including loans, grants, and tax exemptions for impacted businesses to use to mitigate loss of inventory, physical damage to real property, and loss of revenue stemming from business closures with a focus on those "directly impacted" by flood waters or power outages. Small businesses within New York City, utilizing its Industrial Development Agency, were also eligible to claim up to $100,000 in sales tax exemptions for purchases of construction and renovation materials along with services necessary for rebuilding. This initiative was limited to the first 250 applicants. New York state, though the Empire State Development Corporation, administered a $10 million loan program for up to $25,000 in loans for small businesses with less than 100 employees in designated

disaster areas statewide, and offered similar terms to the emergency loans provided by New York City.

Addressing future flooding concerns

As covered in an earlier MuniBlog post, FEMA has been considering redrawing flood maps in the state of New York. While this work is ongoing and may take several years to complete, FEMA has preliminary flood hazard data for certain areas. In the years since Sandy hit, New York City has adopted amendments to its zoning and building codes in an effort to better address future flooding concerns. Among the changes are requirements that new buildings start at a higher elevation and contain flood protections including floodgates. More recently, the City of New York, in conjunction with the Department of Housing and Urban Development (HUD), announced a plan to develop protection along 10 miles of coastline along the southern tip of Manhattan. Expected to begin this year, construction will involve levees, floodwalls and parks to protect that area of Manhattan from future flooding. Unlike New Orleans following Katrina, New York City did not see a population drain. However, not all redevelopment initiatives have been spurred by government. In an effort to market their buildings as more resilient to the next storm, some developers and landlords have installed generators or relocated existing generators and mechanical equipment above ground level. That perception of resilience and protection is critical for business in a state with more than 500 miles of coastline, and billions of dollars in real estate development along waterfronts.

by David Rothman

January 11, 2019

Harris Beach PLLC

Emission Guidelines for Municipal Solid Waste Landfills: Multistate Coalition Comments to U.S. Environmental Protection Agency Opposing Rule Delay

A multistate coalition submitted January 3rd comments to the United States Environmental Protection Agency ("EPA") opposing a proposed rule denominated as:

> *Adopting Subpart Ba Requirements in Emission Guidelines for Municipal Solid Waste Landfills*
>
> 83 Fed. Reg. 54527 (Oct. 30, 2018) ("*Delay Rule*")

The states collectively submitting the comments include:

- California
- Illinois
- Maryland
- New Jersey
- New Mexico
- Oregon
- Pennsylvania
- Rhode Island

- Vermont
- California Air Resources Board

The *Delay Rule* addresses a final rule styled Emission Guidelines Compliance Times for Municipal Solid Waste Landfills. 81 Fed. Reg. 59,276 ("Guidelines"). The states note that this rule was finalized on August 29, 2016, and effective October 28, 2016.

The states argue that had EPA implemented the Guidelines, every state would have had an approved state or federal plan to reduce emissions from existing municipal solid waste landfills by November 30, 2017. Citing 40 C.F.R. §§ 60.30F(b), 60.27(b) & (d). They argue that the *Delay Rule* would push back implementing the Guidelines by an additional four years.

The *Delay Rule* is argued to have a substantive impact as opposed to a procedural change. As a result, the states object to the federal agency's describing the *Delay Rule* as procedural in nature. They argue that adverse impacts of the proposed *Delay Rule* on human health and the environment were in fact objectives Congress tasked EPA with safeguarding.

Additional arguments raised in opposition to the *Delay Rule* include:

- EPA is violating its statutory responsibility of the Clean Air Act to reduce the emission of air pollutants that endanger human health and the environment
- EPA fails to provide a reasoned explanation for the change of course (four years of delay)
- EPA failed to conduct a regulatory impact analysis or otherwise analyze the foregone benefits resulting from the *Delay Rule*
- EPA predicates the proposed *Delay Rule* on another proposed rule that does not on its face apply and is likely unlawful
- EPA failed to comply with various executive orders such as one that would determine whether there was a disproportionate impact on low-income or minority populations

A copy of the comments can be found here.

by Walter Wright

January 10, 2019

Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C.

Few Signs So Far Sports Wagering Will Be Huge Boon for State Budgets.

"Large amounts of tax revenue from sports gambling is no sure bet," one expert notes.

Six states have joined Nevada in allowing for sports betting since the U.S. Supreme Court in May struck down a federal law that had largely blocked the practice.

Delaware, Mississippi, New Jersey, Pennsylvania, Rhode Island and West Virginia have entered the sports betting field so far. The District of Columbia is also moving ahead with a sports betting program and during upcoming legislative sessions state lawmakers elsewhere are expected to discuss the topic.

But a researcher with the Urban-Brookings Tax Policy Center, Richard Auxier, cautioned this week

that the wagering may not generate as much tax revenue as some are hoping for.

Continue reading.

Route Fifty

By Bill Lucia

JANUARY 12, 2019

A Turbulent Stock Market Can Benefit State and Local Borrowers.

When stocks get dicey, one place investors turn to is municipal bonds.

Volatility in the stock market, like the swings on display in recent weeks, has possible upsides for state and local governments that are seeking to borrow money or refinance debt.

That's because when equities become erratic municipal bonds can offer an attractive alternative for investors searching for a more stable place to park their money. U.S. stocks in 2018 endured their worst year since the 2008 financial crisis, with wild ups and downs in December.

"Volatility historically has been a good thing for us," Ben Watkins, director of Florida's Division of Bond Finance, said this week.

Continue reading.

Route Fifty

by Bill Lucia

JANUARY 9, 2019

Municipal Bonds: Great Expectations For 2019

The Big Picture

This year already appears more promising for investors after the difficult environment experienced in 2018 for most asset classes, as volatility often creates opportunity. That said, increasing concerns in financial markets around slowing global economic growth, international trade and political uncertainty have created a more tenuous backdrop for many sectors in 2019.

After hiking short-term interest rates four times in 2018, the Federal Reserve seems prepared to keep increases on hold at least through early 2019. Although hard economic data has continued to be solid, the muted inflation environment provides leeway for the Fed to wait and see how the economy evolves. Chairman Powell affirmed that there is no preset path for rates and that the Fed will be nimble in shifting its policy if necessary to keep the economy strong. This encouraging dialogue is a positive for financial markets broadly, and a calmer interest rate environment is especially supportive for fixed income assets.

Given the steeper municipal yield curve relative to Treasuries, investors can still benefit from taking on duration (interest rate risk). Additionally, investors who buy and hold muni bonds throughout the year will be better positioned to capture coupon income, which we expect to make up the majority of total return in 2019.

Supply Is On Our Side

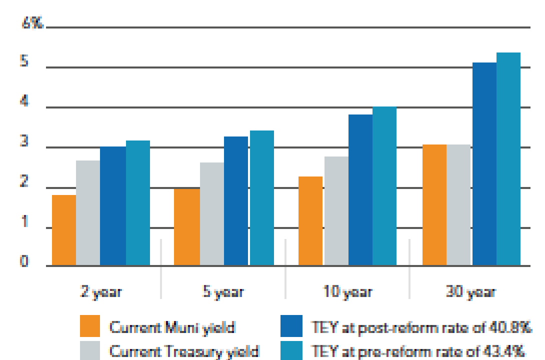
Although markets tend to focus on gross supply numbers, what actually influences market performance is net supply—i.e., the total amount of new issuance minus the total amount of debt that is called, refunded or reaches maturity. Net supply turning negative generally provides a powerful tailwind for muni bond performance.

On the whole, 2018 was a net negative supply year and we expect the same in 2019. Forward supply estimates are only marginally higher than last year, and Congressional gridlock is likely to impede the approval of government spending on infrastructure projects. Additionally, the heavy selling among banks in 2018 ahead of tax and accounting-related changes, which added significant “shadow supply,” should be nearly played out at this point.

After back-to-back years of disrupted seasonal trends, we foresee a more traditional year coming up, which likely means more predictable patterns around both supply and demand. From a strategy perspective, we would lean toward longer duration (i.e., taking more interest rate risk) heading into periods of net negative supply, and shorter duration when supply is poised to outpace demand.

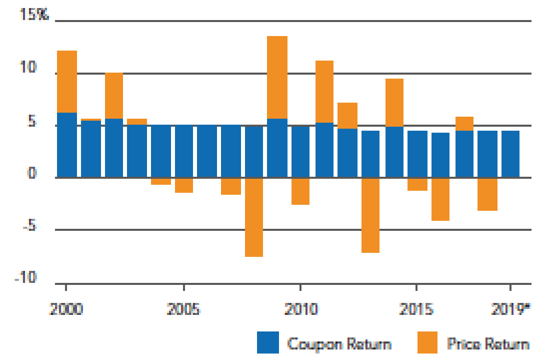
Don’t Discount Retail Demand

Demand for municipal bonds is supported by the multiple benefits of investing in the asset class—the most obvious being the tax advantage. The recent tax reform has had little impact on the tax equivalent yield provided by municipal bonds versus Treasuries. As April approaches, it will become more evident that individuals have experienced little, if any, tax cut after the State & Local Tax Deduction (SALT) curtailment is factored in. This effect will be especially pronounced in high tax states including Connecticut, New Jersey, New York, Massachusetts, Maryland and California.

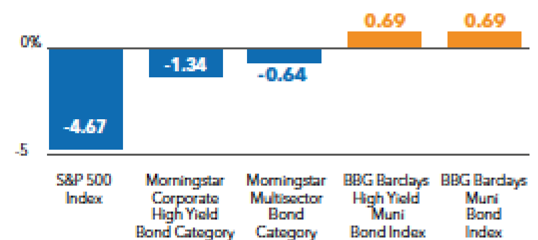


Source: BlackRock and Bloomberg, as of January 7, 2019. Current Muni Yield is before tax. Tax equivalent yield (TEY) figures show the yield offered by the municipal bond after factoring in the high tax rate prior to reform at 43.4% and the current high tax rate of 40.8%.

Another driver of demand for munis is a renewed appreciation for the stability of the asset class as the prolonged period of ultra-low volatility is clearly behind us. Municipals tend to have higher credit quality and provide consistent levels of income over time. While price return is sensitive to macro trends across fixed income markets, coupon return has historically provided a stable portion of total returns in the municipal market.



The S&P 500 Index lost more than 4 percent in 2018, while the S&P Municipal Bond Index posted a 1.36 percent gain. The negative correlation of municipal bond and equity returns underscores the importance of muni bonds as a portfolio diversifier and a ballast to equity and equity-like risk.



Credit Perspectives: What To Watch In 2019

State and local government sectors could come under pressure this year if the U.S. economy slows enough to constrain revenues from sales and income tax receipts. State governments may be forced to rein in their spending, most likely impacting Medicaid and K-12 education, and pension underfunding remains a significant concern. At the local level, property tax receipts tend to perform relatively well during a slowdown; however, local governments often bear the brunt of state spending cuts. We prefer revenue bonds over general obligation bonds as the latter can be vulnerable to risks stemming from state and local budget negotiations.

The high yield municipal market may experience a period of minor spread-widening due to an influx of supply as Puerto Rico returns as an investable name. Upon finalization of the bankruptcy process in mid-January, the restructuring of the commonwealth's government debt and sales tax bonds, known as COFINA bonds, will result in an exchange whereby holders of defaulted debt will receive new bonds. We expect Puerto Rico bonds will gradually regain acceptance with traditional market participants over time. Any weakness caused by the supply increase could create attractive buying opportunities in the short term; however, certain credits that were bid up while Puerto Rico was absent from the market may experience a longer term negative impact. Broadly, we believe high yield muni bonds are an important contributor to income generation in a diversified portfolio.

Hospitals and health-care providers are facing headline risk due to the Affordable Care Act (ACA) having been ruled unconstitutional at the end of 2018. If the ruling is upheld, the loss of Medicaid coverage and consumer protections for many patients would have a negative effect on these industries as the potential for bad debt increases and patient volume declines. No immediate impact to ACA exchanges is anticipated in 2019 as the Act remains in effect throughout the appeals process, which will not conclude until 2020 at the earliest.

Investment Ideas For 2019

1. Stay invested. Sitting in cash means missing out on coupon payments. A buy-and-hold approach to municipal investing provides better potential for total return, which we expect will be made up largely of coupon return versus price return throughout this year.

2. Position tactically. Seasonal patterns should be more true to form this year. Increase duration ahead of negative net supply periods and reduce duration when supply is poised to outpace demand.

3. Diversify opportunistically. Consider high tax states including New Jersey, New York, Massachusetts, Maryland and California, where the SALT curtailment will have the largest effect on individual tax payers.

4. Don't dismiss high yield. We wouldn't recommend an overweight currently given uncertainty around Puerto Rico issuance, but we believe some exposure can be beneficial for income generation within a well-rounded portfolio.

FINANCIAL ADVISOR

JANUARY 11, 2019 | SEAN CARNEY, PETER HAYES

Peter Hayes is head of the Municipal Bonds Group at BlackRock. Sean Carney is head of municipal strategy at BlackRock.

What Successful Public-Private Partnerships Do.

Despite spending $2.5 trillion a year on roads, railways, ports, water, and other public infrastructure projects, countries around the world are still falling far short of what they need to invest, according to one estimate. Thus, it's no surprise that there is renewed interest in public-private partnership (P3) projects, where businesses supplement public investment in return for reaping rewards such as tolls and fees. The White House, for one, suggests using private investments to fund most of its proposed $1.5 trillion in U.S. infrastructure spending.

But many P3 projects go off the rails. For example, a European Union review of nine such projects launched between 2000 and 2014 found seven were late and over budget. A U.S. interstate highway project near Indianapolis was found to be 51% over budget and two years past the proposed completion date. These highly publicized travails not only make P3 projects a public nuisance (or more), they create big political hurdles to overcome the next time a much-needed infrastructure project requires outside funding.

Yet despite these failures, some P3 initiatives have been highly successful, and they provide a trove of valuable lessons for managing any large project that involves multiple organizations — think digital transformations involving multiple consulting and training firms, merger integrations,

enterprise software installations, corporate headquarters relocations, and so on.

Received wisdom in P3 management is that ironclad contracts and tougher enforcement of them improves chances of success. But over the last three years, we conducted research interviews with 72 leaders from organizations that design, build, finance, provide legal advice, manage projects and advise North American P3 projects. Numerous interviewees told us that focusing on contract terms often set partners to act more like adversaries than allies. “Public clients prefer building iron-clad, oppressive contracts that are extremely one-sided and which start the relationship off on the wrong foot,” said a leader of a semi-governmental Canadian agency. Others told us that contractors often exploit the contract terms to increase their profit at the expense of the project.

Another recurring complaint was that an intense focus on meeting project milestones took critical attention away from monitoring the health of the working relationships among the public and private entities. Said a project adviser to a U.S. P3 project: “The partnership is extremely important. A lot fall short in that people fall into familiar behaviors quickly. They’re like people who get married after two dates; they don’t have ways of working things out together.”

From these interviews, we heard about uncommon ways used by leaders of the most successful projects to keep these large, high-stakes initiatives from running late, over budget or both. We found project success had little to do with trying to force all parties to adhere to strict contractual obligations. Instead, when we examined what led to productive working relationship over the life of these projects, we found they had three things in common: a commitment to a strong partnership beyond the terms of the contract; built-in mechanisms to share perspectives about the project (especially problems and concerns); and effective ways to rebound from failures to deliver.

Striking Personal Commitments Far Beyond the Contract

At the crux of successful P3 infrastructure projects is a simple but difficult-to-achieve construct: each party must be as committed to achieving the others’ goals as they are to their own goals.

Contracts alone can’t achieve this. Legal documents can spell out what must go right (e.g., spending, responsibilities, steps, deliverables, and dates) and what happens when things go wrong. But they cannot anticipate everything that can go wrong, and they don’t provide a roadmap of how to right things quickly. That requires leaders from each entity to regularly share their interests and concerns, and to help resolve them. A key part of this is having each party acknowledge interests in the project they may not have stated in the contract, and which may not be interests of the other parties.

When Australia’s Road Traffic Authority (now known as Roads and Maritime Services) began the Pacific Highway Upgrade of 408 miles (657 kilometers)of road in 1996, the Ballina Bypass was one of the first projects. Building the 7.5-mile roadway in New South Wales involved five organizations that provided designing, contracting, and geotechnical services. The project was a major technical challenge because the road had to be built on soft ground. The RTA had a lot riding on the success of the Ballina Bypass because such P3 contracts were relatively new in the country. The pressure on the RTA was enormous.

The five organizations were new to working together, so they had to establish operating principles for the project. They needed to continually demonstrate to the RTA that they were working as an integrated team, sharing innovations, and solving steep technical problems as they arose (and there were many).

The organizations appointed people to three roles to strengthen their working relationships: an

alliance manager, the alliance leadership team, and the alliance management team. The teams then designated and trained functional experts to be leaders responsible for achieving key metrics in their areas. The functional experts communicated weekly on project status with the alliance leadership and management teams, and through fortnightly meetings, regular emails, and weekly site walks.

All this ensured the five organizations openly heard and resolved project problems together. The leadership training also enabled the functional experts to learn how to resolve issues constructively. One of these issues occurred near the end of the project, when the road builders had to add very expensive fill – even more than they originally projected – to shore up soft ground. All five partners accepted this reality, even though it pinched their profits, in keeping with the win-win/lose-lose principles they had set up for the partnership.

The result: They finished the work seven months ahead of schedule and for $100 million less than the estimate in the concept design.

Hashing Out Differences Authentically

In our interviews and consulting work, we have found it rare for P3 partners to state their interests in a project beyond their shared goals. Such unspoken interests include dealing with minimal public complaints, building a reputation to win future P3 work, and generating a profit from the project (even if it's a small one). Stating such interests openly and honestly is a key success factor.

Why is sharing these typically unspoken perceptions so important? Doing so defuses or at least reduces the inevitable flare-ups that escalate rapidly when people's actions and motivations are in question.

When one party doesn't come through as expected – misses an important deadline, falls short on quality, forgets a step, and so on – the other parties can rush to judgment. "They're just cutting corners." "They don't care about quality." "They no longer have their best people on the project." All are sentiments we've heard on these projects over the last two decades.

The problem with such perceptions is they can fan the flames of distrust and engender countermeasures that make things worse. The way the parties in the Ballina Bypass minimized such negativity was by holding weekly meetings of the members of the alliance team. These project "health checks" helped partners move from blaming each other for problems to creating shared responsibility to fix them. It also enabled the project to have a staff churn rate of only 5% — far lower than the industry average of 20% to 25%.

Admitting to and Correcting Setbacks Quickly

P3 infrastructure projects are vital pieces of a nation's economic fabric. A region's population health, industry base, and political careers can be at stake if deadlines slip, budgets creep up, and quality problems emerge — an especially harsh environment for project leaders and managers. In such a working environment, it's natural for team members to overlook small problems, push back the schedule, blame others, and cover their tracks. In contrast, team members on successful P3 projects admit failures when they occur, and then they move quickly to correct them. In that way, they use these failures as opportunities to strengthen their commitment to the partnership.

Such psychological safety can only happen when the parties agree at the outset how they will handle the inevitable problems, long before anyone reaches for the contract. We found this to be critical to coaching the two lead contractors on a failing multibillion-dollar offshore drilling project. While this

was an entirely private partnership, the lessons hold true for public-private partnerships too. The two contractors had blown through numerous deadlines and disagreed vehemently on how to get the project back on the rails. They blamed each other for project failures and were barely speaking to one another beyond the minimum required to do the work. In addition, a major subcontractor located in a different time zone also complicated things, ignoring requests to work faster.

To get their relationships back in working order, the two contractors held sessions in which the team members could voice stumbling blocks and suggest ways to remove them. We facilitated constructive dialogs on these issues, including each company's distrust of the other's project schedule. (Teams from one firm didn't believe the other firm's statement that it had not built "cushion" into the timelines.) The focus shifted away from deadlines toward promises to complete work. In addition, project leaders at both companies committed to a short-term win: gaining year-end regulatory approval. In turn, that required each side to agree to completing the technical design documents required for construction approvals and demonstrate they had met safety and quality standards.

This "sprint" showed what a real working partnership was all about, and the teams met their mutually agreed upon goals. It helped them turn around the working relationship for the remainder of the project.

Building Better Partnerships

The lessons of what makes the best P3 partnerships work apply to any large initiative in which more than one organization is responsible for its success. The word "partner" truly must connote that "we're in this together," a sentiment that no contract can ever convey. As a U.S.-based manager on a highly successful P3 infrastructure project put it, "Success can be defined as a situation where the project is completed on time and on budget, and with all participants being happy survivors of the experience." Project leaders who have an explicit plan of how they will meet the project's goals and keep the working relationships of all parties strong throughout the process have a much higher likelihood of success.

Harvard Business Review

by Elyse Maltin

JANUARY 08, 2019

The States That Give and Get the Most Federal Dollars.

A new analysis identifies states that have sent more money to Washington than they saw in returned federal spending.

Connecticut, Massachusetts, New Jersey and New York are among the places that come out at the bottom of the heap in a new analysis that compares how the money that flows from states to the federal government stacks up against federal spending within each state.

The Rockefeller Institute of Government examined the distribution of federal revenues and spending for each state, and came up with "balance of payments" figures that measure the gap between the two sums overall and on a per-capita basis to control for population size.

Forty states had a positive balance of payments in the 2017 federal fiscal year, according to the analysis, meaning federal spending in those states was greater than the taxes and other revenues sent from the states to the federal government. Ten states had negative balances.

Continue reading.

Route Fifty

By Bill Lucia,
Senior Reporter

JANUARY 8, 2019

The Shutdown's Next Victims Could Be Public Transit Systems.

Watch out, New Jersey commuters: NJ Transit's budget could be one of several public-transportation credit casualties if the standoff in Washington, D.C., drags into the spring.

The federal government shutdown is now in its 20th day, with still no end in sight. If it extends long enough, it could cause a budget crunch for the public transportation systems that get support from the Federal Transit Administration. Most of the FTA's programs are now closed, and 90% of its staff is furloughed, because of the shutdown, according to a note from credit-ratings firm Moody's.

"US mass transit systems have temporarily lost financial aid that supports a wide range of needs, from daily maintenance and service to ongoing repair and expansion projects," the firm's analysts write.

Continue reading.

Barron's

By Alexandra Scaggs

Jan. 10, 2019 11:27 a.m. ET

As Retiree Health-Care Costs Soar, Public Employers Turn to Private Insurers.

Retiree health care is one of the fastest-growing line items in government budgets and, in response, some governments are scrapping their traditional health plans.

SPEED READ:

- Unfunded retiree health-care liabilities have increased by $100 billion over the past two years to total just under $700 billion.
- To offload some of the costs, states and localities are scrapping government-sponsored health plans and paying retirees instead to purchase insurance on insurance exchanges run by private companies.
- That shift is expected to save Memphis, Tenn., $300 million over the next few decades.

The cost of retiree health care is spiraling out of control. In just two years, according to a recent S&P Global Ratings report, unfunded retiree health-care liabilities across the 50 states increased by $100 billion to now just under $700 billion.

The problem is becoming so alarming that Dearborn, Mich., recently borrowed money to help fill the gap, a move deemed risky by financial analysts. A more acceptable approach taking hold, thanks in part to the Affordable Care Act (ACA), is scrapping government-sponsored health plans and instead paying for retirees to purchase a plan on a private health insurance exchange. The change is expected to save some cities hundreds of millions of dollars and make their annual retiree health-care costs more predictable.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | JANUARY 9, 2019 AT 4:00 AM

The Week in Public Finance: The 10 States That Give More to the Feds Than They Get Back.

Connecticut tops the list of states whose taxpayers receive the least bang for their buck from the feds.

SPEED READ:

- Ten so-called donor states pay more in taxes to the federal government than they receive back in funding for things like Medicaid or education.
- Connecticut tops the list of donor states. Residents there receive just 74 cents back for every $1 they pay in federal taxes.
- Thanks to 2017's federal tax overhaul, the number of donor states could grow. That's because the amount residents owe in federal taxes will increase now that the state and local tax deduction is capped.

Residents in Connecticut, Massachusetts, New Jersey and New York have some of the highest tax bills in the nation. They also pay thousands more in federal taxes than their state receives back in federal funding.

In total, 10 states are so-called donor states, meaning they pay more in taxes to the federal government than they receive back in funding for, say, Medicaid or public education. North Dakota, Illinois, New Hampshire, Washington state, Nebraska and Colorado round out the list.

Among the top four, the negative balance ranges from $1,792 per capita in New York to a whopping $4,000 in Connecticut, according to a new report by the Rockefeller Institute of Government. Put another way, residents in Connecticut receive just 74 cents back for every $1 they pay in federal taxes. "What the report shows is, when you divide up the receipts, certain states win and certain states lose," says Michelle Cummings, one of the report's authors.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | JANUARY 11, 2019 AT 4:00 AM

The Tech Companies Helping Government Meet Its Mission.

The fourth annual GovTech 100 list will be released this week.

This week's release of the 2019 GovTech 100 list, compiled and published by *Government Technology*, marks the maturation of what began four years ago as a way to recognize companies founded to solve problems unique to the public sector.

Together, GovTech 100 companies represent a growing portfolio of scalable, digital solutions addressing the tough, complicated problems that governments face — from health care and public finance to urban planning and public safety.

On this episode of "Go Public," we hear from the analysts who developed this year's list, a pair of founders of GovTech 100 companies, and a venture capitalist about the market's dynamics and what they mean for governments.

Continue reading.

GOVTECH

BY PAUL W. TAYLOR / JANUARY 8, 2019

Ten-Year Muni-Bond Yields Poised for Biggest Drop Since May 2017.

- **'Almost a perfect storm for municipals to perform well'**
- **Equity-market turmoil has fueled drive into safe havens**

The muni-bond market is mounting a strong year-end finish.

The yields on top-rated, 10-year state and local government bonds have dropped each day since Dec. 14 and have declined to about 2.32 percent, down 0.23 percentage point since the end of November, according to Bloomberg's indexes. That has put those yields on pace for the biggest monthly drop since May 2017 amid growing speculation that the Federal Reserve may pause or slow the pace of its interest-rate increases.

"It's been almost a perfect storm for municipals to perform well," said James Iselin, a portfolio manager at Neuberger Berman Group in New York. "In the last six weeks, risk asset volatility has picked up, you've seen flight to quality trade in Treasuries and we've rallied in a similar amount."

The market has also been benefiting from a dearth of new bond sales, Iselin said. Very few deals came to market in the week leading up to the Christmas holiday and next to nothing has sold in the past three days, a trend investors expect to continue into January.

Duane McAllister, senior portfolio manager at Robert W. Baird & Co., said the biggest driver of the municipal market has been the rally in Treasuries, which set the baseline for the market. The recent gains have driven municipal bonds to a return of 1.2 percent this year.

"We are tethered to the Treasury market, when you've seen the kind of move in Treasury yields, municipals are going to come along for the ride," he said.

Bloomberg Markets

By Danielle Moran

December 28, 2018, 10:16 AM MST

Fitch Launches ESG Scoring System to Show Effect on Ratings.

Fitch Ratings has launched an integrated scoring system that shows how environmental, social and governance factors impact individual credit rating decisions.

The scoring system, ESG Relevance Scores, displays how ESG elements are relevant and material to the rating decision.

Fitch is introducing ESG Relevance Scores across all asset classes using a standardized and transparent scoring system, starting with more than 1,500 non-financial corporate ratings. Scores for banks, financial institutions, insurance companies, sovereign bonds, public finance, global infrastructure and structured finance will soon follow.

Fitch is initially making all of its ESG Relevance Scores available in the public domain. It will then maintain and publish scores on an ongoing basis as part of its credit research.

"Our scores will enable investors to agree or disagree with the way in which we have treated ESG at both an entity and a sector level, assist them in making their own judgments about credit rating impact, and enable them to fully discuss all aspects of the credit with our analytical teams," said Andrew Steel, global head of sustainable finance, in a news release.

Mr. Steel added that the initial analysis of Fitch's corporate portfolio resulted in more than 22,000 individual ESG scores for the agency's publicly rated entities.

"Initial results show that 22% of our current corporate ratings are being influenced by E, S or G factors, with just under 3% currently having a single E, S or G subfactor that by itself led to a change in the rating," Mr. Steel said.

PENSIONS & INVESTMENTS

BY JAMES COMTOIS · JANUARY 7, 2019

Fitch Ratings Focuses on ESG Standards with New Scoring System.

Agency finds only 3% of corporate ratings have changed as a direct result of ESG considerations.

Fitch Ratings is launching a new scoring system that will incorporate environmental, social, and governance (ESG) factors into the ratings of each individual entity the credit ratings agency grades.

The new ESG Relevance Scores aim to "transparently and consistently display both the relevance and materiality of ESG elements to each respective rating decision," according to a report from Fitch.

To begin, the ratings agency incorporated the new scoring system into more than 1,500 non-financial corporate ratings and found that 23% of its current corporate ratings are being influenced by individual ESG issues, with just under 3% currently having one of those subfactors single-handedly leading to a change in the rating, according to the report.

The new scoring system will encompass banks, non-bank financial institutions, insurance, sovereigns, public finance, global infrastructure, and structured finance.

