Fitch: Illinois Legislation Gives Chicago New Financing Tool.

Fitch Ratings-New York-19 July 2017: An amendment to the Illinois Municipal Code (65 ILCS 5) included in the state's fiscal 2018 budget agreement provides a structure by which Chicago and other home rule entities in the state can create entities to issue debt that would not be constrained by the Issuer Default Rating (IDR) assigned to the local government by Fitch Ratings. If properly applied by a home rule entity, the structure could result in ratings higher than and without regard to the IDR.

This type of structure has significant precedent including a number of New York state financings. The structure could not be employed directly by the Chicago Board of Education, whose IDR is 'B+'/Outlook Negative, as it is a non-home rule entity.

Separation from Local Governments' Operating Risk
The legislation allows for the establishment of a limited purpose entity to issue obligations for the benefit of the transferring unit (a home rule unit such as the city of Chicago). The entity could then issue bonds secured by revenues received from a state entity that have been conveyed by the transferring unit under an assignment agreement. The revenues would then become property of the issuing entity rather than the transferring unit. Fitch would look for any bond documents prepared for such financing to make clear that the assignment is irrevocable and that the transferring unit gives up its right, title and interest in or to the transferred receipts needed to repay the issuing entity's obligations.

Since operating risk resides with the transferring unit rather than the issuing entity, the issuing entity debt would be rated without consideration of operating risk, as represented by the IDR. The legislation's provision that the assignment agreement may provide for the transfer of receipts after payment of debt to the transferring unit does not alter Fitch's view of the separation of operating risk from the issuing entity. This is consistent with Fitch's general treatment of dedicated tax securities in cases in which the issuer has no meaningful operations.

The statutory lien provisions of the legislation provide additional protection to bondholders by eliminating the incentive to challenge the ownership of the revenues in a bankruptcy of the transferring unit, as the bankruptcy code provides that bondholders would have a right to the continuation of the lien in a bankruptcy.

Separation from State Credit Risk
The legislation includes non-impairment language related to the state's obligations that Fitch views as important to reducing the impact of the state's credit quality on the debt. The state pledges not to alter the power of the State Comptroller, Treasurer or Department of Revenue to transfer receipts to the issuing entity. The state also pledges not to change the basis on which the pledged revenues are derived.

To separate the bonds' rating from the state's, the transfer of the revenues must be outside the state's discretion. Therefore they cannot be subject to state appropriation. In Illinois, pledged sales tax revenues could be rated above the state's IDR since they are not subject to state appropriation, but pledged motor fuel tax revenues, which are subject to state appropriation, would be capped at the state's appropriation rating (currently 'BBB-'/Outlook Negative).

Different from Special Revenue Analysis
In contrast, when issued directly by a local government, sales tax revenue bonds are capped at the entity's IDR because Fitch does not believe pledged sales taxes would be considered pledged 'special revenues' under the definitions in section 902(2) of the U.S. bankruptcy code. Fuel tax revenue bonds are not capped by the issuer's IDR, since Fitch believes fuel taxes clearly fit the definition of special revenues described in section 902(2)(B) of the code.

Chicago's dedicated tax ratings provide an illustration of Fitch's rating methodology for different types of pledged revenues. Fitch rates the city's sales tax revenue bonds 'BBB-'/Outlook Stable, reflecting the city's IDR cap. The city's motor fuel tax bonds are rated 'BBB-'/Outlook Negative, equal to the state's current appropriation rating, one notch below its IDR of 'BBB'/Outlook Negative. The motor fuel tax bond rating would not be capped by the city's IDR if it were lower than the state's appropriation rating.

Similar to New York Structures
Fitch views this structure as similar to those of several authorities created by New York state to allow for debt issuance by state-created authorities for the benefit of cities and counties throughout the state. These include the New York City Transitional Finance Authority, the Nassau County Interim Finance Authority, The Buffalo Fiscal Stability Authority, and the Erie County Fiscal Stability Authority, all rated 'AAA'/Outlook Stable by Fitch. The ratings are without regard to the benefiting governments' IDRs. The enabling legislation for each of the New York authorities creates a bankruptcy-remote entity with a first perfected security interest in the pledged revenues and includes covenants prohibiting action that would impair bondholders. Pledged revenues are remitted to the state comptroller, who remits them directly to the issuers.

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Factories or Runways? Municipal Airports Face Economic Pressure.

DETROIT — Coleman Young International Airport was once one of the nation's busiest airports and a thriving piece of Detroit's economy. But like so much else in the city, it festered for decades after the action moved to the suburbs.

Now local officials want to reinvigorate the 264-acre plot. The question is whether that means it will survive as an airport or be remade for other purposes.

The City Council this month is expected to select a firm to start studying options for the site, including using the land for a half-dozen new factories or other industrial uses. Unless the city uses the site for an economic development purpose, Mayor Mike Duggan's administration says, Detroit will soon run out of wide-open, city-owned spaces that can be offered to companies looking to build manufacturing or other commercial facilities here.

Many council members, however, have said that the city should reinvest in the airport, saying it could be an economic engine as well.

The debate in Detroit is not unusual. Cities across the nation are reconsidering the value of municipal airports in the era of superjumbo jets and budget cuts. The Aircraft Owners and Pilots Association estimated the nation loses 50 public-use airports a year.

Almost all are general-aviation airports, ones that cater primarily to owners of private planes, and most have operating deficits that the cities must make up for in their budgets. Detroit, for instance, faces a $1.3 million operating loss in the 2017 fiscal year for Coleman Young, which averages just 30 landings a day. The main airport for the region is Detroit Metropolitan, a Delta Air Lines hub about 20 miles west of the city limits.