The new system may influence impact investing, a method in which investors seek to engage in companies and organizations with the intention to generate a measurable beneficial social or environmental impact. According to data from the United Nations' Principles for Responsible Investments organization, 465 investors made impact-related investments in 2016, representing $1.3 trillion in combined assets under management, up from 280 and $800 billion in 2014.

One major area of impact investing is investments in energy efficiency businesses, which continues to grow. A study by the International Energy Agency (IEA) concluded that investments of $230 billion were made in energy efficiency businesses in 2016. The investments were partitioned between transportation ($61 billion), industry ($37 billion), and buildings ($133 million).

The importance of ESG is also reflected in the international needs for affordable housing and social development. According to a study by the PRI, between $300 billion and $400 billion in mortgage issuance a year could be needed by 2025 to fund acquisitions of new affordable housing–equitable to approximately 7% of global new mortgage origination volume in 2025.

"The scores do not make value judgements on whether an entity engages in good or bad ESG practices, but draw our which E, S, and G risk elements are influencing the credit rating decision," said Andrew Steel, global head of sustainable finance.

Some organizations, such as the California Public Employees' Retirement Systems (CalPERS) and the California State Teachers' Retirement System (CalSTRS), have been pressured to divest from investments that do not meet generally accepted ESG standards. The two pensions were mandated to divest from investments in coal companies after California Gov. Edmund Brown Jr. enacted legislation requiring them to do so in 2015.

CHIEF INVESTMENT OFFICER

January 7, 2019

Financing the Response to Climate Change: The Pricing and Ownership of US Green Bonds.

Green bonds are used for environmentally friendly purposes like renewable energy. Complementing previous research, this paper explores the US corporate and municipal green bond and shows that a subset of investors is willing to give up some return to hold green bonds.

Author Abstract

We study green bonds, which are bonds whose proceeds are used for environmentally sensitive purposes. After an overview of the US corporate and municipal green bonds markets, we study pricing and ownership patterns using a simple framework that incorporates assets with nonpecuniary utility. As predicted, we find that green municipal bonds are issued at a premium to otherwise similar ordinary bonds. We also confirm that green bonds, particularly small or essentially riskless ones, are more closely held than ordinary bonds. These pricing and ownership effects are strongest for bonds that are externally certified as green.

Download Full Working Paper Text.

Harvard Business School

by Malcolm Baker, Daniel Bergstresser, George Serafeim, and Jeffrey Wurgler

January 3, 2019

Retiree Health Care Liabilities Keep Stacking Up For States.

Newly issued data show the financial challenge posed by "other post-employment benefits."

State governments face mounting costs for non-pension retirement benefits—mainly consisting of health care expenses, newly updated figures from The Pew Charitable Trusts indicate.

Pew says states reported total liabilities of $737 billion for "other post-employment benefits," or OPEB, in 2016, the most recent year for which comprehensive data is available. The latest figure marks a 6 percent increase from $692 billion in 2015.

These liabilities are not all due at once, but rather are the estimated costs of the benefits for retired public employees in the years ahead. They increased by about 5 percent in 2015 over 2014.

Meanwhile, the amount of assets states reported having to pay the benefits fell to $46 billion in 2016, from $48 billion in 2015, Pew said.

The nonpartisan non-profit's brief notes that the majority of state OPEB plans are covered on a "pay-as-you-go" basis. That's opposed to a pre-funding policy, where assets are set aside in advance to cover future costs, as with pension funds.

Across the 48 states Pew examined, 19 had not set aside any funds, or had only "negligible" funds, to pay for promised benefits. Eight states had a funded ratio of 30 percent or above.

S&P Global Ratings in a Nov. 28 report cautioned that OPEB liabilities are a "growing concern" for the credit quality of some states and "require attention to control higher future costs."

A survey by S&P found total unfunded OPEB liabilities for all states grew $63 billion, or by about 10 percent, in fiscal 2017.

States are paying for retiree health care at a time when medical costs are rising. Pew cites figures indicating that average annual health care premiums increased by 24 percent from 2010 to 2015 for single coverage, and by 61 percent over the past decade for families.

Pew suggests that one option for managing growing OPEB liabilities is pre-funding the benefits.

Another possibility they offer is adjusting benefit levels, like deductibles, or co-payments, or the years of service required to qualify for a retiree health care plan.

Some jurisdictions have opted for other alternatives. For example, the city of Dearborn, Michigan last month moved ahead with the sale of $35 million of bonds to help defray the cost of retiree health care liabilities estimated to be around $162 million.

Similar to "pension obligation bonds," the idea is that the OPEB bond proceeds can be invested to yield returns that are higher than the borrowing costs.

But the Government Finance Officers Association recommends against issuing debt to fund OPEB obligations.

The group warns, among other reasons, that the bonds can be "complex instruments that carry considerable risk" and that investing the borrowed money might fail to earn more than the interest costs, leading to increased overall liabilities for the issuer.

A copy of Pew's report can be found here.

Route Fifty

By Bill Lucia,
Senior Reporter

JANUARY 3, 2019

Sports Betting Will Be No Home Run for State Budgets.

ATLANTIC CITY, N.J. — The race to legalize sports betting is on now that the U.S. Supreme Court has allowed it in all 50 states, but will it provide enough extra tax revenue to make much of a difference for schools, roads or pension debt?

Don't bet on it.

Just look to the states that capitalized immediately after the court's ruling last spring and to Nevada, which previously had an effective monopoly on sports gambling. Even though the market is still developing, the returns to date have been modest.

In Nevada, revenue from sports betting has accounted for roughly one half of 1 percent of the entire state budget.

"Everything I've seen so far suggests that this would not be what one would consider to be a pot of gold," said Ohio state Sen. John Eklund, a Republican who introduced legislation to legalize sports betting in his state.

Delaware, Mississippi, New Jersey, Pennsylvania, Rhode Island, and West Virginia legalized sports betting last year after the Supreme Court decision, as did the District of Columbia. Although New Mexico has not passed a sports betting law, the Santa Ana Star Casino & Hotel started taking bets in October through a tribal gambling compact.

Lawmakers in Kentucky, Missouri, Ohio, Tennessee and Virginia already have filed bills to allow

sports betting, and those who track the industry expect a total of 30 states to consider similar ones this year.

The expected stampede of states seeking to legalize it has parallels to the growing trend toward legalizing recreational marijuana, which 10 states have done and others are considering.

As with marijuana, lawmakers say they are motivated in large part because sports betting has been a black market activity outside Nevada. Legalizing it would allow states to impose regulations and take in at least some money.

“I keep telling them this is not like a craps table or a slot machine,” said Mark Sickles, a Democratic state lawmaker in Virginia who has sponsored a bill that would place a 15 percent tax on sports betting in the state. “My main purpose is to take something that’s currently being done illegally and get some tax revenue from it.”

Revenue from legalized pot makes up just a small portion of state revenue, even in the states with the most mature markets — about 2 percent in Colorado and a little over 1 percent in Washington, according to a May report from Moody’s Investors Service. That’s still a far larger portion of revenue than even the most optimistic projections for sports betting.

New Jersey was the first state to legalize sports betting after the Supreme Court decision last May.

The state’s gambling industry took in $928 million worth of sports bets since the first one was taken on June 14 through the end of November. From that, the state received less than $8 million in tax revenue.

Even if the state meets its projection of $25 million in sports betting tax revenue for a full year, that would amount to well under one 10th of 1 percent of the state’s $37.4 billion budget.

Former New Jersey state Sen. Raymond Lesniak began the effort to legalize sports betting there 10 years ago with what at the time seemed like a quixotic lawsuit against the federal government. He said sports gambling was not supposed to be a big moneymaker for the state.

“It wasn’t intended to do that,” he said. “I was driven by the fact that the Atlantic City casino industry was dying and the horse racing industry was on life support. It needed an injection of new money and new people that would come, fill up rooms, eat in restaurants, spend money.”

Lesniak expects sports betting to eventually generate over $100 million in taxes for the state once all New Jersey’s casinos and racetracks have sports books up and running for a full year. That would be 10 times the level of tax revenue being generated right now, when many sports betting operations in New Jersey are in their infancy.

Yet experts say sports betting revenue in New Jersey and elsewhere is likely to be diluted as more and more states jump into the game.

New Jersey’s market is being squeezed on one side by Pennsylvania, which recently began offering sports betting, and on the other by New York, which is likely to pursue legalization this year.

For perspective, New Jersey’s casino revenue at the end of 2006, when Pennsylvania opened its first casino, was $5.2 billion. A decade later, that number had been cut in half and Pennsylvania had more casinos.

The states that have launched sports betting this year expect they will bring in tax revenue that

ranges from about $5 million in Mississippi and West Virginia to $25 million in New Jersey. In each state, hitting those targets would account for just a fraction of 1 percent of state spending.

Even Rhode Island, which has the highest sports betting tax rate at 51 percent, estimates it will take in $23.5 million a year, or a quarter of 1 percent of the state's budget.

Those revenue projections are in line with expectations from the municipal ratings firm Moody's Investor Service. Baye Larsen, who analyzes state finances at Moody's, expects sports betting to account for a "very, very small slice" of state revenue and will do little if anything to help cover their rising pension, Medicaid, education or infrastructure needs.

Instead, some lawmakers said they will try to direct the money to specific projects. A bill in Missouri, for example, would send some of the revenue to the capital improvement fund of the state Veterans Commission, while some of New Jersey's online sports betting revenue is targeted to an Atlantic City promotion campaign.

"Legalized sports gambling is not a way to raise revenue for the government; it is not a mechanism to create jobs," said Minnesota state Rep. Patrick Garofalo, a Republican. "It's a high-volume, low-margin business."

By The Associated Press

Jan. 2, 2019

Associated Press writer Regina Garcia Cano in Las Vegas contributed to this report.

Should Pensions Own Utilities? Congress Has Considered It Before.

The idea has advantages for pensions and is likely to be attractive to places with major pension funding issues.

Democrats are taking control of the U.S. House next month and have promised that infrastructure will be one of their top priorities. In what seems like an unlikely pairing, public pensions could play a role.

This year, a proposed House bill would have cleared the way for pensions to buy municipal assets, such as water and sewer authorities. The idea has advantages for pensions and is likely to be attractive to governments with major pension funding issues. Think: Chicago, Connecticut, Illinois, Kentucky and New Jersey.

For one, it would immediately boost the value of the pension fund because the utility's worth would be based on its future revenue expectations. New Jersey did something similar by transferring ownership of its lottery to the state pension fund in 2017. At the time, the lottery was valued at $13.5 billion, which helped reduce — on paper at least — the pension's unfunded liabilities. Proceeds from the lottery also helped lower how much the state had to annually contribute to pensions.

Another appealing aspect is the potential benefit to struggling municipalities. Offloading the asset to a pension fund would result in a one-time cash infusion for the local government. It could also help the municipal books because a utility is typically viewed as a net drain on public finances.

But those advantages might not result in the best fiscal policy.

Municipal Markets Analytics' Matt Fabian warns that the idea's attributes are largely based on accounting gimmicks. "It's only really the appearance of better funding on the assumption that the pension fund could sell the asset," he says.

The notion of transferring ownership of public assets directly to pension funds has been bandied about for several years. But it hasn't gained traction in part because it would require a change at the federal level in order for pension-owned utilities to continue issuing tax-free debt.

There are ways, however, to achieve something similar without Congress.

Connecticut, for example, recently established a committee to look at creating a state trust to hold some 7,000 public assets worth billions of dollars. In one scenario, the state's woefully underfunded pensions could be given shares in that trust in lieu of a pension contribution from the state.

Looking ahead, the concept's prospects remain uncertain. The municipal community has been mum, and a spokeswoman for the National Association of State Retirement Administrators says they are still looking into the pros and cons.

In addition, the proposal needs a new champion as the Republican author of this year's bill didn't win reelection. But with Democrats in charge of the House, the idea's benefits to struggling pension systems, which are in mostly blue states, may be tempting enough to keep it in play.

GOVERNING.COM

BY LIZ FARMER | DECEMBER 21, 2018 AT 12:17 PM

The Federal Shutdown's Impact on States and Localities.

SPEED READ:

- **In prior shutdowns, states have kept most programs and services running and been reimbursed by the feds. But sometimes, they aren't fully or quickly reimbursed.**
- **Programs that help the most vulnerable populations are most affected.**
- **About two-thirds of federal grant funding to states is considered mandatory and is generally not impacted by a shutdown.**

The federal government has been shut down for 12 days, and there is no immediate end in sight. The longer it goes, the more disruptive it will be to state and local governments that have to pick up the tab for services.

This shutdown is the third and the longest of President Donald Trump's tenure. As with the first shutdown of his administration, immigration is the focus of the dispute. Trump is calling for $5.6 billion in funding for a border wall between the U.S. and Mexico, but the idea lacks the necessary support in Congress.

The impact of a federal shutdown on other governments is all about duration. Now that the stalemate is approaching the two-week mark, states and localities — and the economy at large — could start to encounter serious challenges. S&P Global Ratings estimates that the shutdown could

shave $1.2 billion off real GDP for each week that part of the government is closed.
“A protracted federal shutdown,” it warns “would compound the effects of fading fiscal stimulus and act as a drag on an economy already experiencing decelerating growth.”

House Speaker Nancy Pelosi has promised that the House, newly controlled by Democrats, will pass a bipartisan deal by Tuesday. But there’s no guarantee that Trump or even the Senate, where Republicans gained seats in the midterm elections, would approve it.

The Cost of Covering Services During a Shutdown

In prior shutdowns, states have generally put up their own money to keep most programs and services running. That’s a calculated risk because the feds have generally reimbursed the states for such expenses in the past.

National Association of State Budget Officers’ John Hicks told Governing previously that it is “comforting” to states that they have been reimbursed after previous shutdowns. “The best example people have in their recent memory is that it hasn’t caused financial pain to states for continuing to provide services,” he added.

That said, there’s no guarantee states will be fully reimbursed or that it will be in a timely manner. For instance, nearly four years after the 2013 shutdown, Arizona, Colorado, New York, South Dakota, Tennessee and Utah were still waiting to get all their money back.

What’s Impacted by the Shutdown and What’s Not

Cities and counties are likely to face fewer challenges than states, largely because local governments get relatively little direct federal funding.

The key to determining the shutdown’s impact on a particular government program is whether funding is mandatory or discretionary. Generally, mandatory programs — such as Medicaid and food stamps — aren’t affected. About two-thirds of federal grant funding to states is considered mandatory.

Furthermore, a fair amount of discretionary programs are safe because of previously passed measures that cover a full year of funding. That means programs funded through the departments of Defense, Education, Health and Human Services, Labor, and Veterans Affairs should not be affected. Therefore, programs like the Low Income Home Energy Assistance Program or Head Start preschool — which have ran out of funds in previous shutdowns — will be able to stay open. The Children’s Health Insurance Program — a victim of previous shutdowns — is also safe thanks to a six-year funding deal reached last year.

Highway programs are largely funded by a special account called the Highway Trust Fund — not the general fund — so they are generally spared, too.

Programs that help the most vulnerable populations are most affected. According to Federal Funds Information For States, funding is currently in doubt for the cash welfare program (officially called Temporary Assistance for Needy Families) and Child Care Development Fund programs because they weren’t among those to receive a full year appropriation.

In the event of a prolonged shutdown, the bond market could slow down. That’s because governments preparing to issue bonds may delay their borrowing, especially for projects that have significant federal funding components. As a result, it’s possible that some construction on transportation infrastructure will come to a halt.

When it comes to state employees whose positions are funded by federal grants, which includes some economic development and local housing workers, states might pick up the difference, at least for a time. But they may have to make tough decisions in the event of a longer shutdown.

Meanwhile, furloughed workers are starting to file for unemployment.

The District of Columbia, Maryland and Virginia are home to thousands of federal workers and contractors and are among the states most affected by the federal work stoppage. According to the Baltimore Sun, unemployment insurance applications have started to spike in Maryland. The state labor department had 169 new applications as of Dec. 27, but that number is expected to grow. Unlike previous shutdowns, federal funding has already been appropriated to cover the cost of these offices staying open to take claims.

Still, the uptick is not quite as dramatic, so far, as it was in 2013 when state unemployment offices were flooded with requests from temporarily laid off federal employees. That's in part due to the fewer number of federal workers affected. Also, employees who receive backpay when the government reopens will have to refund employment offices any benefits they received.

GOVERNING.COM

BY LIZ FARMER | JANUARY 2, 2019 AT 12:14 PM

USDA Announced $600 Million for Rural Broadband.

The USDA's ReConnect Program plans to expand the use of rural broadband Internet to areas that currently lack high-speed connectivity.

In December, U.S. Department of Agriculture Secretary Sonny Perdue announced the department would be distributing $600 million in a combination of grants and loans to build broadband infrastructure in rural areas of the country through the department's new ReConnect Program.

Telecommunication companies, rural electric cooperatives and utilities, Internet service providers and municipalities are eligible to apply for funding through the new rural broadband program.

High-speed Internet e-Connectivity is a necessity, not an amenity, vital for quality of life and economic opportunity, so we hope that today rural communities kick off their rural broadband project planning," Perdue said.

The program is part of the Trump administration's Task Force on Agriculture and Rural Prosperity, with eConnectivity as a major stepping stone to all other goals, according to the task force's infographic:

Continue reading.

efficientgov.com

by Rachel Engel

January 4, 2019

Muni Market Looks to Taiwan Where Insurers Welcome New Options.

- **Taiwanese life insurers can now buy U.S. muni revenue bonds**
- **Move may further boost already-record foreign muni ownership**

The $3.8 trillion municipal bond market is so U.S. investor focused, radio commercials for New York commuters tout local bonds. But now, insurance companies from Taiwan are also paying attention.

In November, Taiwanese regulators said the country's domestic life insurers could buy U.S. municipal revenue bonds. Previously, the companies could only invest in general-obligation debt. More than 60 percent of new long-term munis sold this year was backed by revenue streams, according to data compiled by Bloomberg.

The move could further boost foreign holdings of municipal bonds, which once held little allure overseas because they often yield lower than other investments. But amid low and even negative yields on global bonds, foreigners owned a record $106 billion by the end of September, more than twice the amount they did in 2008, according to Federal Reserve Board data.

"The broader investment guidelines pave the way for Taiwanese insurance accounts to play a more active role in the U.S. municipal market," said Glenn McGowan, director of municipal underwriting at RBC Capital Markets, in an email. Their participation will depend on market conditions, comparative interest rates, and currency-hedging costs, he said.

"Of course we will try to invest in this new product," said Abel Lin, managing senior executive vice president of Cathay Life Insurance, by phone. "The opening means an extra option for us."

Lin said a team will evaluate the securities and determine if the "return and risk management falls in our comfort zone."

Revenue bonds from active issuers, and those that are frequently traded and with ratings in the A category or higher are likely to be the focus of Taiwanese insurers, McGowan said. Specifically, they may prefer taxable munis sold by essential service providers such as utilities, nonprofit hospitals and higher-education institutions, said Matt Caggiano, who helps oversee more than $7 billion of municipal holdings mostly for insurance clients at DWS Group.

At the moment, though, the math isn't working, Caggiano said. "A lot of the companies are saying the hedging costs have increased," he said by telephone. Their target returns "just aren't available for the most part."

Taiwan's life insurance companies have NT$23.6 trillion total amount of capital invested by the end of October. Of it, about 69 percent is invested in foreign currency-denominated assets, according to the Taiwan Insurance Institute.

Bloomberg Business

By Romy Varghese and Miaojung Lin

December 21, 2018, 7:51 AM MST

— With assistance by Sophia Sung

[Eleventh Circuit Rules That Equitable Mootness Applies in Chapter 9 Cases: Jones Day]

In *Bennett v. Jefferson County, Alabama*, 899 F.3d 1240 (11th Cir. 2018), a panel of the U.S. Court of Appeals for the Eleventh Circuit ruled as a matter of first impression that the doctrine of equitable mootness applies in chapter 9 cases. According to the Eleventh Circuit panel, "[T]he correct result is to join the Sixth Circuit and the Ninth Circuit B.A.P. in allowing equitable mootness to apply in the Chapter 9 context." The panel held that an appeal filed by county sewer ratepayers of an order confirming a plan of adjustment was equitably moot because the ratepayers failed to seek a stay pending appeal and the plan had been substantially consummated. The panel also concluded that a chapter 9 plan subjecting ratepayers to rate increases over time, "instead of forcing them to bear the financial pain all at once, does not transmogrify it into one that per se violates the ratepayers' constitutional rights."

Equitable Mootness

"Mootness" is a doctrine that precludes a reviewing court from reaching the underlying merits of a controversy.

The judge-fashioned remedy of "equitable mootness" bars adjudication of an appeal when a comprehensive change of circumstances has occurred such that it would be inequitable for a reviewing court to address the merits of the appeal. In bankruptcy cases, appellees often invoke equitable mootness as a basis for precluding appellate review of an order confirming a chapter 11 plan. *See, e.g., In re LCI Holding Company, Inc.*, 802 F.3d 547, 554 (3d Cir. 2015) (stating that the doctrine "comes into play in bankruptcy (so far as we know, its only playground) after a plan of reorganization is approved" and ruling that equitable mootness would not cut off the authority to hear an appeal outside the plan context).

The doctrine of equitable mootness is sometimes criticized as an abrogation of federal courts' "virtually unflagging obligation" to hear appeals within their jurisdiction. *In re City of Detroit, Michigan*, 838 F.3d 792, 805 (6th Cir. 2016) (dissenting opinion), *cert. denied sub nom. Ochadleus v. City of Detroit, Mich.*, 137 S. Ct. 1584 (2017), and *cert. denied sub nom. Quinn v. City of Detroit, Mich.*, 137 S. Ct. 2270 (2017); *In re One2One Commc'ns, LLC,* 805 F.3d 428, 433 (3d Cir. 2015) (citing cases); *In re Charter Commc'ns, Inc.*, 691 F.3d 476, 481 (2d Cir. 2012) (same). According to this view, dismissing an appeal on equitable mootness grounds "should be the rare exception." *In re Tribune Media Co.*, 799 F.3d 272, 288 (3d Cir. 2015).

Standard for Equitable Mootness

Several circuit courts of appeals have formally adopted the doctrine of equitable mootness in considering whether to hear appeals of chapter 11 plan confirmation orders. For example, in *In re Manges*, 29 F.3d 1034 (5th Cir. 1994), the Fifth Circuit identified three factors in determining whether the doctrine should moot appellate review of a confirmation order: (i) whether a stay has been obtained; (ii) whether the plan has been "substantially consummated"; and (iii) whether the relief requested would affect either the rights of parties not before the court or the success of the plan. *Id.* at 1039 (citations omitted).

Substantially similar tests for equitable mootness have been adopted by several circuits. See *JPMCC 2007-C1 Grasslawn Lodging, LLC v. Transwest Resort Props., Inc. (In re Transwest Resort Props., Inc.)*, 801 F.3d 1161, 1167–68 (9th Cir. 2015) (applying a four-factor test, including whether the

court "can fashion effective and equitable relief without completely knocking the props out from under the plan and thereby creating an uncontrollable situation for the bankruptcy court"); *Search Market Direct, Inc. v. Jubber (In re Paige)*, 584 F.3d 1327, 1339 (10th Cir. 2009) (applying a six-factor test, including: (i) whether the public-policy need for reliance on confirmed bankruptcy plans—and the need for creditors generally to be able to rely on bankruptcy court decisions—would be undermined by reversal of the confirmation order; (ii) the likely impact upon a successful reorganization of the debtor if the appellant's challenge is successful; and (iii) whether, on the basis of a brief examination of the merits of the appeal, the challenge is legally meritorious or equitably compelling); *In re United Producers, Inc.*, 526 F.3d 942, 947–48 (6th Cir. 2008) (three-factor test); *Nordhoff Invs., Inc. v. Zenith Elecs. Corp.*, 258 F.3d 180, 185 (3d Cir. 2001) (five-factor test, including whether the relief requested would affect the success of the plan, and the public policy of affording finality to bankruptcy judgments); *TNB Fin., Inc. v. James F. Parker Interests (In re Grimland, Inc.)*, 243 F.3d 228, 231 (5th Cir. 2001) (three-factor test); *see also In re Philadelphia Newspapers, LLC*, 690 F.3d 161, 168–69 (3d Cir. 2012) (holding that the foremost consideration is "whether allowing an appeal to go forward will undermine the plan, and not merely whether the plan has been substantially consummated"); *Frito-Lay, Inc. v. LTV Steel Co.* (*In re Chateaugay Corp.*), 10 F.3d 944, 952–53 (2d Cir. 1993) (noting that substantial consummation will not moot an appeal if: (i) the court can still order some effective relief; (ii) such relief will not affect the emergence of the debtor as a revitalized entity; (iii) such relief will not unravel intricate transactions so as to knock the props out from under the plan; (iv) the parties adversely affected by the modification have notice of the appeal and an opportunity to participate in the proceedings; and (v) the appellant diligently pursued a stay pending appeal).

A common element of these tests is that the chapter 11 plan has been substantially consummated. Section 1101(2) of the Bankruptcy Code provides that "substantial consummation" of a chapter 11 plan occurs when substantially all property transfers proposed by the plan have been completed, the reorganized debtor or its successor has assumed control of the debtor's business and property, and plan distributions have commenced.

Application of Equitable Mootness in Chapter 9 Cases

Prior to *Jefferson County*, a handful of courts ruled that the doctrine of equitable mootness applies in chapter 9 cases. In *City of Detroit*, the Sixth Circuit concluded that "equitable mootness applies to Chapter 9 cases just as it applies to Chapter 11." 838 F.3d at 805. In so ruling, the court reasoned that equitable mootness likely applies "with greater force to the City's Chapter 9 Plan, which affects thousands of creditors and residents," than it might in a case under any other chapter with far fewer potentially impacted stakeholders. *Id.*

Relying on the district court's (later affirmed) ruling in *City of Detroit*, a Ninth Circuit bankruptcy appellate panel came to the same conclusion in *In re City of Stockton, California*, 542 B.R. 261, 274 (B.A.P. 9th Cir. 2015), noting that "equitable mootness has a legitimate role to play in bankruptcy reorganization cases of all types, chapter 11, chapter 13 and chapter 9." In addition, three other courts have applied it in chapter 9 cases, but with little or no analysis. See *In re City of Vallejo*, 551 Fed. Appx. 339 (9th Cir. 2013) (ruling that a bankruptcy appellate panel properly dismissed appeals of a settlement agreement with a chapter 9 debtor as moot because the appellant did not seek a stay pending appeal and the agreement had been fully executed, rendering the bankruptcy court unable to fashion effective and equitable relief); *In re City of San Bernardino*, 2018 WL 317798 (C.D. Cal. Jan. 4, 2018) (applying the three-part test articulated in *In re Thorpe Insulation Co.*, 677 F.3d 869 (9th Cir. 2012), and ruling that an appeal of an order confirming a chapter 9 plan was equitably moot); *Alexander v. Barnwell Cnty. Hosp.*, 498 B.R. 550 (D.S.C. 2013) (applying the four-part test articulated in *Mac Panel Co. v. Va. Panel Corp.*, 283 F.3d 622 (4th Cir. 2002), and ruling that an

appeal of a chapter 9 plan confirmation order was equitably moot).

Jefferson County

In *Jefferson County*, the Eleventh Circuit considered whether equitable mootness should foreclose an appeal of an order confirming a plan of adjustment in a chapter 9 case.

Jefferson County, Alabama (the "County") filed a chapter 9 petition in 2011 in an effort to restructure $3.2 billion in sewer-system-related debt. In 2013, the County proposed a chapter 9 plan under which: (i) the proceeds of new publicly marketed sewer warrants would retire the County's old sewer warrants; (ii) sewer-warrant creditors would write off approximately 45 percent of their debt; and (iii) the County would implement a series of rate increases over 40 years that could be reduced only if the County secured an equivalent amount of income from an alternate source.

A group of County ratepayers objected to confirmation of the plan, arguing that: (i) the plan validated corrupt government activity in connection with issuance of the original warrants, which violated the Alabama Constitution and caused the debt crisis; (ii) by preventing County commissioners from adjusting sewer rates, the plan violated Alabama law and infringed on ratepayers' rights to vote and to be free from overly burdensome debt without due process; and (iii) the plan was not feasible because it was imposed over a service area with a declining population and falling income levels.

The bankruptcy court overruled the objections and confirmed the County's chapter 9 plan in November 2013. In its confirmation order, the court retained jurisdiction for the 40-year life of the new sewer warrants to adjudicate any disputes regarding the validity of any actions implemented by the plan. The plan became effective on December 3, 2013, when the County issued the new sewer warrants and distributed the proceeds via clearinghouses to old warrant holders.

The ratepayers filed a notice of appeal of the confirmation order two days prior to the effective date of the plan. However, they neither: (i) objected to a motion filed by the County two weeks previously to waive the 14-day stay of the confirmation order imposed by Fed. R. Bankr. Proc. 3020(e); nor (ii) asked the bankruptcy court or the district court to stay the confirmation order pending appeal.