Jed Howbert, the director of Mr. Duggan's team overseeing jobs and the economy, said Coleman Young's location, close to numerous freeways and a railroad spur, makes the site particularly appealing.

"We may certainly figure out that it's worth keeping as an airport and investing more in the airport," he said, "or we may decide there's better opportunity and might have a better impact on Detroit as a manufacturing and logistics center or some other thing we just haven't thought about."

Closing it presents real risk. In other cities, the anticipated development has yet to occur, as with Bader Field in Atlantic City and Meigs Field in Chicago. That is partly because decommissioning airports with the Federal Aviation Administration is an expensive, yearslong process, and political and economic winds shift quickly in the interim.

Plans to redevelop Bader Field, located within walking distance of Atlantic City's casino district, faltered when the city's economy collapsed at the onset of the most recent recession. In the process, tourist-dependent Atlantic City lost a key transportation amenity just as it desperately needed more visitors.

"Any pilot who flies over Bader Field just kind of looks at it wistfully like, 'I wish I could land there but I can't,'" said Paul Freeman, a private pilot and aerospace engineer who manages a website tracking the history of more than 2,000 former airfields in the United States.

He said there were many cases of airports being closed "and then some municipal bonds didn't happen or some business venture didn't happen and the end result is, 10 years later, the property's still there, the airport's still not running, it's deteriorating and it ends up benefiting nobody."

There are success stories, though. Austin, Tex., and Denver are examples of how a region can reap decades' worth of benefits from the redevelopment of former airports. Both cities shut theirs down in the 1990s and replaced them with modern suburban facilities, and both have realized billions of dollars in mixed-use, master-planned development on the old sites that continues to unfurl.

Closing the Austin airport "magically released land in the center city," said Pam Hefner, redevelopment project manager for Austin. "That doesn't happen. It's so rare and it's such an incredibly valuable resource."

Many communities salivate over just that opportunity. In Kennewick, Wash., for instance, the tiny and money-losing Vista Field closed in 2013, and the regional planning agency is in the process of finishing a master plan for the now-vacant 103 acres.

The community of about 210,000 residents along the Columbia River in southeastern Washington has struggled to keep its young people from leaving to pursue careers elsewhere. Skip Novakovich, president of the Port of Kennewick Commission, a three-person panel that oversees the area, said the commission was planning a new core with walkable neighborhoods and a mix of residential and commercial spaces.

"It's been expensive, but it'll put $400 million on tax rolls," said Mr. Novakovich, referring to the project, which will require an investment of about $500 million. "It's probably the largest economic development project ever for this region. The only thing I'm nervous about is if we develop it to what the public said they wanted and they say, 'Nope that's not what we wanted.'"

Advocates for revitalizing old airfields rather than closing them say they empathize with the communities looking for new economic development. Still, they worry that the reduction of airfields will hurt the overall American aviation system, which is built partly for travel but also to ensure ubiquitous landing sites in the event of national security events or natural disasters.

"I've always believed that each of the individual institutions that own and operate these airports are making reasonable and genuinely rational decisions in terms of what affects them locally," said Thomas Thatcher, an architect and planner who wrote a 2011 report sponsored by the F.A.A. called "A Guidebook for the Preservation of Public-Use Airports." "But when you take all of those individual good-faith decisions and accumulate them over a 10- or 20- or 30-year period across the nation, we might realize, Oh dear. On a collective basis, it created a terrible problem."

In Detroit, the fact that many City Council members began the study process disposed toward keeping Coleman Young bodes well for preservationists.

Scott Benson, a councilman who represents the district that contains the airport and is a city planner by trade, views the property as an untapped gem whose value will only rise in this era of drones and internet shopping deliveries. Closing the airport, Mr. Benson argued, is a one-way street because shuttered airfields will not reopen and cities rarely find other sites that are as convenient. A new airport would also have to go through the rigors of passing environmental and community requirements, which are more stringent than when the original airports were founded.

"Having a 260-acre international airport within the borders of a large city is an extremely unusual asset to have," Mr. Benson said. "You can't just drop a city airport anywhere in the country. I have a really hard time thinking that the airline industry, the logistics industry, the aerospace industry is not salivating over the opportunity to get in there and invest.”

With tens of thousands of abandoned homes being taken over and bulldozed by the city, many are baffled by the contention of the mayor’s administration that there is no other land available for new industrial facilities.

But Mr. Howbert, the city official, noted that those vacancies were a patchwork, not a large contiguous piece of land. For that, he said, Detroit has just one option right now for the areas — 30 contiguous acres or more — needed for factories.

“This began,’’ Mr. Howbert said, “when we realized we’re essentially out of large-scale parcels that are suitable for manufacturing or other large job-creating, industrial-type investments.”

THE NEW YORK TIMES

By STEVE FRIESS

JULY 18, 2017

New York, Seattle Lead U.S. Muni Supply Next Week.

(Reuters) – New York City is planning to issue $800 million in tax-exempt, general obligation bonds on Wednesday, the biggest deal of a week featuring $4.65 billion of new bonds and notes in the U.S. municipal market.

The New York issuance, underwritten by Bank of America Merrill Lynch, is part of a total sale of $860 million, which includes $60 million of taxable fixed-rate bonds that will be offered competitively.

The debt will refund around $700 million in bonds that are currently callable, said Tyrone Stevens, a spokesman for New York City Comptroller Scott Stringer.

Another big deal on tap for next week comes out of the northwest, where the Port of Seattle, Washington, will issue $608 million in a trio of intermediate lien refunding bonds, underwritten by Citigroup.