The District Court's Ruling

In the district court, the County moved to dismiss the ratepayers' appeal on the basis that it was constitutionally, statutorily, and equitably moot because the plan had been consummated and the transactions implemented by the plan could not be unwound.

The district court concluded that the appeal was not equitably moot because it found the doctrine to be inapplicable to constitutional challenges to a confirmation order in a chapter 9 case. According to the district court, "[A]pplying the doctrine of equitable mootness as the County espouses would prevent both state and federal Article III courts from deciding . . . 'knotty state law' and constitutional issues and would prevent any review of a federal bankruptcy court's assumption of jurisdiction to enforce its unreviewed actions."

Even if the doctrine applied in chapter 9, the district court explained, it would not dismiss the ratepayers' appeal because it could grant them some relief by striking the retention of jurisdiction and rate adjustment provisions in the confirmation order. It also noted that the ratepayers' failure to obtain a stay was not dispositive because there had been a rush to consummation, and seeking a stay "was futile and cost-prohibitive."

The district court granted the County's motion for leave to appeal its ruling to the Eleventh Circuit.

The Eleventh Circuit's Ruling

A three-judge panel of the Eleventh Circuit reversed. The panel faulted, among other things, the district court's legal conclusion that equitable mootness does not apply in chapter 9.

Examining the history and application of equitable mootness, the Eleventh Circuit panel explained that the U.S. Supreme Court has never weighed in on its legitimacy, but no court of appeals—including the Eleventh Circuit—has rejected the doctrine outright.

In previous rulings, the panel noted, it identified a number of important considerations bearing on whether the doctrine bars an appeal, including—most important—the extent to which allowing an appeal to proceed would impinge upon actions taken by stakeholders in good-faith reliance on a final and unstayed judgment.

The Eleventh Circuit panel then held as a matter of first impression that, because equitable mootness is "driven by its principles rather than any particular codification or arbitrary limitation . . . we see no reason to reject the doctrine" in chapter 9. Indeed, the court wrote that "in ways these principles will sometimes weigh more heavily in the Chapter 9 context precisely because of how many people will be affected by municipal bankruptcies."

The court rejected the ratepayers' argument that because municipal bankruptcies implicate issues of state sovereignty (whereas corporate and individual bankruptcies do not), a court should "tread carefully where self governance is concerned" and refuse to bar an appeal on constitutional grounds in a chapter 9 case under the doctrine of equitable mootness. The Eleventh Circuit panel found that "the mere fact that a potential or actual violation of a constitutional right exists does not generally excuse a party's failure to comply with procedural rules for assertion of the right."

The Eleventh Circuit panel then concluded that equitable mootness barred the ratepayers' appeal because: (i) "critically," the ratepayers never asked any court to stay the implementation of the plan, and seeking a stay or an expedited appeal was not a "fool's errand" because, among other reasons, the bankruptcy court may not have required a bond; (ii) the County and other stakeholders have "taken significant and largely irreversible steps in reliance" on the unstayed confirmation order, including the issuance of more than $1 billion worth of new publicly traded sewer warrants; and (iii) considering the public interest, the fact "[t]hat a Chapter 9 bankruptcy plan subjects [County] residents . . . to rate increases over time, instead of forcing them to bear the financial pain all at once, does not transmogrify it into one that per se violates the ratepayers' constitutional rights."

Outlook

Chapter 9 of the Bankruptcy Code strikes a sometimes precarious balance between the bankruptcy policy of facilitating the restructuring of a debtor's obligations in a binding plan of adjustment and constitutional concerns that serve as a bulwark against the erosion of state sovereignty through a federal court's intrusion on municipal prerogatives. Even so, in *Jefferson County*, the Eleventh Circuit joined the Sixth Circuit and the Ninth Circuit bankruptcy appellate panel in concluding that, although important, those constitutional concerns do not prevent a bankruptcy court from concluding that an appeal of an order confirming a chapter 9 plan is equitably moot under appropriate circumstances.

Jones Day

by Mark Douglas & Thomas (Tom) Wilson

December 24, 2018

U.S. Cities Look to Shed Ratings While Taking On More Debt.

One-fourth of municipal borrowing is given a single grade, leaving smaller investors with less information.

U.S. cities and counties are using fewer ratings to assess the risks of the bonds they sell, providing investors with just one opinion on an increasing amount of new debt.

Roughly 25% of the dollar value of all municipal debt issued this year carried a single grade from one of the major ratings firms, according to Municipal Market Analytics data as of Oct. 3. If that percentage holds through the end of the year, it would be the highest since the research firm began tracking the data in 2006. For the riskiest debt, the single-grade ratio by dollar volume was 37%.

Municipal officials and advisers said fewer ratings help cities trim expenses and save time when they borrow money for everything from school construction to sewer repairs. Bond issuers typically pay rating firms to issue a report. But some analysts said opting for one grade from a single firm puts smaller investors at a disadvantage as less information circulates through the $3.8 trillion municipal market.

Continue reading.

The Wall Street Journal

By Gunjan Banerji and Heather Gillers

Dec. 19, 2018

A Holiday Municipal Bond Impact Story.

In this season of giving, it is a reminder that, by-and-large, Americans are a caring and generous people. Whether funding research to fight disease such as cancer or helping those in need because of natural disasters like fire or flooding, Americans consistently open their wallets. These are clear, universal, there-but-for-the-grace-of-God issues. They touch us at our heart. In fact in 2017, for the first time, contributions crossed the $400 billion mark for the first time.

A Long Way From Home

However, our reaction to the issue of homelessness is more complicated. Anyone who lives in a metropolitan area is likely to have some interaction with a homeless person. Encounters may be as benign as seeing someone on the streets or more directly by being aggressively panhandled for money. It’s nearly a daily event for many.

A swirl of emotions and thoughts run through us in the course of the few seconds we take this in. Initially the reaction is compassion. This is another human being, after all. Someone’s son or daughter or father or mother. In some ways, this person is a stark reminder of how fortunate we are to have the life and things we have.

Continue reading.

Forbes

by Barnet Sherman, Contributor

Dec 21, 2018

The Week in Public Finance: In Kentucky, Pension Reform Fails (Again)

Despite going into special session, lawmakers still don't have a solution for the least-funded pension system in the nation.

SPEED READ:

- Late last week, the Kentucky Supreme Court struck down pension reform passed earlier this year.
- Kentucky lawmakers adjourned a special session called by Gov. Matt Bevin Tuesday night without addressing the court's ruling.
- The state employees plan is less than 17 percent funded — the worst in the nation. Lawmakers have been trying to fix the state's pension system for nearly 15 years.

It's been a whirlwind five days for pension reform in Kentucky.

It all started late last week when the state Supreme Court struck down pension legislation passed earlier this year. Gov. Matt Bevin called a special session on Monday to address the ruling. But a mere 24 hours later, lawmakers had adjourned with no solution.

"We cannot shirk this, we cannot run from this," House of Representatives Speaker Pro-Tempore David Osborne said in a floor speech Tuesday night. "But this was not a problem that was created overnight. We cannot solve it within the confines of a five-day session."

Continue reading.

GOVERNING.COM

BY LIZ FARMER | DECEMBER 21, 2018 AT 7:00 AM

New Muni Bonds Expected To Be Slightly Lower In 2019 As Credit Troubles Kick In.

New municipal bonds are should be slightly lower next year than this year, six large and regional broker-dealers report in a new SIFMA survey.

A broad based deterioration of credit and fiscal pressures associated with underfunded pension programs were cited as key factors in the expected dampening of the market.

Broker-dealers responding to the SIFMA survey are projecting new long term muni bonds will total $317 billion in 2019 versus an expected $330.7 billion for 2018.

Short term municipal bonds should come in at $36.5 billion for the new year compared to $43 billion

for the old, according to the poll taken from November 19 to December 17.

The ratio of the yield on 10-year AAA general obligation municipal bonds to the 10-year Treasury benchmark is expected be 86.0 percent at end-December 2018 before rising slightly to 86.7 percent end-December 2019.

The 10-year Treasury yield is forecast to climb from 3.09 percent at the conclusion of this year to 3.38 percent at the end of 2019.

General purpose and education are seen as the two largest sectors of muni bond issues for the coming year followed by utilities and transportation.

Defaults were predicted for around 30 issuers of bonds with a face value of $1.5 billion to $4 billion.

Forbes

by Ted Knutson

Dec 19, 2018

Ted Knutson is one of the most experienced financial regulatory reporters in Washington. For years, he has covered the SEC, CFTC, the bank regulators and the key Congressional committees.

Another Stellar Quarter of State Revenue Growth, But the Pace Is Slowing Down.

State Tax and Economic Review, 2018 Quarter 2

Abstract

Total state tax revenue from all sources showed strong growth in the last three quarters of 2018. States collected slightly over $1 trillion in tax revenues in fiscal year 2018, a gain of 7.8 percent over 2017. But the revenue growth was uneven among the states and across revenue sources. Much of the growth came from individual income taxes that have grown by double-digits for three consecutive quarters. The growth in income tax was mostly in response to income shifting due to the Tax Cuts and Jobs Act, and other one-time factors. In addition, a handful of states facing falling revenues at the end of fiscal year 2017, enacted significant tax changes, projected to bring in $8.8 billion additional revenue in fiscal year 2018.

Economic factors driving state revenue were all positive in the second quarter of 2018. Although the near-term economic outlook is positive and despite the strong state revenue growth in the most recent quarters, states face large fiscal challenges, particularly because of the uncertainties related to the longer-term impact of the TCJA on state economies and budgets. Therefore, state officials would be wise to view recent revenue increases as a one-time windfall and anticipate slower revenue growth in the medium term.

Download the Report.

The Urban Institute

by Lucy Dadayan

December 18, 2018

[Ten-Year Muni-Bond Yields Poised for Biggest Drop Since May 2017.]

- **‘Almost a perfect storm for municipals to perform well’**
- **Equity-market turmoil has fueled drive into safe havens**

The muni-bond market is mounting a strong year-end finish.

The yields on top-rated, 10-year state and local government bonds have dropped each day since Dec. 14 and have declined to about 2.32 percent, down 0.23 percentage point since the end of November, according to Bloomberg’s indexes. That has put those yields on pace for the biggest monthly drop since May 2017 amid growing speculation that the Federal Reserve may pause or slow the pace of its interest-rate increases.

“It’s been almost a perfect storm for municipals to perform well,” said James Iselin, a portfolio manager at Neuberger Berman Group in New York. “In the last six weeks, risk asset volatility has picked up, you’ve seen flight to quality trade in Treasuries and we’ve rallied in a similar amount.”

The market has also been benefiting from a dearth of new bond sales, Iselin said. Very few deals came to market in the week leading up to the Christmas holiday and next to nothing has sold in the past three days, a trend investors expect to continue into January.

Duane McAllister, senior portfolio manager at Robert W. Baird & Co., said the biggest driver of the municipal market has been the rally in Treasuries, which set the baseline for the market. The recent gains have driven municipal bonds to a return of 1.2 percent this year.

“We are tethered to the Treasury market, when you’ve seen the kind of move in Treasury yields, municipals are going to come along for the ride,” he said.

Bloomberg Markets

By Danielle Moran

December 28, 2018, 10:16 AM MST

[Municipal Bond Market Wraps Up Tough Year of 'Muted' Returns.]

R.J. Gallo, senior portfolio manager and head of municipal bond investment group at Federated, examines the issues that impacted the municipal bond market in 2018. He speaks with Bloomberg’s Taylor Riggs in this week’s “Muni Moment” on “Bloomberg Markets.”

[Watch video.]

Bloomberg Markets TV Shows

December 19th, 2018, 9:37 AM MST

Muni Market Looks to Next Year for an Infrastructure Bill and Bigger Returns.

- **Banks are expected to continue decreasing municipal holdings**
- **States and cities want Congress to return advance refundings**

The $3.8 trillion municipal-bond market is preparing to close out 2018 with lackluster gains as it looks to next year for better returns and a bi-partisan infrastructure bill from Washington to help boost spending on roads, schools and bridges.

Yields on tax-exempt securities soared this year as the Federal Reserve raised interest rates four times in 2018. That hampered performance, with the broader municipal market gaining nearly 0.9 percent in the year through Dec. 19, after a 5.5 percent advance in 2017, according to Bloomberg Barclays index data.

Along with higher borrowing costs, states and municipalities lost a financing tool that allows them to refund debt earlier than expected and save money.

Continue reading.

Bloomberg Markets

By Michelle Kaske

December 20, 2018, 10:00 AM MST

Two-Month Muni Rally at Risk After Market Wanted More Dovish Fed.

- **Municipal bonds are headed for a 0.8 percent return in 2018**
- **Yield on 30-year top-rated munis has fallen since November**

For the $3.8 trillion municipal-bond market, all eyes were on the Federal Reserve to figure out whether better performance is ahead in 2019.

State and local debt was headed for a two-month rally amid expectations that the central bank was closer than previously thought to pausing its cycle of interest rate hikes. At Wednesday's meeting, Fed policy makers raised interest rates for a fourth time this year but pared projections for hikes in 2019 to two rather than three. Firms like BlackRock Inc. said that could bolster municipal-bond returns. Higher interest rates hurt the price of munis.

The benchmark yield on mid- and long-dated muni bonds declined 2 basis points after the Fed's announcement. Shorter-dated securities fell by 1 basis point.

"We think the Fed is getting closer to a pause or maybe even a peak in rates," RJ Gallo, a senior portfolio manager and head of the municipal-bond investment group at Federated Investors, said during a Bloomberg Television interview on Wednesday before the announcement. "If that's the case, that's constructive for high-quality fixed-income — that's munis. Munis can benefit from an end to the upward rate cycle."

Municipal bonds are headed for a 0.8 percent return in 2018, pressured by both rising interest rates and less buying from banks and insurance companies under a lower tax rate. Yields on 30-year top-rated municipal bonds have fallen since the start of November to 3.1 percent, but they're still over 55 basis points higher than where they started 2018.

If policy makers do limit expected rate increases in 2019, "they're admitting that growth expectations have diminished, which would be positive for bonds," said Patrick Tucci, a fixed-income portfolio manager for Foresters Investment Management Company, Inc., which oversees $1.5 billion in municipals.

The firm is overweight the 20-year part of the curve and is considering opportunities to buy 30-year bonds, he said. "From a muni perspective, this is a positive time to be long," he said.

Jason Appleson, a portfolio manager at PT Asset Management LLC, said the municipal market also faces other potential tailwinds at the start of 2019, such as seasonally light supply in January. "If rates come in as expected and we don't see a considerable amount of rate volatility, I absolutely think munis could do well relative to Treasuries," he said.

Bloomberg Markets

By Amanda Albright

December 19, 2018

— With assistance by Taylor Riggs

S&P U.S. Public Finance 2018 Year In Review.

The economic recovery in the U.S. hit a turning point in 2018, starting its tenth year and becoming the second longest on record. The recovery has not broken any records for speed, however, and the slow pace has been a significant factor for credit conditions in U.S. public finance.

Continue Reading

Dec. 17, 2018

From Union Ballots To Election Ballots: A Look Back At The Top 10 S&P Credit Stories Affecting U.S. Charter Schools In 2018.

It's been an eventful year for the U.S. charter school sector. Some schools edge closer to possible defaults, some have dealt with striking workers, and many lost some allies at multiple levels of government following the midterm elections.

Continue Reading

Dec. 20, 2018

Creative Partnerships, Transformative Gifts, And Headline Risks: The Top 10 S&P Credit Stories Affecting U.S. Not-For-Profit Higher Education In 2018.

The U.S. not-for-profit higher education sector has had an eventful year. As revenues remain constrained and many schools continue to struggle with enrollment, institutions have been focused on cost-cutting and containment, while some have battled significant headline risk.

Continue Reading

Dec. 20, 2018

The Trickle-Down Impacts of the Federal Shutdown on States and Localities.

The disruption in Washington, D.C. "could have a significant impact," if there is a protracted partial shutdown, according to Steve Benjamin, the president of the U.S. Conference of Mayors.

While some states are already ponying up to keep national parks open during the partial government shutdown, the trickle-down effect on local and state governments could be felt more intensely in the days to come if federal agencies remain closed for an extended period of time.

The first few days of the latest shutdown—prompted by President Trump's insistence that a temporary budget deal passed by Congress contain funding for a wall on the Mexico border—occurred during the weekend and Christmas holiday. For some states where national parks are major tourist attractions, this closure during a family vacation time meant the need to cover for the absence of park employees, as the Department of the Interior is one of the agencies closed in the shutdown.

Arizona Gov. Doug Ducey last week announced that his office would put into action a plan—finalized after the last shutdown earlier this year—to keep the Grand Canyon open, ensuring trash pickup, bathroom access and shuttles, along with other services. New York Gov. Andrew Cuomo said the state would spend $65,000 a day to keep open the Statue of Liberty and Ellis Island, while Utah Gov. Gary Herbert also said that parks would be open, although staffing could be limited.

Continue reading.

Route Fifty

By Laura Maggi,
Managing Editor

DECEMBER 26, 2018

Broad Coalition of Local Government Organizations Applaud Passage of Water Infrastructure Improvement Act.

Coalition Members Include The United States Conference of Mayors, National Association of Counties, National League of Cities, American Public Works Association, National Association of Regional Councils, National Association of Clean Water Agencies

Washington, D.C. – A broad coalition of local government organizations applaud Congress for passage of the Water Infrastructure Improvement Act (H.R. 7279), a much-needed update to the Clean Water Act (CWA).

Cities, counties and public utilities are on the front lines of environmental protection and support clean and safe water. The Water Infrastructure Improvement Act gives much-needed flexibility to local governments, who are currently facing huge unfunded mandates, in meeting the requirements of the CWA more affordably. The legislation codifies the U.S. Environmental Protection Agency (EPA) Integrated Planning framework, which allows communities to negotiate with EPA to better prioritize their most pressing public health and environmental concerns efficiently and cost-effectively. Since water and wastewater systems are paid for by ratepayers, the bill will help stabilize or reduce costs for a substantial number of low- and fixed-income citizens who spend a significant portion of their income on water and wastewater bills.

Cities and counties invest over $123 billion per year to provide safe, reliable, water and sewer services, and maintain a vast physical infrastructure of pipes, pumps, and plants. EPA estimates local governments will have to invest more than $700 billion over the next 20 years, in addition to current spending, to comply with current drinking water and clean water laws. These figures do not include additional spending by local governments, our residents, and businesses to comply with other environmental and non-environmental federal and state unfunded mandates, which further limit the money available for water infrastructure.

Coalition members include: The U.S. Conference of Mayors (USCM), the National Association of Counties (NACo), the National League of Cities (NLC), the National Association of Regional Councils (NARC), the National Association of Clean Water Agencies (NACWA), and the American Public Works Association (APWA).

This coalition has been working for years with House and Senate members to pass this legislation, which will dramatically help local governments comply with CWA mandates.

The coalition would like to thank key leaders in the House and Senate including: Representatives Bob Gibbs (OH), Grace Napolitano (CA), Bill Shuster (PA), Peter DeFazio (OR), Bob Latta (OH), Steve Chabot (OH), and Senators Deb Fischer (NE), Sherrod Brown (OH), Ben Cardin (MD), John Barrasso (WY), and Tom Carper (DE) for their support.

President Signs Five-Year Farm Bill Reauthorization Containing Several Key Wins for Counties.

KEY TAKEAWAYS

- **NACo applauds Congressional approval of 2018 farm bill, which preserves many key county priorities**
- **Newly-passed farm bill includes several key wins for counties**

On December 20, President Trump signed into law a five-year reauthorization of the farm bill. The president's signature comes after a bipartisan group of legislators worked for months to resolve

disagreements between the two farm bills passed by the U.S. House and the U.S. Senate earlier this year. The five-year, $867 billion reauthorization will help support county economies and provide critical investments to rural and underserved communities.

Throughout the farm bill process, NACo helped draft bill text and amendments to preserve and promote key county priorities. Specifically, the final package creates a new Rural Innovation Stronger Economy (RISE) grant program, reinstates the Undersecretary for Rural Development and codifies the interagency Council on Rural Community Innovation and Economic Development.

Additional provisions include language that would allow counties with regional jails to exclude incarcerated individuals from population caps for funding eligibility under USDA Rural Development programs and a provision that allows counties to use USDA broadband loans and grants for middle-mile projects, which is prohibited under current law.

The final package also excluded several provisions that could have adversely impacted county governments, including a provision that would have prevented local governments from enforcing local food product regulations, language to prevent states and local governments from implementing pesticide permit programs and verbiage that would have made some counties ineligible for broadband funding under USDA's Rural Utilities Service programs.

Additionally, the nutrition title of the conferenced farm bill – which accounts for roughly 75 percent of overall spending within the package – did not include proposed cuts to the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps), which could have resulted in more than two million individuals losing or seeing a reduction in their SNAP benefits.

NACo applauds the Farm Bill Conference Committee and leadership for their bipartisan commitment to key county priorities in this farm bill and thanks the president for signing the reauthorization package into law.

Key provisions included in the final farm bill of importance to counties are listed below:

TITLE II – CONSERVATION

- **Sec. 2401. Watershed Protection and Flood Prevention.** The farm bill maintains the current authorization level of the Small Watershed Rehabilitation Program at $85 million through FY 2023. The Small Watershed Rehabilitation Program was created in the 2014 Farm Bill to assist communities with rehabilitating watershed dams.
- **Sec. 2201. Conservation Reserve.** The farm bill increases the acreage limit of the Conservation Reserve Program (CRP) to 27 million by FY 2023. CRP provides annual rental payments to producers to place crops on highly erodible and environmentally sensitive land and with long-term resources-conserving plantings.
- **Sec. 2308. Conservation Stewardship Program (CSP).** The farm bill establishes a new Grassland Conservation Initiative within the Conservation Stewardship Program. The bill requires the USDA to establish this initiative beginning in FY 2019. CSP provides financial and technical assistance to agricultural producers wishing to maintain and improve their existing conservation systems and adopt additional conservation activities to address priority resource concerns.
- **Sec. 2703. Regional Conservation Partnerships Program (RCPP).** The farm bill streamlines the operation of the RCPP to increase program adoption by eligible partners and producers. RCPP furthers conservation, restoration and sustainability efforts on regional or watershed scales, and encourages partners to cooperate with producers in meeting or avoiding regulatory requirements and implementing projects.

TITLE IV – NUTRITION

- **Sec. 4005. Employment and Training for Supplemental Nutrition Assistance Program.** The farm bill conference agreement protects the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps) by maintaining existing eligibility and work requirements for SNAP recipients. The farm bill conference agreement contains reforms that encourage and prioritize approaches to job training and other employment-related activities that are proven to be effective by the SNAP Employment and Training (SNAP E&T) pilot programs authorized under the 2014 Farm Bill.
- **Sec. 4011. Interstate Data Matching to Prevent Multiple Issuances.** The farm bill conference agreement would establish a new National Accuracy Clearinghouse, which is designed prevent individuals from simultaneously receiving SNAP benefits in multiple states.
- **Sec. 4013. Quality Control Improvements.** The farm bill conference agreement would eliminate an awards program that gave states up to $48 million a year in federal funding for high performances related to program access and payment accuracy. The projected savings from these changes will be reinvested into food banks and other nutrition assistance programs.

TITLE VI – RURAL DEVELOPMENT

- **Sec. 6101. Combating substance use disorder in rural America.** This section creates a 20 percent set-aside of financial assistance for telemedicine projects aimed at addressing the opioid crisis.
  Sec. 6102. Distance learning and telemedicine. The farm bill increases annual authorizations for the Distance Learning and Telemedicine Program from $75 million a year to $82 million a year.
- **Sec. 6201. Access to broadband telecommunications services in rural areas.** This section expands the federal resources for broadband investments to include grants (in addition to the loan and loan guarantee programs already available).
- **Sec. 6202. Expansion of middle mile infrastructure into rural areas.** This section allows counties to use USDA broadband loans and grants for middle-mile projects – prohibited under current law.
- **Sec. 6214. Rural broadband integration working group.** This section creates a federal advisory committee that is required to work with state, local, tribal and territorial governments, telecommunications companies, utilities, trade associations, philanthropic entities, policy experts and other interested parties to identify, assess and determine possible actions relating to barriers and opportunities for broadband deployment in rural areas.
- **Sec. 6301. Exclusion of Certain Populations from Definition of Rural Area.** This section would allow counties with regional jails to exclude incarcerated individuals from population caps for funding eligibility under USDA Rural Development programs.
- **Sec. 6306. Council on Rural Community Innovation and Economic Development.** Much like the previous administration's White House Rural Council, this section creates a federal interagency council to coordinate the development of policy recommendations, maximize the impact of federal investment on rural communities, promote economic prosperity and quality of life in rural communities and use innovation to resolve local and regional challenges faced by rural communities.
- **Sec. 6401. Strategic economic and community development.** This section of the package expands the Strategic Economic and Community Development program to allow the U.S. Secretary of Agriculture to prioritize funding for projects that support the implementation of a strategic community development plan that encompasses two or more jurisdictions.
- **Sec. 6403. Water, waste disposal and wastewater facility grants.** This section doubles the size of allowable grant awards from $100,000 to $200,000, but cuts the authorization in half from $30 million to $15 million each year.

- **Sec. 6424. Rural innovation stronger economy grant program.** This section creates a new Rural Innovation Stronger Economy (RISE) grant program, which would help counties strengthen local economies through job accelerator partnerships with the private sector and institutions of higher education.
- **Sec. 6507. Cybersecurity and grid security improvements.** This section of the package authorizes the Secretary of Agriculture to make loans or loan guarantees available to communities for cybersecurity and grid security improvements.

TITLE VIII – FORESTRY

- **Sec. 8624. Good Neighbor Authority.** The bill reauthorizes Good Neighbor Authority and expands it to allow counties and tribes to enter into agreements with the U.S. Forest Service to assist in forest restoration activities. Further, the bill ensures that any payments made by the county to the Secretary under a good neighbor agreement are not considered to be funds received from National Forest System land or Bureau of Land Management land, ensuring counties continue to receive their fair share of revenues from forest management activities.
- **Sec. 8702. Resource Advisory Committees.** The bill would reduce the mandatory minimum size of USDA Resource Advisory Committees (RAC) from 15 to 9 and reduce the minimum number of members that must be "representative of community interests" from 5 to 3. The bill also creates a pilot program under which regional foresters, as designated by the Secretary, may approve RAC appointments in certain areas.
- **Sec. 8611. Categorical Exclusions to Expedite Forest Management Activities.** The farm bill would establish new categorical exclusions (CE) for critical forest management activities. The bill would create a new CE of up to 4,500 acres for certain forest management activities for the purpose of protecting, restoring or improving habitat for the greater sage-grouse or mule deer.
- **Sec. 8401. Promoting Cross-Boundary Wildfire Mitigation.** The farm bill authorizes $20 million per year through FY 2023 for cross-boundary hazardous fuel projects. The package also authorizes grants to state foresters to support hazardous fuels reduction projects that include both federal and non-federal land and authorizes the Secretary to use other related authorities relating to cooperation and technical assistance – including good neighbor authority – to fund and conduct projects. Further, the bill requires state foresters to consult with non-federal land owners for all projects conducted on non-federal land. Lastly, the bill reauthorizes the hazardous fuel reduction on federal land program at $660 million per year through FY 2023.

TITLE XII – MISC.

- **Sec. 12407. Under Secretary for Agriculture and Rural Development.** This section requires the Department of Agriculture to reestablish the position of Under Secretary for Rural Development. The bill outlines a permanent, mandatory position that is not subject to any administrative reorganizations.

National Association of Counties

By Austin Igleheart & Arthur Scott

Dec. 20, 2018

Partners or Pirates? Collaboration and Competition in Local Economic

Development.

Abstract

In this report, we explore how and why local governments have turned to cooperation to boost economic development. We synthesize highlights from the literature, explore program features from two regional case studies, and share findings from interviews with local practitioners. Although research on the effectiveness of current practices is limited, we identify themes that can inform cooperative economic development.

Download the Report.

The Urban Institute

by Megan Randall, Kim S. Rueben, Brett Theodos, and Aravind Boddupalli

December 20, 2018

Current Issues in Community Solar Projects.

The community solar business model is still relatively new. The developer of a small utility-scale solar project signs up customers who pay it subscription fees. The electricity goes to the local utility. The customers receive bill credits for the electricity from the utility. Projects are getting financed, but usually in portfolios of multiple projects. Most of the activity to date has been in Colorado, Minnesota and Massachusetts, but the model is expanding to other states.

Three community solar developers and one aggregator of community solar customers talked at the Infocast Community Solar 2.0 conference in New Orleans in November about the how the basic business model is evolving and current issues in the market.

The panelists are Rick Hunter, CEO of Pivot Energy Solutions, Joel Thomas, manager of community solar for independent power developer Community Energy, Inc., Jesse Grossman, CEO of Soltage, and Laura Pagliarulo, senior vice president for community solar and commercial sales at CleanChoice Energy. The moderator is Keith Martin with Norton Rose Fulbright in Washington.

Continue reading.

Norton Rose Fulbright

December 18, 2018 | By Keith Martin in Washington, DC

Municipal Solid Waste Landfills/Clean Air Act: Federal Court Addresses States of California/New Mexico Action Alleging EPA Failure to Implement Emission Guidelines.

The United States District Court (Northern District California) ("Court") addressed in a December 21st Order an issue involving the Clean Air Act Municipal Solid Waste ("MSW") Landfill Emission

Guidelines. See *State of California, et al., v. United States Environmental Protection Agency*, 2018 WL 6728009.

> The states of California and New Mexico filed an action against the United States Environmental Protection Agency ("EPA") seeking to have the Court:
>
> . . . issue a declaratory judgment that, by failing to implement and enforce the Emission Guidelines, EPA has violated the Clean Air Act; and issue a mandatory injunction compelling EPA to implement and enforce the Emission Guidelines.

As the Court notes, in 2016 EPA promulgated a final rule related to MSW landfills. See Emission Guidelines and Compliance Times for Municipal Solid Waste Landfills, 81 Fed. Reg. 59,276 (Aug. 29, 2016) ("Landfill Emission Guidelines"). The rule was promulgated pursuant to Section 7411 of the Clean Air Act in which EPA sets standards of performance for emissions of pollutants from new or modified sources within certain categories. Further, Section 7411 also requires the regulation of existing sources that fall within the same category if such emissions are not already covered by certain other Clean Air programs. The Court notes that the federal statute provides that:

> . . . the Administrator shall prescribe regulations which shall establish a procedure similar to that provided by Section 7410 of this title under which each State shall submit to the Administrator a plan that establishes standards of performance, and provides for the implementation and enforcement of such standards of performance.

The promulgation of this rule is then stated to have required that:

1. States were required to submit implementation plans by a certain date
2. EPA approve or disapprove submitted plans by a certain date
3. If either (i) states to which the guideline pertained did not submit implementation plans, or (ii) EPA disapproved a submitted plan, then EPA was required to promulgate a federal plan by a certain date

California and New Mexico submitted implementation plans. EPA is stated to have neither approved or disapproved the plans nor promulgated a federal plan.

EPA filed a Motion to Dismiss arguing:

1. There has been no unequivocal waiver of sovereign immunity
2. Plaintiffs failed to identify any specific state that should have submitted plans, which would have triggered EPA's duty to promulgate a federal plan under the relevant regulations.

The Court first rejects EPA's argument that dismissal is warranted because the citizen suit provision of the Clean Air Act does not unequivocally waive the sovereign immunity of the United States for duties imposed by the agency's regulations. It reviews the relevant case law and holds that the phrase "under this chapter" as used in 42 U.S.C. § 7604(a)(2) waives sovereign immunity for EPA's failure to perform nondiscretionary duties mandated by regulations promulgated in furtherance of the Clean Air Act.

As to EPA's argument that the plaintiffs failed to adequately state a claim, it concludes that the federal agency was provided "more than fair notice of the claim and grounds for relief." It rejects the

argument that the plaintiffs fall short of the pleading requirements of Rule 8(a)(2) because they did not identify any particular state that failed to submit an implementation plan. The Court states that Rule 8(a)(2) does not require that level of particularity (instead simply requiring a short and plain statement of the claim showing that the pleader is entitled to relief).

Finally, the Court rejected a request by EPA to stay the case pending conclusion of a rulemaking that EPA has initiated. EPA proposed rules that are stated to amend the regulations involved in the litigation. The Court states that:

Even if EPA exercises complete diligence in passing the proposed regulation, that diligence does not eliminate the ordinary uncertainly in the rulemaking process, which creates at least a fair possibility of harm.

A copy of the Order can be found here.

Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C.

Towns Move to Build Municipal Broadband Connections.

A New Hampshire town is building the infrastructure to support its own municipal broadband network.

BRISTOL, N.H. (AP) — A New Hampshire town is building the infrastructure to support its own municipal broadband network.

The Concord Monitor reports Bristol residents voted to pass a measure providing nearly $100,000 for a three-mile fiber connection through the town’s business district. Officials expect another $33,000 next year along with a grant to complete the project.

Gov. Chris Sununu passed legislation last summer that allows municipalities to post bonds to build broadband connections.

U.S. News & World Report

Dec. 26, 2018, at 4:18 p.m.

This ‘Insanity’ May Be the Muni-Bond Market's Next Big Thing.

- **City bets investment profits from bonds will fund health care**
- **Tactic has been used widely for pensions, with mixed results**

It’s a “considerable risk,” a “bad idea,” or, as one expert put it, “insanity.” And it may be the next big pitch Wall Street bond underwriters make to states and cities desperate to cover ballooning health-care costs.

Dearborn, Michigan, the 94,000-resident city that’s home to Ford Motor Co., tested the waters this week by selling $35 million of bonds to chip away at the $161 million it needs to cover the medical bills of workers who will retire in the years ahead. The city is betting that by investing the proceeds

it will earn more than it will pay in interest, with the profits helping to cover health-care expenses.

Many states and cities have used the same strategy for their pensions, and Chicago Mayor Rahm Emanuel Wednesday proposed a $10 billion debt sale for the city's ailing retirement system. Some have came out ahead. Others were burned by stock market losses or because the temporary boost allowed governments to cut their annual pension payments. Illinois, New Jersey and Puerto Rico borrowed billions only to see the large shortfalls reappear.

Continue reading.

Bloomberg Markets

By Amanda Albright

December 13, 2018

Fitch Updates U.S. State Housing Finance Agencies: Pooled Multifamily Housing Bonds Rating Criteria

Fitch Ratings-New York-14 December 2018: Fitch Ratings has published an updated criteria report titled 'U.S. State Housing Finance Agencies: Pooled Multifamily Housing Bonds Rating Criteria.' The report replaces Fitch's 'U.S. Pooled Multifamily Housing Bonds Rating Criteria' dated Dec. 13, 2017. No changes to the ratings of existing transactions are anticipated as a result of the application of the updated rating criteria.

The full report is available at www.fitchratings.com.

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CUSIP Request Volume Mixed in November, Suggesting Possible Divergence in Corporate and Municipal Issuance Activity over Next Quarter.

NEW YORK, NY, December 11, 2018 – CUSIP Global Services (CGS) today announced the release of

its CUSIP Issuance Trends Report for November 2018. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found monthly increases in domestic corporate issuance, while requests for municipal and international identifiers declined in November. This is suggestive of a possible slowdown in the pace of new issuance activity in the first quarter of the New Year.

Read Report.

State and Local Investment Gets Lift From Rising Revenues.

Now that coffers are brimming again, infrastructure spending is back on the agenda

State and local government investment in roads, bridges, buildings and other infrastructure hasn't returned to its previous peak, but it is now showing signs—deep into the expansion—of a real recovery.

Since the 2007-09 recession, slow economic growth and rising expenditures on Medicaid and pensions crowded out infrastructure investment. Spending on school buildings, hospitals and public safety languished.

Now, bigger state and local tax collections, propelled in part by an acceleration in sales-tax receipts from consumer spending, is boosting capital projects and driving a municipal borrowing boom.

Continue reading.

The Wall Street Journal

By Sarah Chaney and Heather Gillers

Dec. 15, 2018

The Week in Public Finance: With Revenues Soaring, States Are Spending More. But on What?

The bulk of the funding boosts are going toward education and rainy day savings.

SPEED READ:

- State revenues are rising, largely because of the strong economy and federal tax reform.
- A total of 40 states beat their revenue projections in fiscal 2018, the highest number to do so since 2006, according to a survey by the National Association of State Budget Officers.
- As a result, states increased their total spending by 4.3 percent to $874.6 billion in fiscal 2019.

A year ago, state budget directors were pumping the breaks on spending amid uncertainty over the economy and how the federal tax overhaul would hit state finances. But after 12 months of revenue growth that has surpassed just about anyone's expectations, states are planning on some of the biggest spending increases since before the Great Recession.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | DECEMBER 14, 2018

Pension Politics: Should States Be Investing in Controversial Companies?

It's an increasingly divisive question. If the goal is to affect change — from gun control to climate change — some argue that to divest is the best, while others believe pensions would have more power keeping their financial stake.

Earlier this year, even before a gunman killed 12 patrons at a bar in Thousand Oaks, there was a groundswell of calls for California's two largest pension funds to sell off their investments in gun retailers. But Jason Perez, a Southern California cop, balked. As a protest against "politically correct" investing, he decided to run for a seat on the California Public Employee Retirement System's board of directors. And it wasn't just any seat; it was the one held by CalPERS Board President Priya Mathur.

Mathur had been on the board for 15 years. She is a globally recognized leader in the sustainable investment community and holds a seat on the board of the United Nations-supported Principles for Responsible Investment, a network of international investors working to create and promote standards for sustainable investing. She's worked to apply those standards to CalPERS.

Perez and his union, the Corona Police Officers Association, have routinely criticized the board for spending too much time on environmental and social investment programs. Association members regularly attended CalPERS meetings 430 miles away in Sacramento to urge pension officials to focus instead on making money for the $360 billion pension fund. During his campaign, Perez painted a picture of an investment strategy overrun by politics and emotion, particularly proposals before the board to divest the portfolio of gun manufacturers and retailers and to drop the controversial Dakota Access Pipeline.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | DECEMBER 2018

Schumer Wants Infrastructure Bill to Have 'Green' Elements.

After the flurry of post-election talk from Republicans and Democrats about infrastructure legislation in the new Congress, Senate Minority Leader Charles Schumer (D-N.Y.) is staking out a position. Schumer is underscoring what Democrats see as a "must" to include in that bill: major environmental components.

Schumer said in a Dec. 6 letter to President Trump that "any infrastructure package considered in 2019 must include policies and funding to transition to a clean energy economy and mitigate the risks that the United States is already facing due to climate change."

Schumer said the package should including a list of provisions, including investing in "resilient transportation, water, waste and sewer infrastructure." To pay for such work, he proposes "a new resilient communities revolving loan fund."

Some of Schumer's green provisions could gain bipartisan support, such as building in disaster-resilient features and tackling the large maintenance backlog in national parks. But others may well run into opposition from Trump and his Capitol Hill supporters, such as cutting methane emissions from energy production.

An infrastructure bill faces big challenges, especially how to pay for a program that could total hundreds of billions of dollars and reconciling the GOP's desire for private-sector funding and Democrats' focus on federal spending. Brian Deery, senior director of the Associated General Contractors of America's highway and transportation division, says of Schumer's statement, "I think it does complicate the debate on infrastructure."

Still, Deery is optimistic about chances for the legislation. "Both sides have a stake in being successful in this," he says. Deery notes that an infrastructure program was a Trump campaign promise and Democrats, for their part, will want to "demonstrate that they can govern," particularly as they assume the majority in the House in the new Congress.

Schumer's green infrastructure outline is an opening move in a lengthy debate and negotiations with the GOP.

The Engineering News-Record

by Tom Ichniowski

December 12, 2018

State Revolving Loan Fund Gains Momentum in Congress.

Representative explains why supporting flood mitigation is a bipartisan and national concern

Representatives Charlie Crist (D-FL) and Roger Williams (R-TX) introduced legislation in October to create a partnership between the federal government and states to reduce flood risk and save lives. The bill – the State Flood Mitigation Revolving Loan Fund Act of 2018 (H.R. 7037) – would provide low-interest loans to help communities, businesses, schools, and families prepare for floods.

The House bill is a companion to a Senate measure, S. 1507, that Senators Jack Reed (D-RI), John Kennedy (R-LA), and Bob Menendez (D-NJ) introduced in June 2017. The state revolving loan program is supported by more than 100 national and local groups from South Carolina to California.

Pew asked Rep. Crist why this new piece of legislation could be a game changer for communities.

Q: What can be achieved by a loan fund program for flood mitigation?

A: Flooding is the most costly and common natural disaster across the U.S., causing more than $750 billion in losses since 2000 according to the National Oceanic and Atmospheric Administration (NOAA). States need a stable source of funding for more flood mitigation and a state revolving loan

program can serve this purpose, enabling more communities to take action. Research shows that these risk-reduction measures are cost-effective, with a return on investment of $6 for every $1 spent. Ultimately, this loan fund proposal would be the first mitigation program on a national scale that truly pays for itself. It would help break the cycle of paying to rebuild properties that flood repeatedly.

Q: How would the program work?

A: This proposal creates a partnership between the Federal Emergency Management Agency (FEMA) and the states. Each state, territory, or tribal government that chooses to participate would establish a revolving loan fund to give low-interest loans, and in some cases grants, for a range of activities proven to reduce flood risk. Projects to be chosen by the states could involve a variety of flood mitigation efforts, including elevating or floodproofing homes and businesses; conserving and protecting wetlands, dunes, and other natural areas that can absorb floodwaters; purchasing flood-prone properties; and larger-scale projects such as improving stormwater management in neighborhoods and towns.

Each state fund would be seeded with dollars from FEMA and a contribution from the state itself. States would manage their funds under general principles established by FEMA but tailored to the state's flood risks and priorities. As payments on outstanding loans are returned to the state fund, these flood mitigation dollars would "revolve," becoming available for additional projects. Once established, this program would allow each state to be proactive and prepared. Rather than waiting for congressional appropriations or disaster assistance, state officials could make plans and set priorities around a more predictable flow of money to a pipeline of flood mitigation projects. This way, even a modest initial federal expenditure can lead to a larger return on investment. It's how we can foster an enduring commitment to prepare communities before floods strike.

Q: Why should this approach appeal to all members of Congress?

A: Storms and floods are not confined to any one state or region. Every state in the nation has suffered flood losses at some level, and we all share an interest in the collective safety of our citizens and protecting taxpayer dollars. The state revolving loan program will save lives and dollars by supporting projects to lower flood risk, making flood risk reduction common practice in building and growing local communities. Flood insurance policyholders will benefit from lower insurance premiums as their risks are reduced, and communities will avoid the loss of business and other economic disruptions associated with flooding. These are benefits everyone can get behind.

Q: Why start a loan fund for mitigation when federal grants already exist for this purpose?

A: Current programs fall short of our needs. Two key federal grant programs support projects aimed at reducing risk: the Hazard Mitigation Grant Program and the Pre-Disaster Mitigation Grant Program. The first is available only after disaster strikes, and the second has never been funded adequately. Taken together, these existing programs have not been enough to close the nation's flood preparedness gap. The federal government has spent at least $280 billion on disaster assistance in recent years, but far less has gone toward mitigation.

In addition, the revolving loan fund program is a tested model that many states and municipalities have experience using. These programs have been applied to affordable housing, renewable energy, clean water, energy efficiency, and other community interests. For example, the Clean Water State Revolving Fund program finances improvements to wastewater infrastructure. Since its inception in 1987, the program has leveraged $42 billion in federal funds for $126 billion worth of clean water infrastructure. Such a program would offer similar benefits for flood mitigation. While a new flood

mitigation fund would likely start with a modest amount of federal funding, the value of those dollars would grow as they are matched by state shares, private investments, and revolving loan payments.

This new program can help stem the increasing pressure of federal disaster spending – not by denying communities help after floods but by helping them to build stronger before disaster strikes and, in turn, making their residents safer.

The Pew Charitable Trusts

December 12, 2018

Here are Three Ways to Pay for New Investments in Infrastructure and End Partisan Gridlock.

Optimism that America will finally address its massive infrastructure problem is on the rise – and understandably so. The Trump Administration is still attempting to fulfill their infrastructure campaign pledge and Democrats have long supported rebuilding the country's crumbling infrastructure. However, a bipartisan infrastructure overhaul is likely stuck in neutral for the reason we've been in gridlock for decades: how to pay for it.

There are three ways to pay for new infrastructure investment: raise revenue, borrow, or pretend (gimmicks that mask borrowing as being paid for). Infrastructure is generally funded by user fees: the gas tax pays for roads. In the past this has had broad political support. People understand that freeways aren't free and that revenue paid by users for infrastructure are different than generic taxes. Republicans embraced the small 'c' conservative idea that people who used public assets ought to pay for them. Democrats overcame objections regarding the inherently regressive nature of flat consumption taxes and the budgetary policy of segregating infrastructure revenue streams from other general revenue to support this system.

Continue reading.

The Brookings Institute

by Aaron Klein
Fellow – Economic Studies Policy Director – Center on Regulation and Markets

December 12, 2018

Federal Watchdog Offers Gloomy Outlook for State and Local Budgets.

U.S. Government Accountability Office estimates show mounting fiscal pressures over the next 50 years.

State and local government spending is likely to increasingly outpace revenues over the next half-century, based on projections a federal watchdog issued on Thursday.

Health care costs, in particular Medicaid, which is the health insurance program for poor Americans, along with benefits for public retirees and employees, will be major contributors to the rise in

expenditures, according to the Government Accountability Office.

The GAO's findings are based on simulations it has published for about a decade now looking at long-term state and local fiscal trends.

Past reports have also shown that the sector is poised to face budget-related stress over the long term.

Continue reading.

Route Fifty

by Bill Lucia

DECEMBER 13, 2018

Data Show Sluggish Economic Output in Smaller Counties.

For the first time, the Bureau of Economic Analysis has released GDP figures for all of the nation's counties.

Counties with fewer than 100,000 residents were more likely than their larger peers to have seen declines in economic output between two recent years featured in a new federal data set.

The U.S. Bureau of Economic Analysis for the first time last week released gross domestic product, or GDP, data for all of the nation's 3,113 counties. The statistics only cover 2012 through 2015. That makes them somewhat dated. But the share of small counties with falling GDP numbers in 2015 is one aspect of the statistics that stands out.

BEA describes the figures as "prototype" statistics, and says it's planning a release with more timely data next December.

In an overview of the data, the bureau breaks counties into three categories, "small," "medium," and "large," based on population.

Continue reading.

Route Fifty

By Bill Lucia,
Senior Reporter

DECEMBER 16, 2018

Farm Bill Expands Rural Broadband Funding.

But some remain concerned that the money will not get to many places that need it to expand access.

The farm bill passed by Congress this week would grant the U.S. Department of Agriculture more authority to create grants and provide loans for local rural broadband projects.

The compromise legislation, which has been worked on for months and was agreed to by House and Senate negotiators on Monday, is expected to be signed by President Trump.

The Agriculture Improvement Act of 2018 makes $350 million a year available for improving broadband access in rural communities, but Community Connect Grant Program money is limited to areas where service speeds are less than 10 Mbps for downloads and 1 Mbps for uploads. That's a lower broadband standard than the Federal Communications Commission's 25 Mbps for downloads and 3 Mbps for uploads.

One advocate of expanding access said the standards might be reasonable in the abstract, but maybe not in practice. That's because many believe the FCC's maps about people's current access fail to accurately capture speeds at households across the country.

"We're concerned about that because of the inaccuracy of the data and the maps," Deb Socia, executive director of Next Century Cities, told Route Fifty. "Ninety percent of a community could have less than 10 Mbps and still be ineligible for funds; that's a pretty significant number of people."

USDA launched an e-Connectivity pilot project Thursday that will see an additional $600 million of 2018 omnibus spending money go toward spurring private investment in rural broadband, but that too uses the 10-1 definition.

The farm bill does, however, direct grant funding more toward places with low population densities, while using loans for those with higher densities—a win for rural areas that limits providers' ability to reserve service for more populated communities.

"Existing federal policy has failed to get broadband in rural America," said Jim Matheson, CEO of the National Rural Electric Cooperative Association.

Instead, the farm bill will enable co-ops to both modernize the electric grid and offer retail broadband to consumers, Matheson said. Successful broadband rollouts by co-ops could see more federal funding flow their way in future legislation, he added.

Unfortunately, 20 states still inhibit local communities and, in some cases, co-ops from building out broadband networks, Socia said.

Socia would also like to see more broadband funding for communities where slower digital subscriber line, or DSL, internet service is degrading, but she was pleased to see that the new legislation filled a need for greater precision farming connectivity.

Reliable broadband access in rural America enables precision farming technologies to reduce water, fuel and fertilizer use with the help of sensors and drones.

Moving forward, lawmakers need to be cognizant that attempts to avoid broadband overbuilding may be counterproductive in areas where FCC maps currently overestimate service, Socia said.

"Branding overbuilding as a wasteful thing isn't really helpful, in part because the data is so bad," she said. "They have access but we know the map isn't really accurate, so I don't think we want to be so bold."

Route Fifty

By Dave Nyczepir
News Editor

DECEMBER 13, 2018

First BUILD Grants Emphasize Rail & Rural Infrastructure Needs.

BUILD grants are for multi-modal, multi-jurisdictional surface transportation infrastructure projects and fund railway, roadway and transit improvements.

This year, the U.S. Department of Transportation (DOT) replaced the Transportation Investment Generating Economic Recovery (TIGER) grants program with the Better Utilizing Investments to Leverage Development BUILD program and is beginning to release a projected $1.5 billion in discretionary grant funding.

BUILD requires that at least 30 percent of funds be awarded to projects located in rural areas and that funding to a single state through the program cannot exceed $150 million, according to Railway Track & Structures (RT&S Magazine). Individual project awards also max out at $25 million.

The publication called it a "good day for railroaders and contractors." Bridges and rail infrastructure across five states were notified of funding — Oregon, Missouri, Illinois, Pennsylvania, Vermont while Indiana, Ohio and others announced roadway-related infrastructure funding:

Continue reading.

efficientgov.com

by Andrea Fox

December 10, 2018

Municipal Request Volume Declines while Corporate Volume Increases on Month-to-Month Basis.

"Uncertainty over the future of interest rates is clearly starting to show up in the CUSIP data set, particularly as we start to see some volatility in the monthly activity," said Gerard Faulkner, Director of Operations for CUSIP Global Services. " While the Fed has signaled that it will raise rates again in December, it is not yet clear what's in store for 2019, so we expect to continue to see a fair amount of volatility in our monthly CUSIP request volumes."

Read Press Release.

BlackRock Is Bullish on Muni Bonds Heading Into 2019.

- **Shrinking market, Fed pause may boost returns, strategist says**

- **Demand may get a boost from new limit on tax deductions**

The world’s biggest asset manager is a big bull on the $3.8 trillion municipal-bond market.

Sean Carney, managing director and head of state and local government debt strategy at BlackRock Inc., said in an interview that he expects the securities to return as much as 4 or 5 percent in 2019 if the Federal Reserve moves closer to pausing on interest-rate hikes. That compares with a 0.7 percent return this year, when rising rates weighed on bond prices, according to Bloomberg Barclays indexes.

If Fed policy makers next week tweak their outlooks such that their median estimate is for two hikes in 2019, rather than the three they currently project — a scenario Carney sees as a “strong likelihood” — it will also help support returns, he said.

“Fixed-income returns have the potential to both reap the benefit of price return and coupon return,” he said. “Or, if price return is flat, you receive all the coupon return. We could have returns, in a good environment, of 4 to 5 percent.”

BlackRock is joining other firms that are forecasting that municipal-bond performance will improve next year. Oppenheimer & Co. said it expects state and local debt to deliver “modest” returns in the single digits in 2019, while JPMorgan Chase & Co. is predicting average total returns of 2 percent.

Carney said the municipal market will benefit from other factors, such as increased demand from investors looking for tax havens after they see the impact of the new limit on the state and local tax deductions. And more bonds may be paid off — either because they mature or are called back early — than are sold next year, he said.

“You have an environment where your market is shrinking,” he said. “That’s a strong technical and it should help aid performance in 2019.”

Bloomberg Markets

By Amanda Albright

December 12, 2018

— With assistance by Michelle Kaske

Snow Doesn't Stop the Post Office, But It Stopped a Bond Payment.

A school district in upstate New York missed a bond payment last month because of a snow day.

The Hartford Central School District said in a regulatory filing that it was late making principal and interest payments due Nov. 16. on a $335,000 bond anticipation notes issued a year earlier because the district was closed for inclement weather. The payment was made Nov. 20, and the district said there were no financial consequences.

While outright defaults are extremely rare, such missteps are more common than one would think in the $3.8 trillion municipal-bond market, where even tiny, remote towns and schools turn to borrow money.

Municipalities inadvertently missed or were late to make payments to investors at least 119 times in 2017 through the first half of this year, according to public records.

Bloomberg Markets

By Danielle Moran

December 13, 2018

Fitch USPF Credit Outlooks 2019.

Our annual Credit Outlooks are now available. We're producing reports, video, webinars, and commentary across all sectors and regions to give you in-depth insight into credit in 2019 and beyond.

View Credit Outlooks 2019 for USPF

GFOA: Getting the Most for Your Asset Management Money with Lifecycle Costing.

Read the GFOA Publication.

Author: Shayne Kavanagh

Date Published: June 2018

Fitch Ratings Revises U.S. Higher Education Sector Outlook to Negative for 2019.

Fitch Ratings-Chicago-06 December 2018: Various industry challenges are increasingly pressuring U.S. colleges and universities, widening the credit gap in the sector and prompting Fitch Ratings to revise its higher education sector outlook for 2019 to negative, as detailed in the rating agency's outlook report.

Perhaps most prominent are operating and revenue pressures, which stem from increasing constraints on tuition growth and more challenging demographic and competitive markets than seen in prior years. "Increasing competition for students and heightened scrutiny over the value of a college education have suppressed overall tuition growth since the recession," said Director Emily Wadhwani.

The regulatory environment is not likely to add much clarity. The Higher Education Act (HEA) is still in limbo, and the newly elected Congress is not likely to consider reauthorization. "Unexpected policy decisions that constrain access to student loans, Pell grants, or to research funding could create pressures across the sector," said Wadhwani.

Consolidation is likely to accelerate in 2019 and beyond, which may take multiple forms. Smaller private institutions remain most susceptible to consolidation either through a merger, affiliation with another larger institution or in the most serious scenario, outright closure.

Substantial headwinds aside, the higher education sector as a whole still retains key fundamental strengths including significant flexibility and fortitude in the face of operating and financial pressure. Many institutions maintain sufficient liquidity, and have been proactive and agile with regard to strategic management, targeted revenue growth and diversity, expense management, and pursuing partnerships for mutual benefit. The Outlook on ratings in the Fitch portfolio remains Stable.

'Fitch Ratings 2019 Outlook: U.S. Public Finance Colleges and Universities' is available at 'www.fitchratings.com'.

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Fitch Ratings: U.S. Local Governments Largely Downturn-Ready Headed into 2019

Fitch Ratings-New York-04 December 2018: U.S. local governments are heading into next year by and large well-prepared fiscally for the next economic downturn whenever it comes, according to Fitch Ratings in its 2019 outlook report.

'The most prepared local governments have ample reserves and sound budgetary flexibility,' said Fitch Managing Director Amy Laskey. Local governments that rely primarily on property taxes will generally see at least some revenue growth given continued increases in home values. The sector is not without its outliers; some communities are still trying to regain fiscal resilience lost during the last economic downturn. 'The biggest struggles for some challenged local governments remain continual pension pressures and lack of revenue control.'

As such, the ability to curb expenditure growth will be a priority for local governments in order to stem the tide of slowing revenues, wage pressures and increasing pension and other benefit costs. Expenditure pressures are particularly stark for school districts. 'Expenditure cuts remain a likely solution, but avoiding an impact on the classroom is becoming more challenging,' said Laskey.

Expenditure pressures will make finding funds to address infrastructure needs even more difficult headed into 2019. Infrastructure needs continue to weigh negatively on local budgets. A federal infrastructure program would help address at least some of the growing unfunded needs and may

become more likely with the upcoming change in Congress.

Outliers notwithstanding, Fitch expects continued stability for local government financial operations in 2019. Ratings in this sector remain high and concentrated largely within 'AAA'/'AA' territory, reflecting core sector strengths.

'Fitch Ratings 2019 Outlook: U.S. Local Governments' is available at 'www.fitchratings.com'.

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Negotiating and Implementing Relief Event Programs in P3 Projects.

The primary vehicle for allocating design and construction risk in a public private partnership (P3) using the design-build-finance-operate (DBFOM) P3 model is the Relief or Supervening Event regime in the public private agreement.1 A Supervening Event entitles the private partner to some financial or schedule relief from the public authority under the public private agreement (PPA).

The PPA will be consummated in a competitive request for proposal process including input from the public partner, private partner, and impacted participants including developers/equity providers, lenders, design-builders, and operation and maintenance service providers. This article focuses on the Supervening Events that can have an impact on these participants during the construction phase of the PPA. The Supervening Event issues addressed in this article include:

- Voluntary changes or breaches by the public sector
- Right of way/land access
- Permits, environmental conditions, endangered species, archeological conditions and hazardous materials
- Weather
- Changes in law
- Labor shortages or strikes
- Other force majeure events
- Differing site conditions
- Utility delays

Before we get into the case law and sample contract terms for these issues, it is worth pausing to reflect on how the financial markets view these risks in terms of rating the financial risks associated with a P3 transaction. Moody's has published a wide variety of risk and rating data based on P3 transactions and financing risks. Here is Moody's risk factor summary from a P3 rating article

published in 2016:

Continue reading.

Faegre Baker Daniels

December 7, 2018

The Week in Public Finance: Kansas City Suburb Headed Toward Default

Platte County, Mo., is being punished for its resistance to bailing out a retail center that opened during the recession and has struggled to make bond payments.