The port, which owns and operates the Seattle-Tacoma International Airport, will use the money to fund capital improvements to the airport, and to refund a 2009 bond issuance, according to bond documents.

The port is undertaking a handful of capital projects over the next five years, including building a new arrival facility for international passengers, revamping the baggage claim system, and addressing seismic concerns in one of its terminals.

Next week’s biggest competitive bond deal comes from Alexandria, Virginia, which plans to sell some $95 million of GO capital improvement bonds. The South Carolina Association of Governmental Organizations will provide the biggest sale of notes, offering $52 million in certificates of participation.

Municipal bond yields have fallen lately, generally down more than 10 basis points over the last week or two, a trend Barclays municipal credit analyst Mikhail Foux attributed to the similar fall in

U.S. Treasury yields.

Foux added he expects municipal debt trading to continue to be slow next week, though he is keeping an eye on the U.S. Federal Reserve, which “could have some effect on rates.”

“The market expects the Fed to stay put, but maybe we’ll get some clarity on their thinking,” Foux said.

Reuters

by Nick Brown

July 21, 2017

Reporting by Nick Brown; Editing by Chris Reese

Wells Fargo Lost ‘Tens of Millions’ in Muni and State Deals After Scandal.

- **Illinois, New York City among clients that halted dealings**
- **CEO Shrewsberry says bank wants to ‘win their business back’**

Wells Fargo & Co. has lost “tens of millions of dollars” in revenue from municipal and state clients since a sales scandal in its consumer bank erupted 10 months ago, Chief Financial Officer John Shrewsberry said.

Shrewsberry said the decline isn’t material to Wells Fargo’s earnings, but added the company is working to regain the business. Ancel Martinez, a spokesman for the San Francisco-based lender, said the lost revenue is expected to be $20 million to $30 million for 2017.

“I don’t want to downplay it,” Shrewsberry said Friday in a telephone interview. “If we’ve irritated those customers, we want to compete and demonstrate to them how we’ve made things better and win their business back.”

California, Illinois and cities including New York, Chicago and Seattle halted some dealings with Wells Fargo, such as using the bank to sell municipal bonds, after it agreed Sept. 8 to pay $185 million to resolve claims that employees sought to meet sales targets by opening accounts without customers’ permission. The Department of Justice and the Securities and Exchange Commission are investigating.

The former head of Wells Fargo’s public finance business, Peter Hill, left in April to take a similar position at UBS Group AG. Nancy Feldman, who previously led transportation public finance, took over as the interim leader after Hill’s departure.

The bank doesn’t break out revenue generated by its government and institutional business unit. But during a presentation at Wells Fargo’s investor day in May, the company said the group generated 4 percent — or about $1.14 billion — of the wholesale division’s $28.5 billion in revenue in 2016. About half the unit’s total comes from government clients, one of the presentations showed.

New Business

Most government clients, including those “where somebody says, ‘We’re mad at Wells Fargo,’” still do some business with the bank, Shrewsberry said.

“The economics of it haven’t really changed all that much,” he said. “It’s not like the whole relationship moves.”

Wells Fargo’s wholesale division reported a 4.6 percent drop in revenue in the second quarter, according to a statement Friday. The company said business with government agencies picked up in the later half of the quarter, leading to $1.1 billion in new loan balances.

The lender recently loaned California $500 million despite sanctions the state had placed on the bank, Chief Executive Officer Tim Sloan told analysts Friday on a conference call. In April, Nevada agreed to extend its banking agreement through 2021, Wells Fargo said in a statement.

Bloomberg

By Laura J Keller

July 14, 2017, 12:37 PM PDT

What Does a Rate Hike Mean for Muni Bonds?

When the Federal Reserve raises interest rates, it’s a signal that economic growth is accelerating and needs less handholding from the nation’s central bank. For example in June, the Fed announced it was raising interest rates by one quarter of a percentage point and cited a strengthening labor market and moderately growing economic activity.

But what does that hike, which raised short-term interest rates to a range of 1.00 percent to 1.25 percent, mean for the municipal market?

It can be tempting for investors to think that a rate increase will have a wide-ranging effect, but in reality it usually has a muted impact. Variable-rate debt and other short-term bonds might see a slight uptick in interest rates. Still, rates are near historic lows which means a rate hike shouldn’t dampen governments’ bond refunding activity.

Meanwhile, rates on long-term debt shouldn’t see much of a change. That’s because the yield curve eventually flattens — so a slight change in short term rates typically won’t dramatically influence longer term rates.

In fact, experience has shown that a hike in short-term rates can actually cause a downward tick in long-term rates. For example, between 2004 and 2006, the Fed raised the short-term rate from 1 percent to 5.25 percent. During that time, the rates on a 10-year Treasury bond only went up a half percentage point. Meanwhile, yields on the 30-year bonds ticked slightly down. Why? Because when short-term interest rates are increased, it actually dampens the impact of inflation, which is what plays the larger role in setting long-term interest rates.

Long-term bonds, however, are vulnerable to other federal policy decisions. For example, in late 2016, long term interest rates saw a temporary uptick as financial markets began to price in some fiscal stimulus from the incoming Trump administration.

Lastly, good old-fashioned supply-and-demand also has a more direct impact on the muni market’s long-term rates. Although last year's total issuance – more than $445 billion – was the highest in several years, this year's total is on pace to be below that. As long as demand for munis outweighs supply, interest rates for most quality issuers should remain relatively low.

Neighborly

07/14/2017 by Liz Farmer

[The Safe Haven of Bonds Made Riskier by ETFs.]()

Bonds have always appealed to conservative investors looking for a safe place to park some money while still receiving a steady and predictable return.