Platte County, Mo., home to Kansas City, may default as early as tomorrow if it fails to make a bond payment on a long-struggling shopping development.

County officials are questioning the value of covering the $1 million shortfall that's due Dec. 1, noting that they are not legally obligated to help out the beleaguered Zona Rosa retail center.

But that resistance has come at a cost. Credit agencies have already punished the county just for considering not stepping in, with multiple downgrades into junk bond status.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | NOVEMBER 30, 2018

Fitch Ratings: Medicaid, Infrastructure Among Key Focuses for U.S. States

Fitch Ratings-New York-04 December 2018: U.S. state governments are up against numerous potential headwinds heading into next year, though revenues should continue to grow so long as the broader economy continues its upward trajectory, according to Fitch Ratings in its 2019 outlook report.

Fitch has a stable outlook for U.S. state government ratings for 2019 thanks largely to the sector's overall strengths – broad economies and tax bases and substantial control over revenue raising and spending. The debate in most states will be around whether to allocate additional revenues to spending priorities or tax reductions. That said, developments in some states could affect their rating performance in the coming year. Fitch's states to watch in 2019 are Alaska, California, Connecticut, and Illinois, and the Rating Outlooks on Hawaii (Positive) and Pennsylvania (Negative) also indicate an elevated likelihood of change this year.

Federal government action remains the biggest risk for U.S. state government ratings, though a House/Senate split following the recent midterm elections has alleviated some concern. Medicaid spending will remain one of the largest fiscal hurdles of state budgets despite an expected near-term respite from congressional attempts to fundamentally restructure the program.

While Medicaid is likely at or near the top of the priority list of items state governments will be focused on, the inadequacy of current transportation funding remains a concern for state policymakers. Interestingly, infrastructure funding seems a potential area of bipartisan agreement on the federal level at a time of divided government.

Most states will be debating budgets next year, at a time of many new governors and state revenues that have become more difficult to forecast. Fitch rates to fundamentals rather than the political cycle, though a material change in fiscal policy could become a credit issue, particularly if economic conditions deteriorate notably.

Fitch's '2019 Outlook: U.S. States' report is available at www.fitchratings.com.

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Democrat Bond Plan To Fund Infrastructure Is A Win-Win (Bloomberg Radio)

MUNIS IN FOCUS: Joe Mysak, Editor for Bloomberg Brief: Municipal Market, discusses: a Democrat pushing a $300 billion bond plan for infrastructure; higher gas tax needed to restore highways. Hosted by Pimm Foxx and Lisa Ambramowicz.

Running time 05:26

Listen to audio.

December 7, 2018 — 9:35 AM MST

How the 2018 Elections Reshaped State and Local Governments' Fiscal Policy Space.

State and local fiscal policy was not the mobilizing force behind the historic voter turnout of the 2018 elections. Yet policy questions related to public budgets were on state and local ballots across the country, and by showing up in November, voters made decisions that will shape the policymaking landscape of their governments for years to come.

As we have previously described, government revenue structures, and the constraints they operate within, play a crucial role in governments' ability to provide basic services to constituents and

respond to new policy challenges. States that do not levy personal or corporate income taxes, such as Nevada and Texas, or cities that operate under extreme state-imposed limitations on expenditures, such as Denver or Tucson, have less “fiscal policy space” to innovate and govern.

In this light, state and local ballot measures in the 2018 election can be placed into one of two broad categories: those that expand state or local fiscal policy space (which we call “expansionary measures”), and those that restrict state or local fiscal policy space (which we call “restricting measures”). By tracking the results of dozens of state measures and over one hundred local measures in the country’s 100 largest cities, this analysis seeks to understand where voters sought to expand public services, and where they sought to check government spending.

Continue reading.

The Brookings Institute

by Nathan Arnosti and Michael A. Pagano

November 21, 2018

How States Can Balance Saving for a Rainy Day and Other Priorities.

Budget stabilization funds can help states manage revenue volatility by allowing them to set aside money that can be used during difficult financial times. Policymakers use the funds to smooth budgets over multiple years and across difference phases of the business cycle. That ensures governments have the resources needed to fund important priorities, no matter how the economy turns.

Undeniably, setting aside money for future needs requires trade-offs. In many states, leaders have emphasized the need to rebuild savings in the years following the Great Recession, but each dollar directed to reserves is a dollar that cannot be spent on public programs, tax reductions, paying down debt, or unfunded retirement costs. Policymakers often struggle with decisions about when to make deposits and how large they should be.

At the same time, the various savings strategies provide differing benefits, with some more effective than others. For instance, one of the most common triggers is a budget surplus, which allows states to set aside money when there is extra at the end of the fiscal year. This method may be straightforward, but the contributions are often the last—and frequently the lowest—priority in the budget process because of their timing. In addition, surpluses occur for multiple reasons, sometimes clouding whether the time is right to save. The debate in Ohio over funding the state’s rainy day fund illustrates common challenges.

Continue reading.

Route Fifty

By Mary Murphy, Airlie Loiaconi and Steve Bailey

Dec 9, 2018

P/C Insurers Shifting Investments Out of Municipal Bond Market: Best

Property/casualty insurers are shifting investments out of the municipal bond market due to corporate tax reform, but will need to monitor continuing Federal Reserve rate hikes for their impact on their investment portfolios, according to a new report by A.M. Best Co. Inc.

Historically, municipal bonds have been an "integral part" of the property/casualty segment's investment portfolio due to low default rates and attractive tax-equivalent yields, the Oldwick, New Jersey-based ratings agency said in a report released on Monday. The segment held $428.1 billion in municipal bonds at year-end 2016, but that figure declined to $413.0 billion at year-end 2017.

"Insurers are beginning to shift away from these assets now that the tax-equivalent yield has become less attractive," the report stated. "A.M. Best expects this trend to continue over the next several years, as bond holdings come to maturity and the proceeds are reinvested in government bonds and high-quality corporates, which are now offering more attractive after-tax yields. However, municipal bonds will always have a place in an insurer's fixed-income portfolio, given their diversification, high credit ratings and low historical default levels."

The property/casualty's total invested asset base in 2017 was $1.7 trillion – a $299 billion increase during the preceding 5-year period – consisting of about 58.0% bonds, 19.1% stocks, 6.7% cash and short-term investments, 11.2% affiliated investments and 5.0% in all other investments, according to Best.

Net investment income of $51.1 billion, accounting for a 3.1% investment yield, more than offset a segment-wide underwriting loss of $24.9 billion, driven by a significant rise in the frequency and severity of natural catastrophes, according to Best. The segment operating ratio, meaning its combined ratio minus the net investment ratio, increased to 94.6% in 2017 from 91.7% in 2016 owing to substantial underwriting losses, according to Best.

But U.S. property/casualty insurers "may need to re-examine their investment policies to maximize their returns while continuing to service their liabilities to policyholders" amid expectations that growth will moderate in 2019 as the effects of the tax cuts on consumer spending dissipate, according to Best. In addition, government spending, the other recent driver of economic growth, is set to end September 2019, when the agreement between the White House and Congress to increase spending caps ends, Best noted. The International Monetary Fund is projecting 2.5% GDP growth for the United States in 2019, down from the projected 2.9% growth in 2018.

Property/casualty insurers "will need to keep an eye on moves by the Fed" as the frequency of rate hikes increased in 2018 compared with 2017, with the Federal Reserve expected to raise rates a fourth time in December 2018, Best stated in the report. In addition, the European Central Bank is expected to end its 3-year €2.4 trillion bond buying program at its next meeting in December.

"As monetary policy tightens, conditions for global economic growth are tilted to the downside and include the potential for an escalation in U.S. trade policies with both the EU and China, volatile geopolitical tensions, and high levels of debt for consumers, governments and corporations," Best said. "Globally, market observers expect yields to rise across the curve. Changes in market conditions could lead to insurers re-examining portfolio metrics such as asset allocations, credit quality and durations. With yields back on the rise, insurers will also have to balance the risk/reward tradeoffs with their equity allocations, particularly in a market in which valuations have been stretched from historic norms."

Business Insurance

by Gloria Gonzalez

12/3/2018

The Bond That Could Be Wiped Out by California's Wildfires.

A $200 million security, designed specifically for fire, dives 95% as PG&E is probed over disaster cause

The deadliest blaze in California's history is threatening to cause losses for investors who purchased the first catastrophe bond designed specifically to cover wildfire risk.

San Francisco utility giant PG&E Corp. PCG -0.06% sold the $200 million bond in August to insure against liability from future infernos. Three months later the Camp Fire in Northern California burned more than 18,800 structures and killed at least 85 people.

Investors will suffer significant losses if state investigators determine that PG&E was responsible for the November conflagration. PG&E said in a Nov. 13 filing that it has $1.4 billion in liability coverage, including the catastrophe bond, and expects to use all of it if found liable for the Camp Fire. A PG&E spokesman said the utility is participating in the investigation into the fire's cause.

Continue reading.

The Wall Street Journal

By Nicole Friedman

Dec. 5, 2018 5:30 a.m. ET

Year-End Update To S&P Global Ratings' U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises Criteria Implementation.

Since publishing its updated criteria, "U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises," on March 12, 2018, S&P Global Ratings has been assigning ratings and reviewing its existing ones in the sector.

Continue Reading

Nov. 28, 2018

Yield Curve Inversion Risk.

Investors often hear the term "yield curve" and how certain forces in financial markets and

political decision-making may affect the shape of the yield curve – indirectly impacting their fixed-income and equity holdings.

In recent times, the yield curve has been the main talking point for many financial gurus and their commentary on the effects of interest rate hikes by the Federal Reserve. As short-term interest rates have been on the rise, the possibility of the yield curve inversion has also taken center stage in many discussions amongst policymakers and investors. A yield curve inversion happens when the short-term rates on government debt pass the interest rates on long-term debt.

In this article, we will take a closer look at the flattening of the yield curve as the short- and long-term rates are getting closer and closer, and the potential impacts of an inversion on fixed-income financial markets.

Be sure to click here to learn more about the yield curve and the implications for municipal bond valuations.

Continue reading.

municipalbonds.com

Jayden Sangha

Nov 28, 2018

The Fiscal Need to Find a 'Second Life' for Underutilized Parking Lots.

Revenue streams from parking lots and garages are expected to be undermined as autonomous vehicle technology improves and is more widely adopted.

General Motors' announcement this week to shutter production at a handful of assembly plants and layoff thousands of factory and white-collar jobs as part of a larger North American restructuring is a clear signal of difficult economic waters U.S. automakers are currently navigating.

One of the biggest challenges automakers are facing is both a simple and complex one: There are fewer people buying cars, especially among younger generations who are eschewing personal automobiles for other modes of transportation, including using public transit and ride-booking apps through companies like Uber and Lyft.

"This isn't just a GM issue. People aren't buying cars" like they once did, Lordstown, Ohio Mayor Arno Hill, whose village near Youngstown is home to one of the GM assembly plants slated to be "unallocated" in 2019, said during a press conference on Monday.

Continue reading.

Route Fifty

by Michael Grass

NOVEMBER 27, 2018

Big Bet Made on Largest Municipal-Bond ETF After Powell Speech

- **BlackRock's muni ETF saw $149 million purchase on Wednesday**
- **Purchase pushed trading in the fund to the most on record**

Federal Reserve Chairman Jerome Powell's dovish comments appear to have led one investor to make a big bet on the largest municipal-bond exchange traded fund.

Around 1:30 p.m. on Wednesday, shortly after Powell's speech raised speculation that the central bank is closer than previously thought to pausing its cycle of interest rate hikes, an investor bought $149 million worth of shares of BlackRock's $10.3 billion iShares National Muni Bond ETF. State and local debt, like the rest of the bond market, is highly linked to the direction of interest rates, and went on to gain after the central banker's comments.

The purchase caused the fund, which is the largest municipal ETF, to see the most share turnover on record, with $313.9 million worth of them traded, according to data compiled by Bloomberg. It also recorded an inflow of $107.6 million on Wednesday, part of a spate of inflows this month that comes as state and local debt heads for its best performance since May, according to Bloomberg Barclays indexes.

Other funds tracking muni bonds also saw heated trading yesterday. The second-largest muni ETF, the $3.7 billion SPDR Nuveen Bloomberg Barclays Short Term Municipal Bond ETF, absorbed close to $82 million worth of trading, more than triple the average daily turnover for the past year. Investors have added bets to the fund for the past three consecutive days, marking the longest streak of inflows since February.

Meanwhile, other investors may be feeling more bearish about the direction of interest rates and the $3.9 trillion municipal-bond market. Traders have boosted their short positions against the BlackRock ETF, which trades off the ticker MUB, during the first half of the month. And Deutsche Bank and RBC Capital Markets warned that the reaction to Powell's comments on Wednesday may have been overdone.

Bloomberg Markets

By Amanda Albright

November 29, 2018, 9:59 AM MST

— With assistance by Carolina Wilson

Why 2019 Could Bring 'Positive Performance' to Muni Market.

Lyle Fitterer, head of municipal securities at Wells Capital Management, looks ahead to 2019 in the municipal bond market. He speaks with Bloomberg's Taylor Riggs in this week's "Muni Moment" on "Bloomberg Markets."

Watch video.

Bloomberg MarketsTV Shows

November 28th, 2018, 9:14 AM MST

[Banks Post Longest Retreat From Munis Since 1996 on Tax Cuts.]

- **Big banks reduced exposure by $3 billon during third quarter**
- **JPMorgan, Wells Fargo, Morgan Stanley see largest declines**

Some of the biggest U.S. banks have continued to reduce their exposure to state and local government debt, slashing such holdings by $3 billion during the third quarter, after the federal corporate tax cut weakened the appeal of the securities.

The latest reduction was led by JPMorgan Chase & Co. and Bank of America Corp., which together accounted for more than half of the decline in the three months ended in September, according to quarterly filings with the Securities and Exchange Commission. State Street Corp., Citigroup Inc., First Republic Bank, Bank of New York Mellon Corp. and Morgan Stanley also reduced their holdings in the third quarter.

The figures from the big banks suggest that U.S. lenders are on track to pare their investments in tax-exempt bonds for a third straight quarter, which would be their longest-running retreat from the $3.9 trillion market since 1996, according to Federal Reserve Board figures. That has added headwinds to the market because U.S. banks are one of the biggest buyers of municipal securities.

Continue reading.

Bloomberg Markets

By Michelle Kaske

November 29, 2018, 5:55 AM MST

S&P: Rising U.S. States' OPEB Liabilities Signal Higher Costs Ahead.

Other postemployment benefit (OPEB) liabilities, which consist primarily of retiree health care plans, are a growing concern for certain states' credit quality and require attention to control higher future costs. Total unfunded state OPEB liabilities have increased significantly for the third year in a row, according to S&P Global Ratings' latest survey of U.S. states. Overall, total unfunded lia…

Continue Reading

Nov. 28, 2018

What the Climate Change Report Means for Investors, According to BlackRock's Brian Deese.

Climate change has long been one of the factors driving the growth in sustainable investing.

Disturbing new assessments about global warming, including the National Climate Assessment and a new United Nations progress report, will keep investors focused on climate-related risks.

We checked in with Brian Deese, the global head of sustainability for BlackRock , about how investors should think about the new reports. Deese, 40, joined BlackRock last year, after serving as deputy director of the Office of Management & Budget and as a senior advisor to former President Barack Obama, overseeing climate, conservation, and energy policy. Helped by Deese, BlackRock's iShares united recently rolled out its first full suite of sustainable core ETFs, as well as new tools for sustainable investors, including so-called ESG (environmental, social and governance) and carbon intensity metrics. Assets in the full suite have grown 10% in the month since it was launched.

Barron's: What do the California wildfires, weather disasters, and new reports about global warming mean for investors?

Continue reading.

Barron's

By Leslie P. Norton

Nov. 29, 2018

NYSERDA's Municipal Solar Procurement Toolkit Promotes The Development Of Solar Projects On Brownfields And Landfills.

What is the toolkit? The Municipal Solar Procurement Toolkit provides guidance and resources for communities seeking to develop solar projects on underutilized properties such as landfills and brownfields. It is part of a comprehensive resource prepared by the New York State Energy Research and Development Authority ("NYSERDA"), the New York Solar Guidebook for Local Governments to help municipal officials engage in informed decision making about the potential benefits, effects, and impacts on the community from solar energy projects.

What does the toolkit do?

Municipalities can use the new Municipal Solar Procurement Toolkit as a guide to converting underutilized municipal property, such as landfills and brownfields into revenue producers through leases to solar energy developers.

What are the components of the toolkit?

The toolkit consists of:

(a) an overview guide to municipal procurement; the Guide notes some of the rules governing municipal leases and in particular County leases, and how to address them;

(b) step-by-step instructions;

(c) information about solar project permitting, inspection, property taxes, land leases; and

(d) ready-to-use templates for a land lease agreement as well as a request for proposals.

As a corollary to the toolkit, NYSERDA makes free technical assistance available to help municipalities implement policies and practices in order to become solar-ready communities.

Effect of relaxed SEQRA regulations: the toolkit complements a set of updated rules adopted by the Department of Environmental Conservation ("DEC") intended to streamline the State Environmental Quality Review Act ("SEQRA") process to encourage sustainable, renewable energy development.

Starting January 1, 2019, the updated regulations expand the number of actions not subject to further review under SEQRA, known as Type II actions, modify thresholds for actions deemed more likely to require the preparation of an environmental impact statement ("EIS"), and require scoping of an EIS. Type II actions include installation of solar arrays on closed landfills, cleaned up brownfield sites, wastewater treatment facilities, sites zoned for industrial use, solar canopies on residential and commercial parking facilities, and the installation of solar arrays on an existing structure not listed on the National or State Register of Historic Places.

With the DEC streamlining the SEQRA regulations, contractors will no longer have to prepare a formal assessment of the environmental impacts of solar projects on brownfields and landfills. Elimination of this step greatly expedites what used to be a lengthy and long drawn out SEQRA review process. Given the already disturbed nature of these sites, the regulations recognize the minimal need for environmental review, and will encourage alternative use of these sites.

Impact: Earlier this year, NYSERDA established higher incentives for solar projects that are built on brownfields and landfills through the Governor's NY-Sun Megawatt Block initiative, which is a $1 billion public-private initiative to expand solar energy. The toolkit provides a pathway to take advantage of the revised SEQRA regulations and increased incentives:

– dead space of a brownfield or landfill can not only be revived but transformed into a renewable energy resource, thereby making that land/site productive once again;

– consumer energy bills will be lowered;

– clean, emission free energy can be produced with no harmful impact upon the environment;

– economic development will be spurred by creating solar industry jobs and generating revenue for the municipalities through the leasing of these sites;

– by virtue of a community solar project, greater access to solar energy is provided; and

– the state's capacity to harness solar power will be expanded, thereby supporting the Governor's mandate that 50% of the state's electricity come from renewable resources by the year 2030.

Streamlined SEQRA regulations, NYSERDA's toolkit, and the financial incentives under the megawatt block program are this state's triple booster shot aimed at propelling the Governor's 50% renewable energy goals by 2030 to combat climate change.

A link to the Guidebook with the newly-added Municipal Solar Procurement Toolkit chapter is available here.

Hodgson Russ LLP

November 28, 2018

Report: Since Recession, 10 States, Including Illinois, Operate at Structural Deficits.

A new report by Pew Trusts points to economic improvement for states overall, but highlights ten – including Illinois – whose expenses still exceed their revenues ten years after the Great Recession.

Continue reading.

Watchdog.org

November 30, 2018

FCC Could Slash County Franchise Fees.

Counties would stand to lose millions of dollars if cable TV franchise fees are cut under a deregulation proposal being considered by the FCC

Cable TV franchise fees paid to counties and other local governments could be slashed under a deregulation proposal being considered by the Federal Communications Commission, according to the National Association of Telecommunications Officers and Advisors (NATOA).

How much could counties lose? It could be in the millions of dollars, according to Nancy Werner, general counsel for NATAO. “Lawyers I have talked to have said 30 [percent] to 40 percent and others have guessed at 100 percent,” she said.

There’s room for a considerable amount of debate because the FCC is proposing to allow cable companies to deduct the fair market value for a wide range of public benefits from their franchise fee obligations, namely public, educational, and government (PEG) channel capacity and transmission. “The fair market value of say a channel in a small town is going to be more valuable than say a channel in a large urban area,” Werner said.

These channels “are a way for a community to have a voice,” she said.

In Montgomery County, Md., Mitsuko Herrera, a director in the county’s technology services department, said that “cable operators have passed through the cost to construct and operate these cable channels to subscribers over the past 15-25 years, and now the FCC would allow cable operators to collect again the value of these channels.”

In some smaller jurisdictions, Herrera noted, the “value” of the cable channel may be more (because value is not capped by the FCC) than what the jurisdiction receives in franchise fees. “So effectively, the FCC is inviting cable operators to force smaller jurisdictions, where there is already limited newspaper and almost no television news, to pick between operating cable channels that provide the public with access to board meetings and community information, or receiving any funding from franchise fees,” she said.

In September, the FCC voted to confirm that a local franchise authority’s ability to regulate cable service does not extend to broadband and other non-cable TV services and that in-kind commitments those authorities get from providers as part of franchise agreements count toward the 5 percent

franchise fee cap, with the exception of providing public, educational and government channels. The Commission is considering applying the proposed new rules to state-level franchising actions as well, not just local franchising.

A group of 11 senators, led by Sen. Ed Markey (D-Mass.), have written to FCC chair Ajit Pai asking him to rethink the proposal: “Currently, towns and cities across the country are permitted to require as part of cable franchise agreements that cable operators meet demonstrated community needs by setting aside channels for public, educational or governmental stations,” they wrote.

“However, the commission’s proposal would permit cable companies to assign a value to these channels, and then substract that amount, and the value they place on any other in-kind contributions, from the franchise fees the cable operator pays the local community,” they said.

The senators noted that “our constituents watch PEG channels to monitor local government proceedings, hear the latest news from nearby college campuses and consumer other locally produced programming including emergency alerts and directives. We fear this proposal will result in a dire drop in resources for PEG channels throughout the nation.”

There are more than 1,500 public, educational, and governmental studios/operations and an estimated 3,000 PEG channels in America. Religious programming represents 30 percent of local access programming. Tens of thousands of hours of programming is produced by veterans, seniors, the disabled and ethnic, minority and second language groups.

Other senators signing the letter include Senators Tammy Baldwin (D-Wisc.), Maggie Hassan (D-N.H.), Ben Cardin (D-Md.), Jeff Merkley (D-Ore.), Bernie Sanders (I-Vt.), Gary Peters (D-Mich.), Ron Wyden (D-Ore.), Pat Leahy (D-Vt.), Richard Blumenthal (D-Conn.), and Elizabeth Warren (D-Mass).

National Association of Counties

By Mary Ann Barton

Nov. 12, 2018

Fitch Ratings Updates U.S. Public Finance Prerefunded Bonds Rating Criteria.

Fitch Ratings-New York-20 November 2018: Fitch Ratings has published an updated criteria report titled ‘U.S. Public Finance Prerefunded Bonds Rating Criteria.’ The report replaces Fitch’s criteria report of the same title dated Nov. 21, 2017. No changes to the ratings of existing transactions are anticipated as a result of the application of the updated rating criteria.

The full report is available at www.fitchratings.com

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Fitch Ratings: Driverless Cars Leave Parking Assets at Risk

Fitch Ratings-New York-26 November 2018: The advent of autonomous vehicles could negatively affect parking assets over time, according to a new report from Fitch Ratings.

With autonomous vehicles likely to operate through ride-sharing and accessing cheaper parking locations, revenues will be adversely affected for not just standalone parking facilities in urban areas, but for those housed in airports and universities. Where this is most likely to play out is among younger generations that are moving to large cities in greater numbers. ‘Millennials and Generation Z are most likely to embrace autonomous vehicles since they are already frequent users of ride sharing and are far less likely to obtain a driver’s license,’ said Senior Director Chad Lewis.

Standalone urban parking assets stand to be most susceptible to the effects of driverless cars as they become more commonplace. Once the technology is standardized enough for autonomous vehicles to drop off individuals and travel to cheaper parking spaces further away from the urban centers instead of clogging the facility looking for parking, revenues will decline. Likely to stand in the way of more widespread use of driverless cars, however, are several high profile accidents involving these vehicles of late. Additionally, the public will have to endure inevitable teething problems as the technology is perfected.

Some airports are already seeing their revenue streams significantly disrupted from transportation network companies like Uber and Lyft. In response, these airports are now charging fees for these companies to pick up and drop off passengers while others have started parking clubs that provide guaranteed spaces within close proximity to the terminal for its members. Driverless cars will have less of an effect on university parking until they capture a large share of the market. That said, younger students are already relying on ride sharing and public transportation to greater degrees while professors and other university staff are not likely to shift from their current mode of transportation anytime soon.

Ratings implications are highly unlikely in the near future for the seven Fitch-rated parking facilities since autonomous vehicle technology is still very much in development and will keep driverless cars from widespread use for at least for the next decade. ‘For highly leveraged transactions, especially those with bullet debt, structural features such as cash sweep triggers and management strategy to timely delever and maintain high coverage ratios in outer years will mitigate longer-term risk. Parking facilities under public ownership with amortizing structures should be able to pay down debt with relative ease,’ said Lewis.

Longer term, underutilized parking assets could have a second life. ‘Some existing car parks are already developing additional revenue streams including car cleaning areas, valet parking services and EV charging points,’ said Lewis.

‘The Effect of Autonomous Vehicles on Parking Assets’ is available at ‘www.fitchratings.com’

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S&P Credit FAQ: Criteria Considerations For Mass Transit Agency Ratings

In most cases, the obligor or related entity is also the issuer. However, in others–for instance, when the issuer is primarily a vehicle for issuing and servicing debt or has relatively little control over pledged revenues apart from payment of debt service–we may exercise analytic judgment to identify the obligor or related entity in evaluating the operating linkage.

Continue Reading

Nov. 14, 2018

Fighting Fires With "Forest Resilience" Bonds.

The rocky Yuba River meanders in a remote corner of California. It’s here that insurers, environmentalists and venture capital firms are joining forces to create a “Forest Resilience Bond” aimed at solving a multibillion-dollar problem plaguing the wildfire-ravaged state.

Nearly 100 people have died and 1,000 are unaccounted for from the two most recent mega-fires, both of which remain active. And in what the Association of International Fire Chiefs now calls “a year-round fire season” for this and other tinderbox states, more destructive blazes are all but a certainty.

One major factor behind the fires: an overabundance of dry brush from a seven-year drought and millions of dead trees from an influx of bark beetles – none of which is cleared away until a campfire spark or downed power line ignites these fuel-rich forests. Meanwhile, the money budgeted for forestry conservation or to hire more firefighters often pays instead for paramilitary equipment, such as airplanes and helicopters.

Funding for forests

Enter Blue Forest Conservation. The startup, launched by University of California, Berkeley business school graduates and backed by the World Resources Institute, works to raise money to save the forest through a public-private partnership. To do so, it created the first "Forest Resilience Bond."

"There are 58 million acres of forest at high risk of wildfire in the U.S.," said Linc Walworth, vice president of investments for CSAA Insurance Group, one of the bond's backers. "If the concept works, there will be lots of opportunity for forest restoration bonds, and they could become a permanent source of financing for our forests."

A $4 million bond is small relative to the massive economic losses caused by infernos such as the "Camp Fire" in Northern California and the "Woolsey Fire" around Los Angeles, but it could be seed money for what is to come. Blue Forest's goal is to shift the financial burden of preventing fires from the state's overtaxed fire and forestry services to private industry. The California fire agency has already exhausted its $443 million budget and needs another $234 million to continue the fight.

The bond works by tapping private capital to maximize forest restoration without stressing the already overtaxed state budget. CSAA, along with an investment firm and two foundations, will fund the investment. The National Forest Foundation will use the bond to hire private contractors to "thin" the forests by cutting down trees, perform "controlled burns" and trim brush that could fuel fires in the 15,000-acre Tahoe Forest above the Yuba River.

The money will be repaid over five years by the Yuba Water Agency, a public utility, and though a grant from California. The utility benefits from cleaner water. Its hillsides, ravaged by fire erosion, are also prone to flooding because scorched soil lets water flow downhill unimpeded. The state benefits because the work will be done in less than half the time it would take the state forest service to do it.

Forest resilience bonds could also amount to a good deal for investors. CSAA will provide $1 million, while The Rockefeller Foundation, the Gordon and Betty Moore Foundation, and a unit of Calvert Investments (a fund known for so-called responsible investing), will contribute the rest. They will realize a 4 percent return on their investment, better than the 3 percent from an average bond.

Getting insurers on board

As an American Automobile Association insurer, in theory CSAA will get an additional bonus: fewer payouts on property claims from fire damage.

Insurers will have to pay an estimated $13 billion this year to repair and replace homes and businesses burned in the California fires. As a result, Walworth said it makes sense for big property insurers to get involved once they see that the small pilot program works. "If a market develops for these types of bonds, we think other insurers will see the benefit in making similar investments," he said.

In 2017, California set a state record, with more than 9,000 fires torching 1.4 million acres, burning down 10,000 homes and killing 47 people. This year will be much worse, topping all previous statewide disaster costs.

President Donald Trump, who visited the fire-ravaged state on Saturday, has been critical of its forest management, even threatening to withhold federal funds. "They should take a lesson from Finland, where they do a lot of raking and cleaning… and they don't have this problem," he said in visiting Paradise, California, a town devastated by the Camp Fire.

So does it make sense for big insurers like Allstate, Geico and State Farm, which have billions invested in California, to help underwrite bonds or other investments meant to fund the protection of forests? As of year-end 2017, the property casualty insurance industry's "policyholders' surplus" – the amount of money available to pay claims – reached an all-time high of $752.5 billion, up more than $50 billion from the year earlier and at its strongest level in history.

"The industry is extremely well capitalized and financially able to pay very large-scale losses in 2018 and beyond," according to a statement by the Insurance Information Institute, which represents the industry.

Or, as Blue Forest suggests, it could join forces with other private investors and – just possibly – cut those losses.

CBS MONEYWATCH

by ED LEEFELDT

November 20, 2018, 6:51 AM

When a Local Government is 'Unwilling' to Cover Debt Costs.

Lawmakers in Platte County, Missouri are hesitant to assist in picking up the tab for bonds related to a retail project.

With a payment deadline looming at the end of the week, there's little question Platte County, Missouri has the cash to help cover debt service costs for bonds linked to a struggling retail shopping center.

But commissioners there have voiced opposition to doing so—at least until there is a new plan in place for how the debt will be paid going forward. The county is also taking action in court, seeking a ruling that confirms it has no legal obligation to assist in paying off the bonds.

Credit ratings agencies have taken notice of the situation, and characterize it as a "willingness to pay" issue. They've responded by whacking the bonds and the county with ratings downgrades and have warned a default could be on the horizon for the bonds.

With about 101,000 residents, Platte County encompasses an area that sprawls north from Kansas City, along Missouri's border with Kansas.

Census Bureau data show that the county is more affluent than the city itself, with a median household income between 2012 and 2016 of $70,879, compared to $47,489 in the city, and a poverty rate estimated to be just 6.1 percent, versus Kansas City's 18.3 percent.

Todd Graves, an attorney for the county, said by phone last Tuesday that the three-member board of commissioners hasn't decided how to handle its possible share of the debt payment associated with the local shopping center development, known as Zona Rosa.

By making the payment, the county would help to offset sales tax revenue shortfalls in a pair of special taxing districts.

"They haven't told me what their decision is," Graves said, "and I don't know when they'll make that

decision."

"The nature of the lawsuit," he added, is to get a court ruling "so the county can make its decision with a clearer understanding of the law."

There's been at least a dozen or so instances dating back to the early 2000s where similar debt deals have turned sour, but the problem is not of epidemic proportions, said Al Medioli, a senior vice president with the credit ratings agency Moody's Investors Service.

One example is an arrangement in Buena Vista, Virginia where the city ended up in court, and at risk of losing its city hall, after a default on bonds issued in 2005 for a golf course.

Another occurred in Moberly, Missouri and involved debt issued for an artificial sweetener plant project, which failed, with the former CEO of the company, Mamtek, US, Inc., sentenced to prison for theft and fraud.

"We're seeing a number of instances in recent years where communities have issued this kind of debt for projects that they thought would be self-sufficient and then when they weren't self sufficient, they were like, 'oh, we don't want to pay,'" Medioli said.

"Some of these have been very wealthy suburban districts, or suburban cities, that clearly have the ability to pay," he added, noting that "there's always a story to these things."

Route Fifty

By Bill Lucia,
Senior Reporter

NOVEMBER 25, 2018

State Revenue Volatility and Optimal Reserve Size Are Directly Linked.

Comparison of states provides insight into their ability to weather an economic downturn

The amount of money a state takes in fluctuates from year to year, with a range of factors influencing this volatility. Those factors can include specific tax revenue sources, the state's economic profile, federal budget changes, and unforeseen events such as natural disasters. Although each state's revenue swings may be unique, all face the challenges associated with managing these ups and downs.

Policymakers can use reserves to help offset revenue declines during down periods, such as recessions. But how much a state should hold in its reserves—its savings target—can vary as well, and for many reasons. For example, leaders in one state might have a higher risk tolerance than their peers, meaning they are more willing to save less than enough for the next downturn. Some may more routinely use other budget tools, such as raising revenue or cutting spending, to close a budget gap. These alternative approaches can reduce reliance on reserves.

However, revenue volatility remains a primary factor influencing optimal reserve size. In general, states with greater revenue volatility need to save relatively more than do those with less fluctuation. High revenue volatility means that tax collections tend to drop more dramatically during

economic downturns.

Continue reading.

Route Fifty

By Mary Murphy and Steve Bailey

NOVEMBER 20, 2018

Demographic Destiny: The Impact of an Aging, Moving Population on Municipals.

An aging, increasingly urban population will create revenue challenges for municipalities while increasing demand for hospital and other infrastructure bonds.

Every sector of municipal finance will face new opportunities and risks posed by this demographic shift as the last of the baby boomers retire and millennials begin to buy houses and settle down, according to a report issued by Moody's Investors Service last week.

The primary drivers of this demographic challenge for state and local finances are population growth and an aging labor force, Moody's said.

"The population of the U.S. has been steadily aging over the last decade and will continue to do so through 2055," the report says, adding that in another shift, people have been moving to cities from rural areas. Over the last 100 years, the percent of the U.S. population residing in an urban area has steadily risen and the shift – from rural to urban – is expected to continue.

"The working-age population is growing at a pace similar to overall growth of the total population," the report said. "Approximately 63% of the U.S. population is working age (ages 15 to 64), and we expect that number, as well as the age at which people retire, to continue to rise. Millennials represent the largest portion with the most rapid growth, at 56 million working age in 2017."

Henry Cisneros, former U.S. secretary of Housing and Urban Development and former San Antonio mayor, said he sees dramatic contrasts between places and their economic prospects and their ability to fix and to expand their economies.

"We can look at the problems through two templates," said Cisneros, now a partner at Siebert Cisneros Shank & Co. "In the first, we can look at some of the basic trends — an aging of some the traditional populations, which is very dramatic, where those over 65 will be doubling, while those over 85 years will be tripling in the next 18 years."

Boomers will be earning less, requiring more services, drawing Social Security checks and moving to downsized housing with property accessorized for older residents, Cisneros said.

And the new younger populations will be much more diverse than the rest of the county. They will create educational needs and new schools along with new forms of technology and computer literacy. The upcoming population will also have to face new problems, arising from outsourcing, part-time work, as well as the continuing effects of changing technology, such as artificial intelligence and what that may mean for many jobs.

Another way to look at the scope of the changes is to view the regions across the U.S., where some are growing dramatically while others are seeing slower job creation and population growth, Cisneros said. Some areas in the growing regions will have to tap into public finance to support economic progress.

“The traditional Sun Belt, bicoastal areas, Boston and Washington and along the West Coast from Washington to Arizona will require more schools, better roads, expanded water systems along with airport development, seaports, rail, logistics such as warehouses and freight systems, and new communication systems to support growth in those areas.”

In contrast, he said other stressed areas — such as some of those in the Midwest — will have to oversee a process where managing decline becomes the priority. This is where slow growth combines with a contracting population, where there is an outmigration of younger people while leaving an older population along with aging infrastructure like bridges and water systems.

“It’s very clear that public authorities within the growth areas will have to access public debt,” Cisneros said. “But that won’t be enough — we can’t do it all with public debt — many states and localities have debt caps and other restraints.”

He said America need to address new forms of financing, deploying private capital into public works. “The country needs to be more imaginative and creative with private and institutional capital.”

Other places that are managing decline — such as those in the Midwest — will have to face some hard decisions, such as consolidating services and closing schools. And aging demographics can translate into an inability to generate the revenue to preserve existing infrastructure.

These are the diverse forces across the country, which have profound implications for public finance, he said.

“Moody’s put out a brilliant report and it is critical that public officials read it and understand it, not only at the local level, but at the national level,” Cisneros said.

He stressed that a discussion about a national infrastructure plan was both timely and urgent. “After these elections,” he said, “I am hopeful there can be a bipartisan consensus that infrastructure needs to be at the top of the priorities for the nation. We need to bring up the level of the need — and do it in a national template — not just empowering localities but also finding a national role to fill in the gaps.”

Other also looked at patterns of change in migration.

“Shifting demographics are important, but of at least equal concern is the migration flow in and/or out of cities and states, and what impact those changes have on tax revenues for states and cities,” said Stephen Taddie, managing partner at Stellar Capital Management. “The analysis cannot be ignored by state and local leaders, but sadly, in some cases, officials kick the can down the road for someone else to deal with. We see the results in a number of old Rust Belt cities, where infrastructure is crumbling, social and community services are lacking, and debt levels are spiraling out of control. Forecasting population flows is important in forecasting tax revenue, for if people are fleeing the ship, those remaining split an ever growing liability fewer ways, until the system breaks down.”

“It’s a situation that seems to be the same as we have seen in our latest State of the States report,” said Paul Mansour, managing director and head of municipal credit research at Conning. “We don’t see any dramatic changes over the short term. Rather, there is a gradual change in the population

over the long term."

He said that outside of states and cities with out-migration, like Illinois and Chicago, the population shift was more important to local governments. He said they would continue to be looking at housing stock and prices in the years ahead to determine the effect that these shifts will have.

The aging population may buoy the municipal bond market into the future, said Anthony Tanner, senior vice president at Aquila Investment Management.

"It is likely to support munis because there will be a significant demand — and there will be a plentiful supply of capital to upgrade infrastructure projects that are needed all across the country," said Tanner, lead portfolio manager of Aquila's Tax-Free Trust of Arizona.

He also said shifts could be seen in certain sectors, especially health and hospitals, citing his own experiences in Maricopa County.

"I've lived here for 15 years and I've seen multiple hospitals expand their facilities," he said, adding that with an aging population it also bodes well for bonds that back senior living and continuing care facilities. "It will be good for those type of bonds," he said.

Tanner also noted that it is vital for portfolio managers to have a local presence, so that they could monitor changing demographic trends more effectively.

"A local presence can make a significant difference," he said. "You can observe nuanced changes in localities just by being on the ground there — such as growth in infrastructure. It's easier to determine the impact when you're local."

Changing trends have also captured the attention of the Federal Reserve.

Late last year, Federal Reserve Bank of Cleveland President Loretta Mester said that demographics will be a challenge for policymakers, who will have to constantly evaluate and adapt. "Demographic change will result in a slower-growing and older population," Mester said. "This transition will likely put downward pressure on the growth rate of potential output, the natural rate of unemployment and the long-term equilibrium interest rate."

At a separate public finance conference held at Moody's (MCO) headquarters at 7 World Trade Center in Manhattan last week, panelists looked at the credit implications.

"Demographics — they are destiny. It's very hard to change demographic trends," Mark Zandi, managing director at Moody's Analytics, said in an address at the conference.

"If we have a demographic headwind, which I think we do, that means slower growth, that means less personal income, that means less corporate earnings, that means slower equity price growths, that means less house price growth, that means fewer retail sales — all the things that are necessary to generate revenue," he said.

Zandi said that top of the list on demographic trends was the aging of the workforce. He cited statistics showing that 10 years ago 3% of workers were over the age of 65; today it's over 6% and in 15 to 20 years it will be between 9% and 10% of the workforce.

Another big change was immigration, he said, stressing that this was one area where policy change could make a difference. Zandi said that over the next 25 years "the biggest problem will not be unemployment, it will be a screaming lack of labor. We are not going to be able to fill open

positions.”

Zandi said that if there was one policy step that the government should take that would be a game changer, it’s immigration reform. “This dynamic is so powerful that at some point we will get reform,” he said.

By Chip Barnett

BY SOURCEMEDIA | MUNICIPAL | 11/19/18 07:03 PM EST

U.S. Pension Funds Turn to Riskier Real-Estate Bets.

Large public retirement systems hope to close funding gaps by embracing so-called opportunistic investments

U.S. public pension funds are taking on more real estate, and at times some of the riskiest types of property investments, as they try to close their funding gaps.

American public plans with more than 20,000 members had an average 7% of their assets in real-estate investments at the end of 2017, according to a Wall Street Journal analysis of Boston College’s Public Plans Data, which contains the most recent numbers available. That is up from 4% in 2006, representing more than $120 billion in additional pension money flowing into real estate.

Some of this increase is due to the construction of new properties designed to be sold later for a profit. These so-called opportunistic investments by pensions grew nearly sixfold between 2006 and 2016 even as allocations to “core” existing properties remained flat, according to an analysis by CEM Benchmarking.

Continue reading.

The Wall Street Journal

By Heather Gillers

Nov. 26, 2018 7:00 a.m. ET

Local Government Investment in Public Water and Sewer Hits a Record $123.7 Billion in 2016.

Long-term infrastructure investment commitment to clean water and sewer/stormwater management tops $1.99 Trillion from 1993 to 2016

Public spending on water and sewer/stormwater management continues to set new nominal dollar highs according to recently released local government Census data for 2016. Overall there was a 4 percent increase in spending from 2015 to 2016, and a 2 percent growth in revenues. Expenditures for water and sewer follow similar trajectories with some important distinctions, (Chart 1). For example, local governments consistently spend between $5 Billion to $15 Billion more on water than on sewer/stormwater management.

Read More

United States Conference of Mayors

By Rich Anderson

New Report Strengthens Economic Case for Flood-Prepared Infrastructure.

Mitigation projects yield positive return on investment in coastal, inland states

From elevating roadways in Nebraska to moving wastewater treatment plants away from flood plains in Iowa, proactive measures before flooding can provide a major return on investment, according to a new report from the National Institute of Building Sciences (NIBS). The report, "Natural Hazard Mitigation Saves: Utilities and Transportation Infrastructure," provides analysis and key examples that underscore the benefits of investing in mitigation measures.

The report was released Oct. 30 during a webinar co-hosted by the institute and The Pew Charitable Trusts. Ryan Colker, NIBS vice president, and Philip Schneider, director of NIBS' Multihazard Mitigation Council, provided an overview of the report, including cost-benefit assessments of flood-related case studies. The webinar also featured Melissa Clow, a civil engineer and special projects administrator for Iowa City, Iowa, who discussed the city's disaster mitigation work on a bridge and major road.

In developing the report, NIBS examined natural hazard mitigation investments across the country that included upfront spending on infrastructure projects—such as raising roads above anticipated flood levels and moving water treatment plants outside of flood plains—as well as near- and long-term maintenance. Benefits included avoiding replacement or repair of damaged infrastructure and disruptions to daily life from impacts such as closed roads, impaired public safety, and loss of essential services like water and electricity. Of the 21 case studies analyzed in the report, 10 focus on mitigating the impacts of flooding on infrastructure—projects involving roads, bridges and railways, water and wastewater facilities, and electric and telecommunications substations.

Continue reading.

The Pew Charitable Trust

by Forbes Tompkins

Nov. 20, 2018

Investing in Better Procurement Processes Can Enable Better Infrastructure Outcomes.

Editor's Note: *This post is the first in a two part series about how procuring infrastructure systems, technologies, and services can be an entry point to resilience in cities, rather than an obstacle to it.*

Many cities across the United States are home to legacy infrastructure systems. These older water,

transportation, and communications systems are not only poorly suited to current needs, but they are also nearing (or well past) the end of their usable lives after decades of underinvestment and deferred maintenance.

The motivation for investing in resilience—taking measures to adapt and modernize systems amid rising environmental and social pressures—could not be greater, especially at a local level.

However, local government resources for infrastructure transformation are limited at best. As a result, local leaders are caught in a tug-of-war. On one side are high-priority incremental repairs to keep critical services up-and-running. On the other side is all the up-front planning required to invest in long-term capital projects. Both are costly. Both are necessary. In the coming years, more places will inevitably be confronted with a stark choice: keep making short-term fixes or find the resources to make major upgrades and replacements.

Continue reading.

The Brookings Institute

by Shalini Vajjhala and Ellory Monks

November 26, 2018

These Muni-Bond Funds May Offer Year-End Bargains.

Bargain hunters can find plenty of discounted stocks these days. But year-end tax-loss selling may be creating good bargains in closed-end funds, particularly those that hold municipal bonds, according to a note from BlackRock.

CEFs have two prices: the fund's share price and its underlying net asset value, or NAV. When the share price falls below the NAV, the fund is said to trade at a "discount." A 10% discount enables investors to buy a fund's underlying securities, such as stocks or bonds, at 90 cents on the dollar, for example. Investors can profit when the discount to the NAV narrows even if the underlying securities don't budge much.

Historically, CEF discounts widen in the fourth quarter as tax-loss selling kicks in, according to Stephen Minar, head of closed-end funds at BlackRock. Investors sell the funds to realize capital losses in the tax year. That may be especially prevalent this year as stock and bonds have slumped, putting some categories of CEFs in negative territory.

Yet the funds tend to bounce back in the new year-a well-known "January effect." CEF discounts have narrowed in January in 16 of the last 20 years, Minar points out. "Based on historical trends," he wrote, "BlackRock believes that tax-loss selling may present an opportunity to reap the rewards of a temporary mispricing in the CEF market."

Some of the best deals may be on municipal bond CEFs. Interest income from muni bonds isn't taxed at the federal level and may be tax-free at the state level (if the bonds are issued in the investor's state).

Investors should calculate their tax-equivalent yield to see if munis make sense for them. For example, a 5% muni yield would be equivalent to a 6.9% taxable yield for investors with income of

$100,000 in the 28% federal tax bracket, according to Bankrate.com. The higher a person's tax rate, the more of a break they would receive from investing in munis.

National muni CEFs, which invest in state and local debt from across the country, are down by an average of 8.7% this year, through Oct. 31, including dividends, and they trade at an 11.3% discount to NAV. That's steeper than their historical discount of 7.3%, according to BlackRock. Indeed, muni CEFs have traded at a narrower discount on 99% of trading days over the last 20 years, averaging 3.5%, Minar writes.

"At BlackRock, we believe these conditions are cyclical and discounts this wide are not likely to persist longer term," he says.

Granted, bonds have been under pressure as the Federal Reserve has raised interest rates and investors have grown increasingly concerned about inflation. Those trends aren't likely to disappear in the new year, keeping up the pressure on bond prices and making it tough to generate positive returns.

To help lower risks, consider funds with a relatively low average "duration," or sensitivity to interest rates. Another consideration is a fund's use of borrowed money, or leverage. Many CEFs use leverage to juice their distributions, and the more leveraged a fund, the steeper its yield is likely to be. But leverage can amplify losses when a fund's underlying securities lose value.

The BlackRock MuniAssets fund (ticker: MUA) has a moderate duration of six years, well below that of long-term bond funds that would lose more in a rising-rate climate. Its distribution rate is 5.2% and it trades at an 8.2% discount to NAV, a wider gap than its 52-week average of 3.7%, according to Cefconnect.com, a closed-end fund research site. More than half of the fund's $500 million in assets are in investment-graded munis, rated BBB or higher. The fund's leverage is relatively low at 12.5%.

The Eaton Vance Municipal Bond fund (EIM) trades at a 14.2% discount to NAV, below its 52-week average of 10.6%. Its distribution rate is 4.6%. The fund's duration is 7.3 years, giving it more rate-sensitivity than the BlackRock fund, but the underlying debt is of higher quality. The portfolio of nearly $1 billion consists of investment-grade bonds, with 70% rated AA or AAA.

If you're willing to take more interest-rate risk in exchange for a higher yield, consider Nuveen AMT-Free Municipal Credit Income fund (NVG), one of the largest muni bond funds with $3.2 billion in assets. Trading at a 13% discount, the fund yields 5.9%. More than 60% of its bond holdings are rated investment-grade, and the fund emphasizes munis that don't subject investors to the alternative minimum tax.

Nonetheless, the fund uses a considerable amount of leverage, at 39% of assets. With an effective duration of 13 years, the fund's shares will get hit hard if rates continue to increase. That could sting long after the January effect wears off.

Barron's

By Daren Fonda

November 23, 2018

The Best Bond Funds to Buy for 2019 as Interest Rates Rise.

In normal times, when a stock-market downturn looks likely, investors move money into bonds, the better to protect their wealth from sharp losses. But these are not normal times: It looks like the beginning of a downturn in fixed income too. Interest rates are rising, which drives down bond prices. The value of a 10-year Treasury note maturing in November 2027 has fallen 6% in the past year. And the Federal Reserve is expected to hike benchmark rates three times in 2019, putting even more pressure on prices.

Another conundrum: This is a time when many investors actually do need to rebalance their portfolios to own more bonds. The S&P 500 has risen nearly 35% since the 2016 elections, which means most investors have a higher share of stocks in their portfolio than their investment plan might dictate. An October survey by the American Association of Individual Investors found that average exposure to fixed income had dipped to a 10-year low of 13.3%, compared with a high of 25.5% in 2010.

So how can investors rebalance into bonds, and their relative safety, without taking a small but still painful beating? Amy Wasser, a financial adviser at Edward Jones, is adding short-duration U.S. Treasuries to her mix of bonds. While shorter-dated bonds tend to yield less interest than longer-term ones, their prices take less of a hit when inflation rises. (The Vanguard Short-Term Treasury [VFISX] fund is a low-cost way to play that sector.) Independent adviser Lewis Altfest recommends emerging market bonds, whose higher yields make up for the volatility of their prices. (Goldman Sachs Emerging Markets Debt Fund [GSDIX] is a popular option for those assets.)

Municipal bonds are also worth adding if you live in a high-tax state or locality, says Don Martin of Mayflower Capital. They're less sensitive to fluctuations in interest rates, and the fact that their interest is partly tax-exempt can sweeten their payout.

One last reason to beef up your bond portfolio: Its value could rise sharply if a truly big stock plunge sends investors fleeing to bonds for shelter. "For all we know, it could be the start of the bear market," says Greg Ghodsi, a Raymond James financial adviser.

FORTUNE

By LUCINDA SHEN

November 19, 2018

Data Driven Fixed Income Dealer Growth Survey.

Trust and Data Drive Fixed Income Dealer Growth was led by Kevin McPartland at Greenwich Associates and surveyed 50 fixed income dealers – both large and regional – examining the current state of the fixed income business, top concerns of both large and middle-market dealers, technology priorities, and the most likely path forward given each firm's strategy of managing balance sheet and relationships in a more quantitative driven way.

This newly released study has been provided through an active partnership between Greenwich Associates and the BDA.

Bond Dealers of America

November 13, 2018

How the Third Largest Closed-End Fund is Coping With Rising Rates.

Rising interest rates are creating challenges for the Nuveen AMT-Free Municipal Credit Income Fund.

Like other closed-end bond funds, the Nuveen AMT-Free Municipal Credit Income Fund is grappling with the fallout from the Federal Reserve's rate-raising campaign and a roller coaster stock market.

With more than $3.1 billion in assets, the Nuveen AMT-Free Municipal Credit Income Fund is the third largest closed-end fund in the world, according to Lipper Research.

Nuveen's decision a few years ago to expand the fund and revamp its investment focus turned out to be a winner, helping cushion the fund amid rate-hike and stock market turbulence.

Founded in 2002, NVG undertook a significant expansion a few years ago when Nuveen, its parent fund company, merged and combined 18 closed-end bond funds into eight.

Along with an infusion of assets, NVG also was given a new mission to reposition its portfolio to focus on lower-rated municipal bonds.

That strategy has paid off well for NVG, with lower-rated bonds performing handsomely even as their premium-rated cousins have lagged, notes Paul Brennan, a portfolio manager at Nuveen Asset Management, who oversees NVG and other closed-end funds.

"That has been the most positive part of our fund performance," Brennan says. "Over the last number of years, the lower-rated bonds have been the top performers."

Some of NVG's largest holdings are bonds issued by the state of Illinois and Chicago, both of which have struggled in recent years with various budget crises.

Illinois last year resolved a two-year budget standoff that had threatened to implode the state's already shaky finances. And while Chicago faces a $98 million deficit, it is down from $635 million in 2012.

Overall, municipal bonds have proven to be a good bet, with state and local revenues, from taxes to highway tolls, on the rise, Brennan says. In deciding where to invest, NVG draws upon Nuveen's team of 26 or so credit analysts, who keep tabs on the immense, $3.7 trillion municipal bond market and the tens of thousands of government and quasi-government entities that issue the bonds.

(Full disclosure: Nuveen is an advertiser on TheStreet, but did not participate in the preparation of this article.)

"While the news was very dire in Illinois and Chicago, our belief was that there were solutions," Brennan says. "We were getting bonds at distressed levels at the trough of the cycle. We generated very good yields on those bonds."

The NVG's investments in tobacco settlement bonds have also been a bright spot as well, he notes.

Overall, more than 50% of the fund's holdings are now in bonds rated triple-B, the lowest investment grade, or below.

"A lot of our top holdings have been some of our top performers," Brennan notes. "That is the best type of outcome."

However, the Fed's efforts to jack up interest rates have made it more expensive for the fund to do business.

Unlike open-end mutual funds, which make up most of the market, closed-end funds are allowed to borrow and use leverage, which can boost returns.

But with short-term interest rates rising, NVG's cost of borrowing has also gone up, increasing the amount of money the fund owes to creditors and cutting into earnings, according to Brennan.

The increase in long-term rates, in turn, has had a negative impact on the fund's net asset value, with a reduction in the value of its bonds as investors flock to higher-paying newer issues.

NVG has posted annualized returns of 6.6% over the past five years, with a 5.7% annual distribution rate, a key state for investors seeking steady income. But year to date, the fund's net asset value is down 2.5%, according to Lipper Research.

The fund is trading at a 12% discount relative to its net asset value — another feature unique to closed-end funds, which hold a modest but influential niche in the overall fund world, managing roughly $300 billion in assets.

They differ from their far more numerous cousins in the open-end mutual fund world in their fixed capital structure and the fact they are traded on exchanges throughout the day.

This combination creates gaps between the closed-end fund's trading price and the net asset value of its holdings, often allowing investors to buy the stocks and bonds in the portfolio at a significant discount.

A 12% discount effectively means investors can buy a dollar's worth of bonds in NVG's portfolio for 88 cents, with a potential gain if the discount narrows rather than widens.

That's down from a 52-week high of nearly 14% but up from its 52-week average of around 8.6%.

Looking ahead, Nuveen's Brennan sees more of the same when it comes to the main pressure weighing on NVG and other closed-end bond funds.

"We are still looking for the Fed, which is the most important thing to watch, to continue the pace of slow, gradual increases," Brennan says.

That, in turn, could set the stage for more growth in 2019 and continued strong performance by municipal bonds.

"We are seeing more volatility in our space but the underlying fundamentals are pretty solid," Brennan says. "There is still pretty good economic growth and state and local municipalities are performing well."

TheStreet

by Scott Van Voorhis

Nov 26, 2018 3:08 PM EST

Despite Major Wildfires, Most Calif. Local Governments Won't Feel Credit Ratings Impacts.

Only small towns and school districts facing significant damage and weak liquidity will likely feel pressure, according to Moody's.

Most local governments dealing with California's deadly wildfires won't see their credit ratings downgraded, according to a weekly Moody's Investors Service report.

Camp Fire became the deadliest wildfire in California history on Nov. 14 and, together with the Woolsey and Hill fires, had killed 79 people as of Saturday while razing about 237,000 acres and 8,350 buildings.

Federal Emergency Management Agency, state assistance and private insurance are expected to cover most of the costs of debris removal and reconstruction following the federal disasters, according to the outlook.

But that assurance stopped when it came to Paradise, the town of about 20,000 people that has been devastated by the wildfire. Thousands of residents have been displaced and authorities over the weekend said more than 1,200 people were missing.

"We expect select small entities, such as the Town of Paradise and Oak Park Unified School District with significant damage and weak liquidity to be faced with significant credit challenges," reads the report.

About 80 to 90 percent of Paradise in Butte County burned in Camp Fire, which the report said will cause "dramatic" declines in property, sales and lodging tax revenues—65 percent of the town's 2017 general fund. People moving away could hurt the town's ability to recover as other residents look to rebuild, according to the report.

On the other hand, Los Angeles and Ventura counties will see temporary sales tax declines, which should rebound during rebuilding.

"[W]e currently expect impacts to [assessed value] will not materially affect credit quality, as their tax bases are sizable relative to the burned areas, and they have experienced healthy growth in recent years," reads the outlook. "California local governments have the flexibility to cut spending and can raise taxes with voter approval."

Route Fifty

By Dave Nyczepir,
News Editor

NOVEMBER 16, 2018

Fitch U.S. College and University 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. Public Finance College and University 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 that approximately 85% of institutions covered by this criteria will be unaffected. Upgrades are expected to lead downgrades for those affected. Criteria-driven rating changes will be dependent on the finalization of criteria after assessing comments received during the exposure draft period.

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 issuers differently, and will be publicly available with a select group of issuer data during the criteria comment period.

Experienced Analytical Judgment
Fitch's ratings will continue to be based on the judgment of a team of experienced analysts, rather than on weighted assessments or model-based outcomes.