Yet a growing number of investors are steering away from buying individual bonds due to the research required and the high cost of diversifying a portfolio. Instead, they are putting their money in bond exchange traded funds, which invest in many bonds.

Some financial advisers believe that might be a riskier move.

The value of a bond ETF goes up and down throughout the trading day like a stock and can be traded like a stock. Investors also could lose their principal.

"The challenge with bond ETFs is you are buying the debt in a bond ETF with little regard to the creditworthiness of the underlying bond issuers," said Matthew Helfrich, president of Waldron Wealth Management in Bridgeville.

"If you have bond issuers who are already drunk on debt, you could — by buying their ETF — be giving them another drink."

What makes bond ETFs more risky than individual bonds, which typically sell for a par value of $1,000 each, is that individual bonds have a fixed date at which they mature and investors get their $1,000 back.

Bond ETFs never mature because additional bonds are continually being bought and sold, therefore they can never offer the same protection for an investor's initial investment.

And just by investing in the exchange traded fund, investors can be reducing the issuer's creditworthiness, Mr. Helfrich said, adding that investors are adding money to a pool of funds that will be used by companies that may not be as creditworthy as buyers would prefer.

"Bond ETFs can be worthwhile for broad exposure to the bond market and the flexibility to trade, but you have to know exactly what you are doing," Mr. Helfrich said.

With the Federal Reserve on course to continue raising interest rates for the foreseeable future, fixed-income investments, such as bonds, will be vulnerable. As interest rates rise, the value of existing bonds paying lower yields will fall as new bonds paying a higher yield gain value.

But owners of individual bonds will still receive all of their principal when a bond matures, regardless of how high rates have climbed.

The risk of losing money has not stopped investors from embracing bond ETFs. Data from the

Washington, D.C.-based Investment Company Institute show the total net assets in bond mutual funds and bond exchange traded funds grew from $57 million in 2008 to $490 million as of May 2017.

"The good news is that bond ETFs provide diversification, which is crucial. But the bad news is there are hidden landmines in bond ETFs … ," said Andrew Stoltmann, a securities lawyer based in Chicago. "It's very hard to do your due diligence on the quality of the bonds inside the bond ETF because there are so many."

The same advantages and disadvantages apply to bond mutual funds, which are actively managed and often charge higher fees than bond ETFs.

Bond ETFs, which charge expenses of less than a half a percent, have grown at a significantly faster rate than bond mutual funds, which usually charge fees of about 1 percent.

Bond ETFs, like bond mutual funds, come in a variety of flavors from treasuries to municipal and corporate bonds. Both pay regular dividends to investors. In addition to being cheaper, bond ETFs are more tradable and often more transparent than bond mutual funds.

Pittsburgh financial adviser Robert Fragasso, chairman and CEO of Fragasso Financial Advisors, Downtown, said his firm uses bond ETFs in client portfolios while recognizing that all of them are not created equal.

Many exchange traded funds will disclose to the public their holdings every day, in addition to the quarterly disclosure required for all mutual funds.

The challenge, Mr. Fragasso said, is that there could be dozens of bonds in an ETF with varying maturity dates and credit qualities, which require portfolio managers to devote considerable research before selecting a fund for clients' portfolios.

"The future value of a bond ETF is contingent on knowing the dynamics of the bonds inside the ETF," he said. He said investors need to understand the maturity or the credit quality of the bonds in the fund.

"So, later on when they've lost 20 percent of the value of the investment, they will cry that it's a lousy product when in fact the fault lies squarely on the buyer who didn't understand what they bought," he said. "There are hundreds of bond ETFs out there, all with different profiles and different purposes. The [average retail buyer] is usually unaware of the differentiation."

The Associated Press

Thursday July 13, 2017 09:02 AM

Privatization Is Changing America's Relationship With Its Physical Stuff.

Turning more and more infrastructure projects over to outside companies makes citizens more like customers.

Last month, paddlers in New York state floated their kayaks and canoes in the Erie Canal to celebrate the waterway's 200th birthday. Workers first dug their shovels into the ground to start the construction of the ditch in 1817. Eight years later, over 300 miles opened for business, making it one of America's first big gifts to itself.

There was no apparent connection between the anniversary and the promotion, days earlier, by the White House of "Infrastructure Week," but the timing does invite some meditation. The spotlight event of the weeklong initiative took place on the banks of the Ohio River in Cincinnati, where President Trump gave a speech that left locals underwhelmed and infrastructure experts wondering if there really was a plan to rejuvenate America's sorely lagging works.

Continue reading.

CITYLAB

BRIAN ALEXANDER JUL 12, 2017

Granof, Luby: P3s Won't Fix Funding Gap that Ails U.S. Infrastructure Needs.

President Donald Trump hasn't fully outlined his prescription for making American infrastructure great again, but he has called for a major dose of public-private partnerships – known as P3s. These P3s, he promises, provide "better procurement methods, market discipline and a long-term focus on maintaining assets."

True enough in some cases, but P3s are no cure-all for every public project. Despite the hype, the public-private approach does not provide new funding sources to communities, nor does it work for all types of public projects.

Most of us have seen a P3 at work in our community. The government contracts with a private company to finance, build and maintain a project – a road, for example. The company finances construction by borrowing money from banks or investors, or by issuing shares of stock. After some period, the company will turn over the road to the government. In the meantime, the company collects tolls on the road and is responsible for maintaining it. The tolls are expected to cover the maintenance, interest and principal on the debt and to enable the company to profit.

By contrast, in the more conventional arrangement, the government contracts with a private company to construct the road and finances the project by selling tax-exempt municipal bonds or pays for it with existing funds. The government is responsible for maintaining the road and for servicing the debt. It expects to cover its costs through taxes or tolls.

Think about what happens in both approaches. In both cases, a private company is contracted to do the work with financing from private-sector capital, and all of us bear the burden of cost, either through tolls or taxes. There is no "new" funding source.

P3s rearrange the risks and rewards of infrastructure projects. Under the P3 arrangement, the government does not appear to be incurring these costs, because it does not have to write the checks to pay for them. However, it is sacrificing the toll revenue collected.

The private-sector "owner" of the road bears the risk that tolls will not cover the costs, and it reaps the benefits if tolls exceed anticipated costs. But if the owner incurs major losses and is forced to declare bankruptcy, it falls upon the government to take back the project and ensure that it continues.

This situation is exactly what happened in Indiana recently when a private operator's bankruptcy filing threatened to cause significant construction delays on a partially completed road. Something similar happened in Texas with the Texas 130 toll road connecting San Antonio and Austin. Toll revenues did not meet expectations.

But P3s are not without their benefits. They can often launch without the lengthy procedures mandated by government. P3 debt is not subject to debt limitations that the government may face and does not appear on its balance sheet. In some circumstances, the private owner of the project may, in fact, be capable of operating it more efficiently and effectively than a government can.

But ease does not equal abundance. In fact, the P3 approach does nothing to solve the fundamental infrastructure funding challenge faced by governments at the local, state and federal levels. According to a 2013 analysis by the American Society of Civil Engineers, the U.S. has more than a $1 trillion gap between current funding and estimated needs for surface transportation, airports, water, wastewater, inland waterways and other infrastructure projects. In the end, it is the public that must provide the funding, regardless of the structure of the project.

Even P3 enthusiasts will admit that many of the nation's infrastructure needs are for projects that do not generate direct revenue that would make them attractive P3 candidates. Road repaving, bridge and building maintenance, school construction, and telecommunication system expansions are common projects that may not generate revenue streams collectible through tolls or other means. The conventional government infrastructure approach is probably the only viable option for these public works.

American infrastructure needs rebuilding, and P3s belong in the mix of remedies available to the government. However, clear heads realize that P3s are not a blanket cure for the nation's infrastructure ills, but rather a targeted remedy with limited effect on the larger problem – a lack of funding.

Houston Chronicle

By Michael Granof and Martin Luby

July 11, 2017

Granof is the Ernst & Young Professor of Accounting at the University of Texas at Austin. Luby is an assistant professor in the LBJ School of Public Affairs at UT-Austin.

'Unshackled' from Rating Agencies, MBIA Seems Ready to Return Capital to Shareholders.

Bond insurer MBIA may be sold; meantime, it's buying back shares and may also issue a special dividend, say analysts.

Shares of bond insurer MBIA (MBI), which saw its business plans torpedoed by a two-notch credit rating downgrade late last month, were rising Wednesday after management indicated some shareholder-friendly moves are coming, even as it had to increase accounting for Puerto Rico-related losses.

In a letter to shareholders sent late Tuesday, MBIA's CEO Jay Brown and President & COO Bill

Fallon wrote:

> As we no longer have the primary objective of maintaining a specific rating on our operating company, we are unshackled from most of the limitations imposed by the rating agencies.
> The stock was up 3.34% to $9.90 by 11 a.m. ET after some positive analysts comments.

MKM Partners Harry Fong suspects a special dividend may be in the offing. He wrote Wednesday:

> The company is still saying that it will not seek a special dividend from its New York regulator until it sees more clarity on the Puerto Rican debt situation. However, as it no longer needs to be concerned over maintaining a double-A rating at National Public Finance, we would expect the company to repurchase shares with the excess capital that resides in the unit. Recall that under the S&P triple-A capital model, National calculates that it has about $1.7 billion of excess capital.

Fong's view of the shares:

> We believe the potential for significant return of capital from MBIA make its shares an excellent short- and long-term investment opportunity, and we reiterate our Buy recommendation with a price target of $15, based on a multiple of about 0.5x our 2018 adjusted book value estimate of about $33.70.

MBIA insures municipal bonds, including ones issued by Puerto Rico, now in a form of bankruptcy. Bond insurers have to be rated higher than municipalities for the insurance to add any value. After the downgrade by S&P Global Ratings to single-A, it said it would no longer attempt to write new business.

It laid off worksers, cut costs and announced a new $250 million share buyback program. In the letter, it pre-announced its expected losses due to Puerto Rico and raised its loan loss reserves.

Analysts Mark Palmer and Giuliano Bologna of BTIG thinks MBIA will be sold eventually. They have a Buy rating and $14 price target. They write Wednesday:

> We continue to believe that with its new business prospects dashed at this point, MBI is likely to sell itself, with industry peer Assured Guaranty (AGO, Buy, $49 PT) the natural buyer. We also think both parties may look for a somewhat greater degree of clarity around the range of MBI's losses on its insured exposures to Puerto Rico's debt before pushing forward with negotiations.

Barron's

By Amey Stone

July 12, 2017 11:41 a.m. ET

Congress Will Rethink Investing in Cities.

Congressman Dan Kildee (D-MI 5th District) announced today that he is starting a new congressional forum to rethink how national policymakers invest in cities.

“My hometown of Flint has captured many newspaper headlines in recent years,” he said in a recent release. “But even before the water crisis, Flint faced unique challenges as an older, industrial city: population loss, the outsourcing of jobs and rampant blight. Flint isn’t an anomaly; a whole subset of America’s cities and towns face similar challenges. There are places in every region of the country, like my hometown, that face similar stressors.”