Clearer Communication of Credit Opinions
The goal of the revised criteria is to communicate Fitch's credit analysis more clearly, presenting well-defined opinions about both rating conclusions and the underlying fundamentals.

Focused Key Rating Factors
Three focused key rating factors replace the traditional inventory of credit considerations to highlight the role that each plays in determining credit quality.

Tailored Versus Generic Expectations
As part of an integrated analytical approach, expectations are linked to issuer-specific risk factors.

- Rating Criteria User Guide
- Exposure Draft: U.S. College and University Rating Criteria
- Exposure Draft FAQs
- Sample New Issue Report
- FAST for College and University

Why the Extra Safety You Get Through Bond Insurance Is Worth the Modest Yield Reduction.

Bond insurance protects investors and benefits issuers at a modest cost.

In this article, we cover the details of how bond insurance works, how it is priced and why it is worth the cost. We also take a look at how insurance benefited bondholders through Detroit's bankruptcy and, more recently, with Puerto Rico bonds.

Continue reading.

municipalbonds.com

Joshua Hudson

Nov 14, 2018

MSRB Q3 Trading Stats.

Follow muni market data trends? The MSRB has released third quarter trading stats. Read about the muniland quarterly highlights, most actively traded securities and more.

Municipal, Corporate Equity and Corporate Debt Pre-Market Activity Climbs Following September Slump.

"CUSIP request volume for October is consistent with the trend toward increased levels of capital markets activity we've been seeing throughout most of the second half of the year," said Gerard Faulkner, Director of Operations for CUSIP Global Services. " While we did see a great deal of volatility in the CUSIP indicator in the early months of 2018, current readings suggest we'll see a relatively healthy volume of new securities issuance as we make our way through the fourth quarter."

Read Press Release.

Fitch Ratings: Has Acute Care Peaked for U.S. NFP Hospitals?

Fitch Ratings-Austin-15 November 2018: With acute care operating profitability set to decline for a third straight year, questions are being raised among some U.S. not-for-profit hospital investors as to whether acute care has peaked or if there's room for improvement, according to Fitch Ratings in a new report.

In response to falling profitability, large system providers are planning some basic cost-cutting, elimination of waste and rethinking how healthcare is delivered to fall in line with Medicare rates. Smaller providers, however, are at a competitive disadvantage according to Senior Director Kevin Holloran.

"Smaller hospitals are characteristically less able to trim expenses and typically unable to negotiate higher rates from commercial insurers in their markets," said Holloran.

How healthcare will be delivered going forward along with changing reimbursement models are what precipitated Fitch's gradual move away from "classic measures" like maximum annual debt service (MADS) coverage and days' cash on hand and increased emphasis on two new metrics of its NFP hospital analysis: Cash to Adjusted Debt and Net Adjusted Debt to Adjusted EBITDA.

One thing appears clear. Consolidation of NFP hospital systems is set to continue, if not escalate going forward. The quest for increased size and scale, however, has led to some investors asking whether bigger is actually better (a question Fitch plans to answer more substantively in a future report).

“Size and scale are ‘better’ for a hospital’s rating if its enhanced size and scale means improved operations, stronger balance sheets and more market essentiality,” said Holloran. “Conversely, a hospital getting bigger just for the sake of getting bigger at time can lead to an initial dip in operating profitability as the two or more organizations come together.”

One facility type whose outlook is not encouraging is critical access hospitals. Fitch has a negative outlook for these small inpatient facilities characterized by independent distance from the next closest facility and short stays. “Critical access hospitals have long benefited from higher levels of cost based reimbursement, though even that will likely not be enough to secure a long-term future for these facilities,” said Holloran. These facilities will likely either close altogether or become freestanding centers that perform little more than triage services.

‘What Investors Want to Know: U.S. Nonprofit Hospitals and Healthcare Systems’ is available at ‘www.fitchratings.com’.

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Fitch Ratings: Revenue Continues to Climb for U.S. Water Utilities

Fitch Ratings-Austin-12 November 2018: Growth in annual revenue accelerated for U.S. water utilities over the last year while leverage declined, according to Fitch Ratings in a new report.

Revenue increased almost 5% in the current median cycle with most of the growth again coming from rate adjustments. However, revenues did get a slight bump from increased water sales, which were up about 2% compared to flat sales during the past several years. Sewer flows were also marginally higher, by almost 1%. Conversely, leverage fell 5% for the year after rising 8% with 2018 medians.

“Added debt is expected to represent a manageable 36% of capital resources for water utilities over the next five years, which should limit growth in some key debt metrics,” said Managing Director Doug Scott.

Operating expenses jumped more than 5% with the 2019 medians and rose faster than operating

revenues. However, water utilities have mitigated that potential risk by keeping debt carrying costs in check to just 18% of revenues (compared with 20% with the 2018 medians). Days cash on hand also reached a new high of 561 days of operating expenses.

"Liquidity at this level will give water utilities a significant amount of flexibility in meeting their capital funding needs and managing fluctuations in operations," said Scott.

One area worth a closer look will be aging facilities, which rose to a new peak of 16 years this past period. Capital spending has been in line with 2018 medians at 142% of annual depreciation, but additional spending may be necessary to maintain infrastructure performance.

Fitch's '2019 Water and Sewer Medians' is available at 'www.fitchratings.com'

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Fitch Ratings: Adjusted Net Pension Liabilities Hit $1 Trillion for U.S. States

Fitch Ratings-New York-12 November 2018: Steady increases in the present value of future benefits and lackluster performance in pension assets led to net pension liabilities reaching a noteworthy milestone this past fiscal year for U.S. states, according to Fitch Ratings in a new report.

Fitch-adjusted net pension liabilities (NPLs) surpassed $1 trillion in fiscal 2017 (up from $892 billion in fiscal 2016) and now encompass 3.6% of personal income for states. Fitch recalculates state-reported pension liabilities based on a 6% discount rate for plans using a higher discount rate. The pension liability burden of individual states, combined with bonded debt, varies widely. Illinois tops the list of seven states with long-term liability burdens that Fitch considers elevated (above 20% of personal income) with a highwater mark of 29%. Another eight states carry moderate long-term liability burdens measuring between 10% and 20% of personal income. Conversely, the state with the lowest liability burden is Nebraska at 1.5% of personal income.

"Many of the net pension liabilities that states have comprise pension obligations for non-state employees, usually local teachers, legally carried and directly funded by the state," said Senior Director Douglas Offerman. In fact, nearly all states with the highest pension burdens reflect this dynamic.

Discount rate changes are also proving to have a discernible effect on state pensions with 80 state-reported plans lowering their discount rates from a year earlier. "For such plans, states like Illinois, Kentucky and New Jersey are feeling the effect of insufficient contributions in the form of severely

underfunded pensions and rising budgetary demands for pension contributions," said Offerman.

Despite rising NPLs, the median level of tax-supported debt relative to personal income remained virtually unchanged at 2.3% of personal income for fiscal 2017. "States in general remain selective debt issuers and tend to do so primarily as capital needs arise," said Offerman. "As a result, most states will continue to see only gradual shifts in their debt burdens from year to year."

Fitch's "2018 State Pension Update" is available at www.fitchratings.com.

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California Fire Rattles Muni Market as Investors Sell PG&E Bonds.

- **Debt is among the most active in muni market on Wednesday**
- **'My fingernails are down a little bit further today'**

Even the typically calm municipal-bond market can't withstand the crisis that's enveloped PG&E Corp., California's biggest utility, since the outbreak of the state's devastating wildfires.

As authorities investigate PG&E equipment as a possible cause of the deadly Camp fire, the value of some of company's more than $700 million in debt sold through government agencies is slumping. The company's municipal bonds were among the most actively traded municipal securities Wednesday.

A security with a mandatory put option in 2022 traded Wednesday at a price of 86.6 cents on the dollar, down from 94 cents when it last changed hands on Oct. 15, data compiled by Bloomberg show.

Nick Venditti, portfolio manager at Thornburg Investment Management, holds some of the utility's municipal debt and is sitting tight — for now.

"Right now I'm not interested in fire-selling my bonds at the worst price because I think there will be better days ahead for PG&E," he said by phone. But, he added, "my fingernails are down a little bit further today than they were yesterday."

Shares of PG&E Corp. plummeted as much as 23 percent Wednesday after the company said it had exhausted its revolving credit lines, signaling its growing financial stress.

California authorities are investigating PG&E equipment as a possible cause of the Camp fire, the deadliest blaze in state history, burning about 150 miles (240 kilometers) northeast of San Francisco. It has killed at least 48 people, destroyed 130,000 acres and wiped out the town of Paradise.

Bloomberg Business

By Romy Varghese

November 14, 2018, 12:01 PM MST

— With assistance by Jim Efstathiou Jr

What Amazon's HQ2 Means to Local Muni Markets.

Laura Porter, managing director at Fitch Ratings, discusses how Amazon Inc.'s new HQ2 locations could impact the local municipal bond markets and the fate of bond initiatives in the midterm elections. She speaks with Bloomberg's Taylor Riggs in this week's "Muni Moment" on "Bloomberg Markets."

Watch video.

Bloomberg Markets

November 14th, 2018

Muni-Bond Defaults Show Risk Clustered in Midwest, Southeast.

- **Regions account for the highest share of impaired bonds**
- **'Warning flag' for muni-bond investors looking for new debt**

To find the distress in the municipal-bond market, look to the Southeast and Midwest.

That's the conclusion from Municipal Market Analytics, a research firm that examined state and local government bond defaults by using Bloomberg data and disclosure filings from issuers.

Such lapses are extremely rare, accounting for a minuscule share of the nearly $4 trillion market. But counties in the Midwest and Southeast are home to about 37 percent and 22 percent, respectively, of outstanding bonds that are in default for failing to make adequate payments or for violating elements of the debt contracts. Excluding bankrupt Puerto Rico, about $19 billion of the $31.8 billion in defaulted and impaired bonds are in those two regions.

That share is notable considering the areas together have issued only about one-third of all outstanding bonds.

Continue reading.

Bloomberg Business

By Romy Varghese

November 13, 2018, 4:00 AM MST

Wall Street Muni-Bankers See Dollar Signs With Amazon 'HQ2' Plan.

Wall Street's public finance bankers might be seeing dollar signs after New York City, Nashville and Arlington, Virginia, revealed their billion-dollar plans for Amazon.com Inc.'s new offices.

In letters to Amazon released when the company announced its new sites Tuesday, officials from the three locations emphasized their commitment to financing infrastructure surrounding the online retailer's new offices. Banks that raise money in the $3.9 trillion municipal-bond market — which state and local governments turn to when they finance capital improvements — stand to benefit as a result.

While Arlington County may not be able to finance the helipad that Amazon wants, the county is committed to building out public infrastructure and a "top tier transportation system," it said in its letter. New York City officials said it would create an infrastructure fund for streets, sidewalks, utility work and transportation for the new campus in Long Island City.

Nashville said roads, parks and greenways would be built as part of the new operations center that Amazon is building downtown. The Amazon announcement comes after AllianceBernstein Holding LP moved its corporate headquarters to Nashville, which may prod officials to revisit a $5 billion transportation plan that voters nixed earlier this year.

While none of the three localities explicitly mentioned issuing bonds, cities, counties and public agencies selling bonds for the benefit of corporations and economic development projects has become near-commonplace. New York said it would provide funding for "community infrastructure" through a payment in lieu of taxes program that will collect money from the retailer. Governments frequently sell bonds backed by such revenue.

Even the riskiest of deals have been well-received by the municipal market. So investors will likely be eager to gobble up any debt out of New York City, Arlington County and Nashville for the benefit of the world's third most valuable company.

Bloomberg Technology

By Amanda Albright

November 13, 2018, 9:50 AM MST Updated on November 13, 2018, 9:58 AM MST

Why Losing Out on Amazon HQ2 Isn't So Bad for Cities.

A new study points to evidence that luring a large corporation isn't the best way to spur job

growth.

After a yearlong and very public deliberation over the location of its second headquarters, Amazon this week disappointed some policymakers when it announced that it would split HQ2 into two locations, one in New York City and the other in the Washington, D.C., metro area.

In choosing New York and D.C., Amazon opted for two cities that have led the economic expansion since the end of the last recession in 2009, far outpacing the rest of the nation in job growth. The decision drew the ire of politicians at the state and federal levels, along with others who had called on the tech giant to place its second headquarters in a city where it could play a more transformative role in the economy.

Yet a new study from the Urban Institute suggests that landing such a large corporation isn't actually the best way to build a local economy and spur job growth.

Instead, the report says, cities should focus on growing existing local firms, not trying to lure out-o--town companies and poaching firms from other cities. "Most job expansion and contractions come from birth and deaths of homegrown businesses or expansion or contractions of existing home-based businesses," says Megan Randall, a research analyst with the Urban-Brookings Tax Policy Center and a co-author of the report.

When marquee companies move into a new city, they often displace existing firms, like when a big box store puts some mom-and-pop stores out of business. Creating and expanding homegrown businesses has a better track record for adding job growth to a region, the report says.

The competition to land Amazon HQ2 has spurred debate over the generous tax incentive deals cities offer up to attract big corporations. New York City offered some $3 billion incentives to Amazon, and Crystal City, Va., where the company will be located just outside Washington, put up $500 million in tax breaks. But those offers weren't the deciding factor, according to the company. The stronger draw was the highly skilled and highly educated labor force in both cities.

"One of the first things to remember when using tax incentives and any other cash rewards is that they play a relatively small role in attracting businesses," Randall says. "We see that pretty clearly in Amazon's own self-stated priority. They said they wanted to go to a place where they can recruit and hire talent."

Sometimes, tax incentives can even harm the local economy, especially in cities whose finances aren't as rosy as New York's or D.C.'s. Giving up that tax revenue can put a strain on local services, particularly schools. As New York University business professor Scott Galloway put it in an email to Barron's on Tuesday, the tax incentives from New York amount to "an elegant transfer of funds from municipal school/fire/police districts to Amazon shareholders."

Cutting into services and school budgets makes the local workforce less attractive in the long run, and the location less alluring, the Urban Institute report notes. "What is the trade-off? What are the investments that the city or the state can be making to change its long-term economic trajectory?" Randall says.

Cities would be better served, according to Randall and other economic policy analysts, by improving schools and public services, and focusing on nurturing their existing network of businesses.

When a city offers tax giveaways to lure a company, the government goes into the negotiation with a marked disadvantage because of what economists call "information asymmetry." The city doesn't

have all the information about what the company is looking for. In some cases, a company may choose a city it would have moved to anyway, pocketing the tax incentives even though they weren't a deciding factor.

"Firms are in a advantageous position," Randall says. "They know cities want to attract jobs and create opportunities for their residents. They know they are in the position to leverage a public benefit from what they have to offer."

GOVERNING.COM

BY J. BRIAN CHARLES | NOVEMBER 15, 2018

The Week in Public Finance: Federal Tax Reform Fuels Record State Spending

Budget directors are still figuring out how much of the tax law's impact on state revenues was a one-time boost.

SPEED READ:

- According to the National Association of State Budget Officers, state spending topped $2 trillion in fiscal 2018, a record high.
- The spending increase is largely driven by higher income tax revenues that resulted from last year's federal tax changes.
- Much of the extra money has gone toward Medicaid and transportation, but education also received significant funding boosts.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | NOVEMBER 16, 2018

Infrastructure Update: America's Water Infrastructure Act of 2018.

Prospects for a major infrastructure bill are uncertain, but several initiatives at the United States Army Corps of Engineers should facilitate some projects in the energy sector—including ports, terminals, and navigation channels, and a wide variety of linear projects, such as transmission lines and pipelines that interface with federal water projects and thus require approval from the Corps.

America's Water Infrastructure Act of 2018 ("AWIA," aka "WRDA 2018"). President Trump signed America's Water Infrastructure Act of 2018 on September 13, 2018. Primarily focused on the Corps, "water resource development acts" are the vehicles used by Congress—ideally every two years—to authorize federal infrastructure projects for purposes such as navigation, flood control, hydroelectric power, and municipal and industrial water supply. The latest installment, AWIA, is notable for its continued focus on public-private partnerships and regulatory reform. Numerous provisions expand opportunities for non-federal partners to expedite federal projects. Examples include opportunities either to "contribute" or to "advance" funds to expedite construction of federally approved projects, and even to construct projects to be owned, operated and maintained by

the Corps.

For example, Section 1153 of the AWIA improves the “Section 204” program, which allows non-federal interests to take the initiative to construct federal water projects that have been approved by Congress, but that have not been funded for construction. Subject to cost-sharing requirements applicable to all federal water projects, costs incurred by the non-federal partner that would have been borne by the Corps are potentially eligible for reimbursement upon completion. While there is some risk that reimbursement will be denied or delayed, this risk may be acceptable for certain critical projects. Because the congressional “authorization” and “appropriations” processes are separate, being controlled by different committees, and because many authorized projects are never funded for construction, this program provides an important new mechanism for non-federal interests to get the job done.

Until now, Section 204 projects have been impeded by a requirement that non-federal “constructors” obtain any applicable permits that would be required of a non-federal party, including permits that would not be required of the Corps. Section 1153 fixes this problem by allowing Section 204 “constructors” to stand in the shoes of the Corps from a permitting perspective. Contracting procedures will be used to ensure that non-federal constructors adhere to all standards or requirements that would apply to the Corps. By eliminating the need to apply for additional permits, however, Section 1153 will significantly streamline the procedure, making Section 204 significantly more attractive. The Corps will issue implementing guidance providing further details.

Reform of the “Section 408” Approval Process. Clients that interact with the Corps should also take note of recent changes to the Section 408 approval process. Section 408 (33 U.S.C. § 408) requires Corps approval before any person can “alter” or “occupy” a federal water project or related “works.” Because federal water projects include extensive real estate holdings, including levee systems and waterways, Section 408 is triggered by many types of projects, including transmission and pipeline projects merely requiring an easement to cross federal lands or navigable waterways. Because the Section 408 approval process is notoriously slow, this program has been a significant obstacle to many private projects.

On September 13, 2018, the Corps issued a new guidance revising and reforming its Section 408 approval procedures. See Engineer Circular (EC) 1165-2-220 (13 Sept. 2018). The new guidance creates “categorical exemptions” for certain types of projects. Other improvements include greater delegation of decisions; introduction of a multi-phased review option for incremental reviews; timelines for written notifications; and procedures to better align and integrate Section 408 with certain reviews conducted by the Corps’ Regulatory Program.

Conclusion

The AWIA and the new Section 408 procedures reflect a broad, bipartisan focus on infrastructure development and regulatory reform. This focus is expected to continue in the new Congress. Other significant regulatory reforms consistent with this focus are also pending, including a full-scale reorganization of the regulatory functions of the Corps and the government-wide “One Federal Decision” initiative to reform environmental review procedures. Clients pursuing major infrastructure projects should track these developments carefully to identify new opportunities.

King & Spalding

November 19, 2018

$20.6 Billion of Bond Sales Backed by Voters in Midterm Election.

Voters across the U.S. were backing at least $20.6 billion of bond sales to support school construction and infrastructure upgrades including road and bridge repairs, led by multi-billio--dollar measures in California. Results are still pending on hundreds of state and local measures.

The nationwide election brought about $76.3 billion of bond referendums from California to Maine, the most in an election since 2006, according to data from market research company Ipreo by IHS Markit. It signals an increasing willingness by states and local governments to borrow for needed public works while they reap the financial gains from the nearly decade-long economic expansion.

The debt sales would finance infrastructure projects and housing programs in California, school construction in Texas and North Carolina, and affordable housing in Oregon, where rising home prices have been a strain on many residents.

The bulk of bond proposals were in California, where nearly $16.4 billion of state borrowing was proposed to upgrade water infrastructure, support housing programs and renovate children's hospitals.

The ballot propositions mark a shift away from the fiscal austerity that gripped states and cities after the last recession, when they put needed infrastructure work on hold while contending with large budget shortfalls. Those deficits have largely disappeared as states benefit from growing tax collections, allowing them to put more money into construction projects, despite President Donald Trump's failure to enact a big infrastructure program like the one he campaigned upon.

The referendums come after the pace of new debt issues slowed this year, in part because of a surge late last year before Trump's tax overhaul pulled the tax-exemption for bonds sold for a key type of refinancing. The support at the ballot box is unlikely to herald a sharp increase in debt issues, however, because the securities are often sold years after they're approved by voters.

Here is a list of some of the major bond referendums getting approval at the polls:

CALIFORNIA
California: $4B for housing programs and veterans' loans (94% of precincts reporting, was winning 54% to 46% as of 9.37 a.m. ET) San Diego USD: $3.5B for security improvements and plumbing (73% of precincts reporting, was winning 61% to 39% as of 9.37 a.m. ET, according to San Diego County) California: $2B for homelessness prevention housing California: $1.5B for expansions of children's hospitals San Francisco: $425M for seawall improvements Peralta Community College District: $800M for facilities and technology Chaffey Community College District: $700M for improvements

NEW JERSEY
New Jersey: Voters OK'd $500M in bonding for vocational school expansions, school safety and water infrastructure

NORTH CAROLINA
Wake County: Voters were likely to pass $548M in bonding for school construction

OREGON
Metro: Voters were poised to approve about $653M in bonds for affordable housing

TEXAS
Collin County: Voters were poised to approve $600M in bonds for non-tolled highway construction Fort Bend ISD: A measure for $992.6M in bonding for construction, security and technology was poised to pass by a wide margin Frisco ISD: Voters looked likely to approve $695M in bonds for growth, maintenance and renovations Tarrant County: Voters looked likely to pass $800M in bonds for County hospital expansion Round Rock ISD: voters appear to have approved $508 million Alvin ISD: Approved $480.5M for school improvementsAnd here are some of the notable measures that voters have rejected:

COLORADO
Colorado: Voters rejected $6B for transportation projects Colorado: Voters also rejected $3.5B for road and bridge expansion

By BLOOMBERG

November 7, 2018

Study Urges Private Activity Bond Changes.

WASHINGTON —Lawmakers should expand the permissible uses of tax-exempt private activity bonds and lift the PAB volume cap to facilitate financing of long-term infrastructure leases that could generate as much as $885 billion for state and local governments, according to a study released Wednesday.

The new paper, "Asset Recycling to Rebuild America's Infrastructure," called on Congress to pass legislation that would make tax-exempt PABs eligible to help private companies finance the acquisition of existing public infrastructure. The paper's author, Robert Poole of the Libertarian think tank Reason Foundation, argued that this "asset recycling" approach to public-private partnerships, which has been controversial in the past, could be a key component to addressing America's infrastructure funding woes.

"With constrained public resources at every level of government, it will take novel ideas to address our continued infrastructure investment deficit," Poole said. "Asset recycling can help fix America's serious infrastructure problems: aging, deteriorating facilities and a lack of funding for a large array of new infrastructure that would improve our quality of life.

"The basic idea calls for long-term leasing of existing facilities to well-qualified private partners and 'recycling' the lease proceeds into new, but currently unfunded infrastructure project," Poole continued. "The company pays most or all of the annual lease payments upfront, and the government uses that money on its unfunded infrastructure needs. Arguably, no other tool holds as much promise in addressing America's infrastructure deficit."

In his study, Poole argued that asset recycling is consistent with the Trump administration's stated preference for encouraging private investment in infrastructure, and pointed to a variety of infrastructure financed in this way in Australia. Billions of dollars' worth of Australian infrastructure investment were made possible through asset recycling as well as other forms of P3 in the past decade or so, according to Poole.

The study used data compiled from past commercial infrastructure transactions to produce its estimates.

Leasing the 61 largest U.S. airports to private partners could generate between $250 billion and $360 billion for state and local governments in gross upfront lease payments, according to Poole's work. Under the leases, the private companies would spend an estimated $100 billion on capital improvements over the first five years, bringing the total private-sector investment in airports to between $350 billion and $460 billion.

The study cites Baltimore/Washington International Thurgood Marshall Airport, which it finds could generate between $1.6 billion and 2.3 billion in net lease proceeds (after paying off existing bonds), and Louisville International Airport, which Poole said could be leased for over $600 million in net lease proceeds.

The study produced projections for other sectors as well, including toll roads and bridges, ports, and water/wastewater facilities.

But the program would benefit immensely from tax-exempt financing, Poole said, requiring legal changes to PABs. Under current law, PABs can only be used for certain kinds of infrastructure projects such as tunnels and are subject to a $15 billion cap. The $15 billion in exempt facility bonds is not subject to the state volume caps. The Department of Transportation is responsible for allocating the remainder among qualified projects. As of Aug. 1, 2018, approximately $8.38 billion in PABs have been issued, according to the DOT website.

PABs cannot be used to finance the acquisition through an outright purchase or long-term lease of existing brownfield infrastructure assets. Poole said both bars should be lifted to make asset recycling attractive.

Poole also recommended other policy changes, including making small federal grants available to city and state governments to hire financial and legal advisors for asset recycling projects.

Privatization of exiting government infrastructure has been controversial in the past, but P3s generally have gained increasing acceptance as one possible avenue to finance infrastructure. Muni market observers are hoping for a bipartisan infrastructure bill to emerge from Congress sometime next year.

By Kyle Glazier

BY SOURCEMEDIA | MUNICIPAL | 11/14/18 07:03 PM EST

Neighborly Enters Muni Broadband Market with Ambitious Accelerator Project.

More than 100 communities applied to join Neighborly's inaugural Community Broadband Accelerator, prompting the company to expand the cohort to 35 participants in 18 states.

In a new initiative that has already been expanded by popular demand, 35 groups representing cities, counties, towns and municipal utilities across 18 states will join private-sector partners in the first-ever Neighborly Community Broadband Accelerator.

The cohort, announced on Nov. 15, will get underway later this year and conclude sometime in 2019. It's the first-ever broadband endeavor for the San Francisco-based company, which links communities to capital and has helped finance such traditional public projects as schools, bridges,

playgrounds and roads. More recently, however, Neighborly has focused on supporting infrastructure that will make communities “more resilient and more future-proof,” said Product Manager Garrett Brinker.

Nearly a year after the Federal Communications Commission voted to repeal net neutrality, Brinker and incoming members of the new cohort said it’s clearer than ever that the availability of affordable, high-speed broadband is essential for public entities across the U.S. to improve connectivity, fight brain drain and bolster their workforces and economies. Financing and funding are key aspects of any broadband project and the realization that many municipalities don’t address these areas early enough in the process helped inspire creation of the Accelerator, which opened its application process in August.

The company initially planned on accepting around 10 groups but received more than 100 applications that it reviewed with an eye for network feasibility, geographic diversity and overall effort. The enthusiastic response motivated Neighborly to roughly triple the number of participants. The company believes that broadband is foundational for modern infrastructure and smart city efforts alike; and widening participation would improve the group’s capacity to educate and inform members.

“Just like the bridges did in the 20th century, broadband infrastructure can help unlock economic prosperity, the creation of jobs, new educational opportunities and ways in which people can become more connected to anyone and anything around the world,” Brinker said, comparing its potential to the 1930s construction of the Golden Gate Bridge, an early economic enabler for the Bay Area. Having closely examined how to establish a broadband network in an educational curriculum guided by industry representatives, participants will have access to competitive Neighborly financing at the program’s end.

WORKFORCE A MOTIVATOR FOR WISCONSIN COUNTY

Keeping economic engines running smooth is definitely an aim for officials in Sauk County, Wis., part of a Neighborly Accelerator that includes partners from Laramie, Wyo., to JEA, the community-owned utility in Jacksonville, Fla.; and from Baird, Texas, to Palo Alto, Calif.

Jared Pinkus, who has been Sauk County’s community liaison for nearly eight months, said his position was created following a 2014 survey of rural broadband that identified a need for better connectivity, particularly in the southwest section of the county. Pinkus said that, despite ongoing efforts, the county continues to face a workforce gap as its population ages and younger residents move to better connected areas.

“We’re situated right outside of Madison,” said Pinkus. “It’s the capital so there’s a lot going on, it’s very attractive to a younger workforce and so it’s ‘How do we tap into that?’ We went through a number of initiatives over the course of four years to try to figure out how to attract and retain specifically millennials, but (also) young families or skilled workers.”

The county’s topography, including hilly areas with dense forest, is a natural challenge to deploying broadband, but the county continues to study the need and hopes to drill down on financing and learn from participants and private-sector partners with more experience.

Standing up high-speed broadband would cost nearly $50 million, Sauk County’s second study determined, but supervisors are supportive and joining the Accelerator should help the county’s effort, Pinkus said. Local connectivity efforts are also progressing. The Reedsburg Utility Commission, which provides Internet, TV and telephone services to more than 4,400 customers in

Sauk County, recently received two state grants totaling nearly $450,000 to connect a fiber backbone.

OREGON PARTNERS SEEK DIGITAL EQUITY

Leaders in one Oregon metropolitan area have already bonded over improving broadband. Michael Hanna, a data engineer at Multnomah County and campaign manager for the regional Municipal Broadband PDX campaign, said last winter's FCC vote galvanized support for creating a publicly owned Internet utility with permanent net neutrality. Last year, new data showed 30 percent of Latino households in Multnomah, and 28 percent of households with residents ages 65 and older, lack broadband access.