Kildee’s new initiative, titled “The Future of America’s Cities and Towns,” will include policy discussions with local, state and federal elected officials to focus on the challenges facing older, industrial communities like Flint. The first roundtable, “The Current State of America’s Cities and Towns,” is planned for Wednesday and will feature Financial Services Committee Ranking Member Maxine Waters (D-CA 43rd District), and Karen Freeman-Wilson, mayor of Gary, Indiana, as well as representatives from The Brookings Institution, National League of Cities, and Center for Community Progress.

Federal and state investment in municipalities is a topic of central importance to Kildee.

“Having a municipal finance system that is not so completely dependent on only locally generated tax revenue is really important,” he told Gordon Young in a Next City interview last year.

He added:

> My research over the years has pointed to a system of municipal finance that doesn’t in the aggregate cost us all anymore than the current system. It probably costs less. It’s sort of a German system where the federal government has a certain responsibility for funding municipal government; the state or regional governments have a certain responsibility; and the local tax base also has a certain responsibility.
>
> It’s far more sustainable, and it allows us all to ride out the ebb and flow of the economy in ways that don’t increase the cost of public services by having concentrated poverty and the loss of public services — all the things we see in a place like Flint.
>
> There was an element of this in place in the United States just a few decades ago. There was federal revenue sharing for cities and, of course, there was state revenue sharing for cities. So it’s based on a concept that I remember from my time serving in local government. It was eliminated as part of what was once called “New Federalism” and is now a brand of the federalism that we have. Local municipalities are just out there on their own.

NEXT CITY

BY RACHEL DOVEY | JULY 11, 2017

Rachel Dovey is an award-winning freelance writer and former USC Annenberg fellow living at the northern tip of California’s Bay Area. She writes about infrastructure, water and climate change and *has been published by Bust, Wired, Paste, SF Weekly, the East Bay Express and the North Bay Bohemian.*

U.S. Municipal Debt Sales Estimated at $8.26 bln Next Week.

July 14 (Reuters) – U.S. states, cities, schools and other issuers will sell $8.26 billion of bonds and notes next week as debt issuance so far in 2017 lags the same period in 2016, according to Thomson Reuters estimates on Friday.

Year-to-date supply in the U.S. municipal bond market totaled $195 billion, a 14 percent drop from the $226.4 billion sold last year.

Barclays this week increased its 2017 supply forecast to a range of $380 billion to $400 billion from a range of $360 billion to $380 billion based on an expected uptick in refundings of outstanding bonds.

"As long as rates remain stable, we expect refunding activity to increase and to be driven by the strong new-money issuance of long-dated bonds a decade ago," Barclays said in its weekly municipal report.

The coming week features several transportation-related deals.

The New Jersey Turnpike Authority will sell $597.7 million of revenue bonds through Loop Capital Markets on Tuesday. Bank of America Merrill Lynch will price $353 million of bonds backed by federal highway funds for Georgia's State Road and Tollway Authority on Wednesday.

Federal grants also back $230 million of Chicago Transit Authority revenue bonds scheduled to price on Tuesday through Morgan Stanley.

The San Diego County Regional Airport Authority has $310 million of subordinate revenue bonds pricing on Tuesday through Morgan Stanley. About half of the bonds are subject to the alternative minimum tax.

In competitive bidding, New York state's Dormitory Authority will sell nearly $1.35 billion of state sales tax revenue bonds on Tuesday. The four-part deal, rated AAA by S&P, includes $72.7 million of taxable bonds.

U.S municipal bond funds reported net outflows for a second straight week of $172.5 million for the week ended July 12, according to Lipper, a unit of Thomson Reuters.

(Reporting by Karen Pierog; Editing by Jonathan Oatis)

When the Trump Agenda Loses Steam, Muni Bonds Gain Momentum.

Municipal bonds were supposed to be among the biggest losers under a Trump presidency.

Shortly after the November election, muni bonds — issued by states, municipalities and local agencies to finance government projects — faced a "triple whammy," said Terri Spath, chief investment officer at Sierra Investment Management.

First, there was a sharp rise in market interest rates late last year in anticipation of the new Trump policies boosting economic growth. And rising rates are a headwind for bonds in general. Then there was the president's pledge to lower income tax rates, coupled with concerns that he might eliminate the tax-exempt status of muni income.

And finally, President Trump has promised to increase infrastructure spending by possibly $1 trillion — which, if it happens, could flood the muni market with additional supply, weighing on the price of existing muni securities.

But it hasn't turned out that way so far.

"Here we are, several months later, and the administration has had problems getting anything done," said Nicholos Venditti, a portfolio manager who helps run several municipal bond funds at Thornburg Investment Management. "There's been no health care reform yet, no tax reform and no clarity on spending."

Meanwhile, concerns about a slow-growing economy have resurfaced, pushing the yield on 10-year Treasury notes back down to 2.3 percent at the end of June, from as high as 2.62 percent in March. And the Treasury secretary, Steven Mnuchin, recently told the Senate Finance Committee that the Trump administration supported preserving the muni bond tax exemption.

The result of all of these developments is that muni bond mutual and exchange-traded funds have enjoyed a surprisingly good run this year.

For instance, the SPDR Nuveen Bloomberg Barclays Municipal Bond ETF, whose biggest holdings include revenue bonds issued by the California State University system as well as the University of California, has generated total returns of 3.6 percent this year and 2.2 percent in the recently ended quarter.

Even before investors factor in the tax break (muni income is exempt from federal taxes and, in some cases, state taxes as well), that performance compares favorably with the 2.3 percent returns for the Vanguard Total Bond Market ETF this year and the 1.6 percent gains in the last quarter.

Going forward, though, navigating the muni bond landscape will get a whole lot trickier, money managers say.

Even if Mr. Trump cannot produce annual growth of greater than 3 percent, which has eluded the economy lately — or the 4 percent rate that the White House promised earlier this year — the administration is still planning to move forward on its efforts to cut taxes.

Ultimately, how much income tax rates eventually come down, if at all, will help determine the direction of muni bond prices. But the tax cut debate itself is likely to create short-term volatility for these investments.

What's more, muni investors are largely following a conservative strategy.

"You can see where investors are hiding out," says Mark R. Freeman, co-manager of the Westwood Income Opportunity Fund. "Everybody is bunched up at the short end of the curve," he said, referring to muni debt with a maturity of no more than five years.

That demand for shorter-term munis has made it harder to find great values. In fact, it has compressed the so-called yield spread — the gap between what short-term muni bonds are paying and what similarly dated Treasuries yield.

For example, the average high-quality two-year municipal bond is paying 1.06 percent, according to Bloomberg, while two-year Treasuries are paying considerably more: 1.36 percent.

By comparison, 30-year munis are paying virtually the same as Treasuries before the tax benefit is factored in: 2.87 percent before the tax break, versus 2.92 percent for equivalent Treasuries. And for someone in the 25 percent tax bracket, that 2.87 percent is actually the equivalent of a 3.83 percent taxable yield.

To be sure, long-dated bonds are susceptible to larger drops in price should interest rates rise. And with the Federal Reserve lifting short-term rates, taking on that much so-called duration risk by buying extremely long-dated bonds does not seem to make sense, money managers say.

Gregg S. Fisher, founder of the investment management firm Gerstein Fisher, says investors should remember a big reason for buying muni and other core bonds in the first place: “For the certainty that they present,” he said.

That’s why he suggests investors play it relatively safe for the foundation of a muni portfolio, by sticking with bonds that are from high-quality issuers with investment-grade ratings (reducing the risk of a default) and that mature in less than five years.

“Our preference for any client, no matter what state they live in, would not be to buy 100 percent of their bonds issued in any one state,” he said. “You should diversify across the country,” he added, even if doing so forgoes some state tax breaks.

Ajay Thomas, head of municipal securities at William Blair, agrees that investors should mostly be considering investment-grade municipal bonds. But he points out that as investors venture out to the lower end of the high-quality bond universe and the higher end of the low-quality world, they may start to see better opportunities.

“You’re not necessarily seeing a big difference in yields if you go from a AAA-rated bond to a AA bond,” he said. “But if you go below A, there’s clearly some spread.” He noted that there were some decent opportunities among munis related to health care and higher education in this category.

Ms. Spath of Sierra Investment Management also said that higher-yielding munis are worth a look.

Sierra sold all its muni holdings shortly after the presidential election last year, amid mounting pressures weighing on these investments, Ms. Spath said.

But in early January, as some of the reaction to the Trump victory subsided, the firm moved back into muni bonds.

Today, Sierra’s municipal bond exposure is entirely in high-yield muni funds, she said.

“High-yielding municipals are currently yielding roughly the same as high-yield corporate bonds, and that doesn’t make sense,” she said, noting that many investors are totally overlooking the tax benefit these securities provide.

She said the firm preferred investing in munis through a fund, in part because of the diversification advantage but also because institutional buyers can often obtain better prices.

Among Sierra's top muni holdings is Nuveen High Yield Municipal Bond fund, with an average credit quality of BB, which is at the upper end of noninvestment grade bonds.

Nearly one third of that fund's holdings are in debt tied to health care or education and civic organizations. Among its top holdings recently were B-rated debt issued by the Chicago Board of Education at a coupon of 7 percent and AA-rated debt issued by the University of Kansas Hospital Authority with a coupon of 5 percent.

THE NEW YORK TIMES

By PAUL J. LIM JULY 14, 2017

Can Communities Finance Their Own Projects?

Cities across the country are in revival mode. Neighborhoods once isolated are now connected. Once dangerous roads are now safer for pedestrians and cyclists.Towns are facilitating projects that bring with them increased commerce and housing.

But those projects need financing, and when a city doesn't have enough money, it borrows. Typically, municipalities issue municipal bonds to cover the costs of a project, which a bank underwrites. Then,the municipal government pays interest to the bondholders using residents' taxes.

Meanwhile, bondholders live all over the world, oblivious to the projects they're helping to finance and the community paying them interest. Bonds can also be part of an index fund managed by a securities firm, so investors do not have a direct relationship with the projects they finance.

That's the old way of municipal finance. But today, cities are experimenting with new financial technologies that can tap financial resources from more people at the local level, giving residents investment opportunities and a stake in the project's success. They're called "mini-bonds." Like the name suggests, mini-bonds are types of municipal bonds that are issued in smaller denominations. While the threshold to purchase a municipal bond is $5,000, mini-bonds can be issued in denominations of $500 or $1,000, or however much a municipality decides. Purchasers are paid back in tax-free interest over the bond's life span.

Do well by doing good

"Theoretically, it's a nice idea, but there is some risk," said Professor Thomas Davis of the Bloustein School of Planning and Public Policy at Rutgers University. Davis has experience dealing with mini-bonds, but it's not been positive.

Mini-bonds played a significant role in the demise of his former employer, Lehman Brothers, when each bond had to be marketed the old-fashioned way by going through big investment banks, which put up barriers to investment, such as trading fees ($50 for an equity trade, for instance).

"The main thing that you want to look at to make it viable is the revenue stream," Davis said. Ideal for the use of mini-bonds would be small-scale projects that many residents in the community can get behind.