The county and the cities of Portland, Gresham, Troutdale, Fairview and Wood Village will partner in an upcoming broadband feasibility study, Hanna said. By joining the Accelerator, the group hopes to gain a better sense of how to streamline the process of creating a public utility; and how to create a template that could serve as a model to other agencies. Other reasons for participating, however, have to do with leveling the playing field.

Digital equity is a primary driver for Municipal Broadband PDX, which took the lead in applying to join the Accelerator. ("PDX" is the airport code for Portland International Airport, and also regularly used as a signifier of the Portland metropolitan area.) Serving the neediest is a primary mission for the county, Hanna said, but because Internet access is controlled by a for-profit industry, furthering high-speed broadband has been difficult.

"Equity was really the primary driver for Multnomah County, and for the four cities in eastern Multnomah County," said Hanna. "They quickly also joined both from an equity perspective but also from an economic development perspective. They saw the opportunity to attract and retain new businesses and kind of the local economic boom and local jobs. There's really kind of a compelling economic aspect to municipal broadband."

CONNECTIVITY, PARTNERSHIPS KEY IN VERMONT

Connectivity is a primary issue for the town of Enosburgh, Vt. But Sean Kio, chairman of the Enosburgh Technology and Innovation Committee, said the town, which serves more than 2,700 residents in areas including the village of Enosburg Falls, has other motivations for joining the Accelerator, including a growing workforce it wants to retain, forging local partnerships, sparking creative tech work and potentially standing up a broadband network.

The quality of broadband access, provided by the private sector, can vary around the region, the chairman said, calling it "decent" in the village — which is within town boundaries — but somewhat slower in the town and elsewhere. Compounding the issue is the fact that most residents live outside the village. Joining the accelerator, Kio said, would enable the muni to explore closing its digital divide with education from partners — but also help attract and retain a younger workforce drawn by the lower cost of home ownership but seeking high-speed Internet.

"Enosburgh being a small community, not putting the town in any sort of financial burden long-term is always something to think about. I don't think there's a wrong answer. We're currently in that process of looking at alternatives and what's right for the community," said Kio, who works for a fiber broadband company, Burlington Telecom, which provides TV, telephone and Internet to residents in Burlington, Vt.

GOVTECH.COM

BY THEO DOUGLAS / NOVEMBER 15, 2018

The Dollars to Shape Cities.

The scale of the challenges facing cities is bigger than any public sector can handle. Here's a look at different sources of private-sector capital, and the new and unexpected ways communities can access that capital.

The more you go to city council hearings, town halls or other forums where cities are discussing affordable housing, economic revitalization or environmental sustainability, the more you hear it — like the refrain of a classic song that everybody seems to know, even if it's not their favorite. It goes something along the lines of "the public sector will have to play a role, but it won't be enough."

The scale of the challenges at hand are just bigger than any public sector budget can handle — meanwhile, the private sector controls the lion's share of capital.

But "the private sector" isn't a monolith. There are different pools of capital with different constraints and means of accessing them. Below, we've compiled the basic facts about the main "buckets" of private sector capital, along with examples of how those in cities have gained access to them to meet the scale of the challenges they face.

Continue reading.

Next City

by Oscar Perry Abello

Nov 12, 2018

Best Credit Data Launches BCD Municipal Bond Evaluation Methodology Version 2.0.

BOSTON, Nov. 14, 2018 /PRNewswire-PRWeb/ — Best Credit Data (BCD), a provider of municipal bond, corporate bond, private credit and syndicated/middle market loan pricing data and analytics, today announced the launch of BCD Municipal Bond Evaluation Methodology Version 2.0.

BCD provides evaluated pricing for over 1 million U.S. municipal bonds every day — including eight years of end-of-day history — to clients across a range of use cases, including banks, brokers, mutual funds, hedge funds and insurance companies.

"BCD combined input from industry recognized municipal bond evaluation experts, the experience and expertise of our developers and product management team, and the awesome computing power of Google BigQuery to develop our enhanced methodology," stated Mark O'Brien, President of Best Credit Data. "Among other things, these enhancements enable us to better differentiate municipal bond evaluations via an increased number of sectors, among them state, use of proceeds and credit risk."

James "J.R." Rieger, an industry expert and the author of The Rieger Report, consulted on the

project. “Best Credit leverages state of the art technology and an extremely refined methodology to deliver municipal bond evaluations designed to reflect the complexities of the municipal bond market,” Rieger said. “BCD’s evaluations are well suited to address workflow requirements across front, middle and back office applications.”

Tom Metzold, a municipal bond portfolio manager for over 28 years said Best Credit’s enhanced methodology checks all the boxes. “Financial institutions would do well to consider BCD as a primary or secondary source of municipal bond evaluations,” Metzold said.

In addition to delivering daily and historical evaluations via API and data feeds, Best Credit also provides clients with ad-hoc access via the BCD portal, an intuitive and easy-to-use platform. The portal is a cost-effective method to quickly view and download municipal and corporate bond data into a client’s workflow.

About Best Credit Data, Inc.

Best Credit Data, Inc., is a leading provider of municipal bond, corporate bond, private credit and syndicated/middle market loan evaluations and analytics to financial institutions across the globe. Based in Boston, BCD leverages observation driven methodology and big data cloud computing technology to provide a high quality and cost effective market data alternative.

JPMorgan Brings the Active vs. Passive War to the Muni Bond Market.

- **Bank starts two actively managed ETFs tracking municipal debt**
- **Firm says active approach enables funds to avoid credit issues**

The battle between passive and active fund managers is raging in most corners of the investing world. Now it’s coming to the $3.9 trillion municipal bond market with two new actively managed ETFs.

JPMorgan Chase & Co., which has $65 billion in muni investment assets, started two municipal bond exchange-traded funds in October that have attracted a combined $50 million in assets. Using active strategies, the funds can select bonds to avoid credit issues and won’t “blindly invest” through indexes tracking what’s often considered an opaque market, said Richard Taormina, a portfolio manager at JPMorgan Asset Management and head of tax aware strategies.

“Active is really the only way to go” when investing in municipal debt, Taormina said. “Passive provides you access, but it doesn’t provide you opportunity.”

Continue reading.

Bloomberg Markets

By Amanda Albright and Carolina Wilson

November 15, 2018, 10:22 AM MST

Fitch Ratings: U.S. Higher Education Can Absorb Pension Liabilities

Fitch Ratings-Chicago-08 November 2018: Unfunded pension liabilities make up a large chunk of a U.S. public university's overall financial leverage, though a new Fitch Ratings report says pension debt in and of itself is not enough to drive rating changes in the sector. Fitch is also planning to release its higher education criteria exposure draft for comment early next week.

One notable reason unfunded pension liabilities alone do not drive ratings is the U.S. higher education sector's tolerance for higher leverage overall. Another is that, unlike other revenue supported sectors like not-for-profit healthcare, colleges and universities may receive direct state funding support for pension liability. Like other subsets of public finance, Fitch treats an institution's unfunded pension liability or net pension liability (NPL) like debt when calculating financial leverage. Fitch treats lease obligations like debt for similar reasons.

Fitch sees an institution's business model as the fundamental bedrock when considering its rating. Acceptable levels of leverage at a given rating level vary across sectors because the relative strength of the business model can be very different. Under Fitch's framework, public higher education institutions with a strong business model can have many multiples of leverage compared to other kinds of entities that have a midrange business model.

The revised framework does not represent a shift in Fitch's approach to considering leverage in public institutions differently from their not-for-profit counterparts. This is demonstrated in Fitch's historical median data. The median level of available funds to debt at the 'AA' rating level is 94.2% for public universities, while the same ratio for a 'AA' rated private institution is much higher at 202.5%.

'Pensions in Public Higher Education: Not Expected to Drive Rating Change' is available at 'www.fitchratings.com'

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Municipal Buyers Embrace Risk With Recycling Deals: Joe Mysak

- **Deal in South Carolina for expansion of wood pellet mill**
- **Unrated, high-yield deals sold only to qualified buyers**

The municipal-bond market is serious about waste.

Each week's calendar seems to contain some form of deal that promises to convert waste into something useful.

There's the California recycler that will save glass collection companies from having to pay to take hitherto unrecyclable glass to landfills. It will pay them instead to deliver all of their glass to a mill that will turn 100 percent of it into new glass and cement, among other things.

Or take the Arizona facility that will convert cow manure and food waste into methane, which will then be sold to British Petroleum.

Now comes the South Carolina Jobs-Economic Development Authority with a $12.1 million issue of revenue bonds for the Jasper Pellets LLC project. The proceeds will allow the company to buy, renovate and expand an existing wood-pellet production facility in Ridgeland, South Carolina, quadruple its production, and truck the finished product to Savannah, Georgia, where it will be shipped to Europe. The company already has a contract with CM Biomass Partners, a subsidiary of a Danish firm, for the pellets, which are used as fuel.

Jasper Pellets intends to buy its feedstock from lumber mills in Georgia and South Carolina. It's "generally sawdust and chips and other processing materials which are residual products with little economic value," in the words of the preliminary offering memorandum.

Like the glass recycler and cow manure processor, the pellets deal is unrated and being sold only to qualified institutional investors in $100,000 denominations. The recycler deal hasn't been priced yet. The $61 million cow manure bonds were priced to yield 7.5 percent in 2033. The feasibility study to the pellets deal presumes a 7.25 percent coupon.

These are designated Green Bonds and tax-exempt, unless you're subject to the alternative minimum tax.

It's hard not to imagine that these kinds of deals will be replicated in state after state. One banker told me he had bond issues for a plastic bottle recycler in the works, as well as for an anaerobic digester that would turn biodegradable material into gas.

The municipal market only re-embraced risky transactions like this, last common in the 1990s, in the last few years. This new generation seems to be on a little more solid footing, a little less speculative. And it is Feel-Good. It's hard not to root for worthy projects designed to help clean up the environment.

If you were looking for the Next Next Thing in municipal finance, this is it.

Bloomberg Markets

By Joe Mysak

November 9, 2018, 6:38 AM PST

(Joe Mysak is a municipal market columnist who writes for Bloomberg. The observations he makes are his own and are not intended as investment advice.)

Municipal Bonds Get a Boost in Midterm Elections.

James Iselin, managing director and head of municipal fixed income at Neuberger Berman, discusses how municipal bond initiatives fared in the midterm elections and what changes in state governments may mean for the market. He speaks with Bloomberg's Taylor Riggs in this week's "Muni Moment" on "Bloomberg Markets."

Watch Video.

Bloomberg Markets

November 7th, 2018

'No Bold Bets' for Muni-Bond Managers Stung by Trump's Victory.

- **Trump's surprise win caused bond market to fall on rate fears**
- **Polls predict Democratic House, but they could be wrong again**

People who work in the municipal-bond industry describe November 2016 as "awful," "like staring down the bottom of a bottomless well," and simply "extreme."

Now, they're preparing for the prospect of another sell-off if Republicans score another surprise upset on Election Day and keep control of the U.S. House of Representatives. Such a scenario could cause bond prices to tumble on anticipation that Republicans will push through another round of tax cuts just as the Federal Reserve is raising interest rates to cool down the pace of the economy. President Donald Trump's 2016 win pushed the municipal market to its biggest monthly loss since the recession.

"You have to take everything with a giant grain of salt," said Nicholas Foley, senior portfolio manager at Segall Bryant & Hamill LLC, who said he was prepared for an early morning on Wednesday if there is a surprise win by the GOP.

The firm has reduced exposure to long-dated hospital bonds, which could be hit hard if the Republicans keep control of Congress and make another effort to repeal the Affordable Care Act. At the same time, the firm is trying to make sure that it has "proper exposure" to municipals to benefit from Democrats winning control of the House, which could cause state and local debt to gain by diminishing the chances of deeper tax cuts or a rollback to the tax exemption for the income from the securities.

"There's a lot of uncertainty," said Foley, who compared the November 2016 sell-off to the bottomless well. "You can feel it in the market."

Given the chance of the polls being off, as they were in 2016 and in the U.K. Brexit vote, Vikram Rai, head of Citigroup's municipal strategy group, is telling clients to be cautious.

GOP control of Congress would be “material” because of the likelihood of a second tax-cutting round, which could threaten the tax-exemption on municipal bonds as lawmakers look to raise revenue, Rai said.

The 2016 elections and the tax law changes enacted late last year have ignited increased interest in federal politics from what’s typically viewed as a buy-and-hold asset class. Among other steps, the Trump tax cuts reduced demand for bonds from corporations and limited the state and local tax deduction, which caused some residents of high-cost states to invest in municipal bonds to drive down their taxable income.

“I don’t remember ever a time when we talked to clients more about it,” said Tom Casey, a senior portfolio manager at Standish, a division of BNY Mellon Asset Management North America. While Casey said he’s still focused on technical factors like supply and demand and what it means for the asset class, he said he’s reading and talking about politics much more than usual in his career.

“We’re clearly in different times than we have been in a long while,” Casey said.

The midterms are arriving as state and local debt is headed for a 1.3 percent loss this year as interest rates tick up, the first drop since 2013. Investors are starting to pull their money out of municipal-bond mutual funds, with the funds seeing six weeks of outflows. With elections this week, supply has dwindled to just about $6 billion in bonds this week.

James Iselin, a managing director at Neuberger Berman, said he’s been more cautious on the high valuation of state and local debt in general, and he’s not making any big calls ahead of election night. “There’s so many unpredictable outcomes, it’s not a time to step out with any bold bets,” he said.

Sweta Singh, a portfolio manager at Wilkins Investment Counsel Inc., said the firm’s “bottom-up” analysis of credits it owns makes it comfortable with its municipal holdings regardless of what happens in Washington. It’s still too early to forecast the way policies could shift, she said.

“For it to percolate to an actionable item, there’s a gestation period and a time-lag,” she said.

Bloomberg Technology

By Amanda Albright

November 6, 2018

Wall Street Muni-Bond Bankers Need Work. Voters Gave Them Plenty.

- **They approved at least $31.5 billion in new bonds Tuesday**
- **$76.3 billion in bond referendums on ballots most since 2006**

American voters gave plenty of work to Wall Street underwriters desperate for it.

Of the almost five dozen state and local bond measures asking for at least $200 million or more, voters Tuesday approved $31.5 billion, data from market research company Ipreo by IHS Markit shows. That’s about 61 percent.

In all there were more than 690 bond measures across the U.S. ranging from as large as $8.8 billion

to as small as $250,000, and a tally of how much of that was approved is still pending. Bond referendums that passed include $4 billion for affordable housing programs and veterans loans in California, $3.5 billion of school improvements in San Diego and $800 million in hospital improvements bonds in Tarrant County, Texas.

“A fair number of bond proposals were approved, that’s good for supply,” said Joseph Rosenblum, director of municipal credit research at AllianceBernstein.

The bond approvals come after the pace of new debt issues slowed this year, in part because of a surge late last year before the federal tax overhaul pulled the tax-exemption for bonds sold for a key type of refinancing. The support at the ballot box is unlikely to herald an immediate increase in debt issues, however, because the securities are often sold years after they’re approved by voters.

Eight bond measures each asking for more than $200 million or more failed. Voters in California rejected an $8.9 billion proposal for water infrastructure and conservation and Colorado voters struck down two competing transportation bonds referendums totaling about $9.5 billion.

The nationwide election brought about $76.3 billion of bond referendums from California to Maine, the most in an election since 2006, according to Ipreo.

Bloomberg Markets

By Danielle Moran

November 8, 2018, 10:43 AM PST

— With assistance by Amanda Albright, and William Green

Fitch Ratings: Amazon HQ2 Split Has Muted Upside for New York & Virginia

Fitch Ratings-New York-07 November 2018: A prospective Amazon headquarter split between Long Island City in New York and Crystal City in Northern Virginia would have at most a muted impact on the economies and credit quality of Arlington County and New York City, according to Fitch Ratings. The final announcement is expected by year end, although it may come as early as later this week.

The total impact of HQ2 is expected to include 50,000 new employees with an average salary of over $100,000 within 15 years and more than $5 billion in investment over up to 17 years. The additional economic activity could positively affect two of the four local government key rating drivers Fitch assigns, revenue framework and long-term liability burden, over the long term. However, given the large size of the locations remaining in contention, any impact would be modest, particularly if HQ2 is split.

We do not expect much change in home prices in either location as healthy economic dynamics are already pushing up prices and supply should be sufficient to absorb the needs. The Washington, D.C. area is more likely to benefit than New York City as it has slower growth in rents and home prices.

Similarly, an Amazon HQ2 split would not have much effect on employment. An analysis conducted by Fitch earlier this year indicates that even the full impact of HQ2 would represent a modest 1.5% of the labor force in the Washington, D.C. Metropolitan Statistical Area (MSA) and only 0.5% in the vast New York City MSA. Both MSAs have low unemployment rates. The impact could be more

significant if the new facilities attract substantial numbers of related jobs.

The direct impact on local government revenues from Amazon will be reduced not only by splitting HQ2 but also by anticipated state and local incentives. The winners and their surrounding MSAs will see some indirect benefit from increased tax revenues generated by employees and related businesses.

Fitch rates Arlington County 'AAA'/Stable and New York City 'AA'/Stable. Both already have 'aaa' assessments on their revenue frameworks. New York City has a weaker long-term liability assessment at 'a', but the incremental growth in the resource base from one of the HQ2's would be insufficient to improve the assessment. Arlington County's long-term liability assessment is already strong at 'aaa'.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

States Resist Urge to Go on Spending Spree as Revenue Pours In.

- **General-obligation bonds of states outperform local debt**
- **Personal income tax revenue grows 11% in first half of 2018**

As a strong economy and federal tax changes boost U.S. state coffers, they've resisted going on spending spree.

Personal income taxes, which make-up about 40 percent of state government revenue, rose 11.2 percent in the first half of the year, as residents prepaid taxes before new limitations on state and local deductions kicked in. In addition, the limit's cap on property-tax deductions means that some will collect more revenue, since states use federally-adjusted income as a base for their taxes.

Yet states haven't ramped-up spending, with budgets growing about 3 percent in the fiscal year that begin July 1, according to the National Association of State Budget Officers. They employ 5.1 million people, same as the beginning of the year, and 30,000 less than last year, according to the U.S. Department of Labor.

"We expect states' top-line revenue to benefit through FY19-20 and are bullish on credit quality of state GO bonds in the near term," Barclays Plc's municipal strategists, led by Mikhail Foux, wrote this week.

State general-obligation bonds have outperformed local ones this year, losing 1.03 percent compared to 1.45 percent for bonds issued by cities, towns and counties, according to Bloomberg Barclays indexes. While a strong economy has increased local sales-tax revenue, the don't benefit directly from federal tax changes.

Almost 95% of state credit ratings are AA or higher, according to Barclays.

Forecasting state revenue has become more challenging because of federal tax policy changes, the volatility of capital gains and online sales, said Fitch Ratings analyst Laura Porter. Pension liabilities, healthcare and education funding continue to grow.

"States in general continue to be conservative," said Porter. "There's lots of uncertainty."

Bloomberg Business

By Martin Z Braun

November 8, 2018

CDFI Bond Guarantee Program.

CDFI Bond Guarantee Program Benefits

Through the CDFI Bond Guarantee Program, the Secretary of the Treasury makes debt available to CDFIs from the Federal Financing Bank. The loans provide long-term capital not previously available to CDFIs, and inject new and substantial investment into our nation's most distressed communities. The CDFI Bond Guarantee Program has guaranteed over $1.51 billion in bonds to date.

OPENING DATE
November 5, 2018

DEADLINE
February 26, 2019

ANNOUNCEMENT DATE
Fall 2019

OVERVIEW
Enacted through the Small Business Jobs Act of 2010, the CDFI Bond Guarantee Program responds to a critical market need—long-term, low-cost capital that can be used to spur economic growth and jump start community revitalization. Through the CDFI Bond Guarantee Program, Qualified Issuers (CDFIs or their designees) apply to the CDFI Fund for authorization to issue bonds worth a minimum

of $100 million in total. The bonds provide CDFIs with access to substantial capital that is then used to reignite the economies of some of our nation's most distressed communities.

Unlike other CDFI Fund programs, the CDFI Bond Guarantee Program does not offer grants, but is instead a federal credit subsidy program, designed to function at no cost to taxpayers. The bond proceeds are debt instruments that must be repaid.

The Secretary of the Treasury provides a 100 percent guarantee on these loans, with a maximum maturity of 30 years. The Qualified Issuer sells the government-backed bonds to the Federal Financing Bank (FFB)—a government corporation that ensures the efficient use of federal financing—and bond proceeds are used to extend credit to CDFIs for community development purposes. The Qualified Issuer thus acts as a "go between" financier to the broader CDFI community.

CDFIs benefit from the potential scale of the CDFI Bond Guarantee Program, which offers long-term credit at below-market interest rates. This unique program incentivizes and empowers CDFIs to execute large-scale projects, including the development of commercial real estate, housing units, charter schools, daycare or healthcare centers, and municipal infrastructure. In addition to these projects, eligible CDFIs may use the capital to extend credit to other community development borrowers—or Secondary Borrowers—or refinance existing loans at low interest rates, freeing up capital for additional investments. By promoting large-scale, long-term investment, the CDFI Bond Guarantee program helps breathe new life into economically underserved areas.

For more information, please see our CDFI Bond Guarantee Fact Sheet.

Click here for Reference Documents.

Click here to apply.

ELIGIBILITY

There are separate eligibility criteria for an applicant to be deemed either a Qualified Issuer or an Eligible CDFI for the purposes of the CDFI Bond Guarantee Program.

For detailed information, please refer to the Notice of Guarantee Availability.

A Wall Street Haven for Democrats Has Reason to Cheer a Blue Wave.

- **Republican House win seen fueling another potential sell-off**
- **Another round of tax cutting could put pressure on rates**

There's one area of Wall Street where you can find a bit of blue in what's typically seen as a sea of red: public finance.

But the bankers and mutual fund managers who work in the $3.9 trillion municipal-bond market have professional reasons to root for Democrats Tuesday regardless of their political views. If Republicans defy polls and keep control of the U.S. House of Representatives, analysts at BlackRock Inc., Barclays Plc and Citigroup Inc. have predicted that bond prices may tumble on anticipation that Republicans will push through another round of tax cuts just as the Federal Reserve is raising interest rates to cool down the economy.

“The GOP retaining power in the House, even by the slimmest of margins, is bearish,” said Vikram Rai, head of Citigroup’s municipal strategy group. “I would expect you could see a selloff in the fixed-income markets altogether.”

The Congressional elections come as bonds are under pressure because the economy continues to expand at a solid pace, holding unemployment at a near half-century low. The steady drumbeat of strong economic data has sent the municipal securities market to a two-month losing streak, causing investors to pull funds from state and local government debt funds for the past six weeks.

The pressure on the market would likely be worsened by another round of tax-cuts, which would reduce demand for tax-free securities and put more pressure on the Fed to raise rates by further fanning the economy. Last year’s corporate tax cut also dealt a blow to Wall Street underwriters by doing away with the tax exemption on bonds sold for a key type of refinancing, helping spur a drop in new debt sales this year. To offset the cost of deeper reductions, a Republican-led Congress could chip away at the market’s subsidies even more.

Reinforcing Convictions

“Equity people are driven by: lower taxes mean higher earnings per share,” said Craig Brandon, co-director of municipal investments at Eaton Vance. “If you’re a fixed-income person, higher deficits might not necessarily be so good for Treasuries, state governments.”

That may be reinforcing convictions in what’s already a corner of Wall Street where Democratic politics mix well with business. Tax cuts at the local level tend to not be popular with bondholders, given that a smaller revenue stream increases their risk. And for securities firms, the big cities and states, such as New York and California that are a major source of new debt deals, skew Democratic.

Bankers tend to “see the view point of the people they represent — the larger issuers who tend to be Democratic,” said Richard Ciccarone, head of Merritt Research Services, who has worked in the municipal bond industry for more than three decades.

Banks’ public finance departments frequently include former Democratic officials. Chicago’s chief financial officer, Carole Brown, previously worked for Barclays, and a current candidate for mayor, Bill Daley, once worked for JPMorgan Chase & Co. Henry Cisneros, who led the U.S. Department of Housing and Urban Development under President Bill Clinton, and William Thompson, Jr., former New York City comptroller, are part of the leadership team at municipal-bond investment bank Siebert Cisneros Shank & Co.

Dominant Banks

But public officials say politics doesn’t determine which banks underwrite their bonds — a business that’s come to be dominated by Bank of America Corp., Citigroup and JPMorgan — and bankers are banned from making political donations to their clients under securities rules. Tim Schaefer, California’s deputy treasurer, said political connections don’t play a role in debt deals.

“It doesn’t come up in my work at all,” he said.

Still, the municipal-bond business stands to benefit from a Democratic advance. In Washington, Democrats are planning to push for major transportation and infrastructure plans if they win the House, picking up on a stated priority of President Donald Trump’s that took a back seat to last year’s tax cuts. Such a plan could involve subsidized bond sales by states and cities, as were included in the economic stimulus plan passed under former President Barack Obama.

State elections have implications as well, with Democrats seeking to chip away at the majority that Republicans have held in governors' offices since the Tea Party wave in 2010. In Illinois, Democrat J.B. Pritzker is the favored winner in his bid to unseat Governor Bruce Rauner, a Republican whose term was marked by battles with the Democrat-led legislature over his plans for turning around the state's finances.

Democrat Gretchen Whitmer, who is running for governor of Michigan, has made fixing roads and bridges a part of her platform, saying she would go to voters for a bond measure if the state legislature doesn't "sufficiently fund" an infrastructure bank. In Ohio, Democrat Richard Cordray is in favor of seeking voter approval for an infrastructure program financed by debt.

"If you're a banker, you want to do deals, you want to do projects," said Joseph Krist, a partner at research firm Court Street Group, who previously worked at UBS AG and is a Democrat. "It's kind of what we do."

Bloomberg Markets

By Amanda Albright

November 6, 2018, 6:29 AM PST

Facing Climate Change, States and Cities Seek to Borrow Billions.

- **Miami Beach, a harbinger of warming perils, floats bond issue**
- **'I don't think we can wait,' the Florida city's mayor says**

Dan Gelber, the mayor of Miami Beach, Florida, says climate change will be a homeowners' worst nightmare.

"If you own a home and you find that your roof has a problem or you find out there's a termite infestation, you have to take care of it," he said. "That's what climate change is. Sea level rise has created challenges that have to be addressed. For local governments, they don't go away unless you do something about them."

That's why Miami Beach, where frequent flooding prompted by high tides have illustrated the risks of climate change, is asking residents for the power to pump more money into environmentally-friendly sidewalks, parks, and neighborhood improvements. The $439 million bond proposal would use a fourth of the proceeds to address the effects of climate change.

Continue reading.

Bloomberg Climate Changed

By Amanda Albright

November 5, 2018

EPA Selects 39 Projects to Apply for Water Infrastructure Loans.

FY 2018 Selected Projects

The WIFIA program is inviting 39 projects in 16 states and Washington, D.C. to apply for Water Infrastructure Finance and Innovation Act (WIFIA) loans. Together, the selected borrowers will receive WIFIA loans totaling up to $5 billion to help finance over $10 billion in water infrastructure investments and create up to 155,000 jobs. These loans will allow large and small communities across the country to implement projects to address two national water priorities – providing for clean and safe drinking water including reducing exposure to lead and other contaminants and addressing aging water infrastructure.

View one-page summaries of the FY 2018 selected projects.

See EPA's News Release to learn more.

CDFA Advocates for Permanent Category of Disaster-area Recovery Bonds.

Read the CDFA memo.

CDFA Reports Record Multifamily Housing Bond Issuance in 2017.

In 2017, the 50 states and the District of Columbia reported issuing a record $15.3 billion in multifamily rental housing bonds, representing a 9.3 percent increase from the previous record $14 billion reported issued in 2016, according to the Council of Development Finance Agencies (CDFA). The $21 billion in reported combined multifamily and single family mortgage revenue bond issuance represents a 13.6 percent increase in the portion of the cap used for housing from 2016, when states reported a total of $18.5 billion for housing bond issuance.

This record issuance for multifamily bonds comes during the year when Congress considered repealing the tax exemption for all private activity bonds, a proposal originally made in 2014 by then House Ways and Means Committee Chairman Dave Camp, R-Mich.

In 2017, the 50 states and the District of Columbia received $35.3 billion in new private activity bond volume cap allocation, according to CDFA in its report "CDFA Annual Volume Cap Report: An Analysis of 2017 Private Activity Bond & Volume Cap Trends." CDFA reports that the 2016 cap is an increase of 0.6 percent from 2016. This was in addition to more than $55.1 billion in existing carryforward allocation, making the total accessible amount of national volume cap approximately $90.4 billion. CDFA reported states issuing a record $24.9 billion in all private activity bonds in 2017, a 22 percent increase from $20.4 billion in 2016.

Of this total available, the combination of multifamily housing bonds and single family mortgage revenue bonds issuances represent 59.3 percent of 2017 cap and 84.4 percent of 2017 issuance.

The graphic below describes what CDFA found related to bonds issued for multifamily housing.

Continue reading.

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