Bayonne's Master Plan explores the idea of a crosstown bus system similar to the HOP system in Hoboken to transport residents to the light rail stations. Westside residents are excited at the idea of not having to drive across town and find parking, while residents near light rail stations would like to see their parking preserved.

Projects like this are deemed financially unfeasible by pragmatic local officials, but mini-bonds theoretically could help expedite projects that have public support while giving residents more control over their built environment. “It can be a little tricky, and there would be an art to it,” Davis said. But it is possible.

The City of Bayonne considered issuing them in the past without new financial technology, but ultimately decided against it. “A number of years ago we had looked at it,” said Bayonne Chief Financial Officer Terrence Malloy, noting that the cost of issuing the bonds and keeping track of the payments was too costly to make it worthwhile for the city. “It just didn’t make sense for us at the time.”

Opening the door to opportunity, and risk

According to a white paper from the conservative Brookings Institute called “Changing Patterns in Household Ownership of Municipal Debt,” the percentage of Americans who own state and local government bonds is shrinking. In 1989, 23.8 percent of all municipal bonds were held by the wealthiest 0.5 percent of Americans. In 2013, that same group owned 42 percent of all municipal bonds. The percentage of Americans who own municipal bonds is down, too, from 4.6 percent in 1989 to 2.4 percent in 2013.

“If you want to complain about cracks in your sidewalk or in your bike lane, put your money where your mouth is,” said James McIntyre, a former investment banker at Morgan Stanley and UBS who now works for a San-Francisco-based startup called “Neighborly.” This digital municipal bond brokerage firm contracts its proprietary software to municipalities to market mini-bonds to local residents.

McIntyre said one of the greatest benefits of Neighborly, and other digital brokerage companies, is its potential to create stakeholders out of community members rather than onlookers. Purchasing a mini-bond from Neighborly is easier than going through a brokerage house. A simple application lets residents purchase mini-bonds through a digital shopping cart.

“We think financial technology can help lower that cost structure around lowering transactions,” McIntyre said. He sees this new form of financing as an addition to bond financing, not just an alternative.

“When you’re able to bring all investors to the table, that’s where you’re going to find your total source of capital,” he said. “We want engaged communities that are interested in investing in itself, literally and figuratively.”

Cities onboard

Neighborly software is picking up steam, most recently in cities like Cambridge; Burlington, Vermont; Denver; and Lawrence, Kansas. The company has helped sell bonds to build affordable housing in cities in New York and Oregon. Other online municipal bond brokerages have helped fund small-scale projects in other municipalities as well.

Chief financial officers and business administrators are familiar with the concept, but unfamiliar with the new technology and its potential benefits. Officials agree that projects should have community input, but have apparently grown accustomed to a finance industry dominated by big investment banks. One of the hardest parts of issuing bonds is getting competitive bids for them, which is helped by the few powerful investment banks that have access to the world's capital.

"Even in terms of getting competitive bids, if you go back 20, 25 years, it used to be very common for a small broker or bank to directly buy your bonds and sell them to their customers," Malloy said. "It used to be localized. Now with these very large money market funds and tax-exempt funds, that is where the money is going."

Malloy's comment points to the great irony that resources are most available to individuals and communities in the least need of resources.

The profit motive

Is big investment banks' entanglement in municipal finances good in the long term? "Unfortunately I have to lean toward no, because they're in it for the profit," said Davis. "And the places that usually need public financing need that for a reason. It's because they need help. However, if areas that are more in need of financing are willing to pay a higher interest rate, then the investment banks will be interested."

Davis and local officials agree that the technological innovation and sophistication of investment banks are indispensable resources for municipalities, but mini-bonds can play a vital role in opening investment opportunities to residents and getting the community more involved.

In places with less growth and a more stable tax base, like Secaucus, mini-bonds may not be as feasible.

"We haven't looked at [mini-bonds] maybe because we've just been very fortunate with our tax revenue," said Secaucus Business Administrator Gary Jeffas."We've had a good tax base to be able to fund most of our projects."

Secaucus doesn't typically fund small-scale urban projects like pedestrian walkways or street redesigns. In the future, though, anything is possible, especially now that mini-bonds are less costly to market. "Would it be feasible for something Secaucus does in the future?" Jeffas asked."It might be something we explore."

Hudson Reporter

by Rory Pasquariello

Jul 12, 2017

Rory Pasquariello can be reached at roryp@hudsonreporter.com.

[Bipartisan Mayors to Call on Congress to Save Community Development Block Grants (CDBG) Ahead of Congressional Markup.]

WASHINGTON, DC—Today, Tuesday, July 11 at 1 pm ET, a bipartisan group of mayors representing the U.S. Conference of Mayors (USCM) will host a press conference call to call on Congress to reject a White House proposal to eliminate the Community Development Block Grant Program (CDBG), which supports critical housing, infrastructure, and small business and economic development programs in communities across the nation. A House Subcommittee on Appropriations is scheduled to hold a markup later in the day on the Department of Housing and Urban Development's budget, which includes CDBG funding.

During the call, Mayors will point to critical projects funded under the CDBG program, including housing programs, infrastructure/community development, and social services. USCM has outlined the positive effects of CDBG projects in CDBG Works: How Mayors Put CDBG to Work, showcasing the impact of CDBG projects in over 120 cities.

As the most flexible stream of federal dollars allocated directly to local governments that are used for broad purposes, Community Development Block Grants touch the lives of nearly every American in some fashion. Administered through the Department of Housing and Urban Development, CDBG funds reach more than 7,000 rural, suburban and urban communities and support housing investments, public infrastructure improvements, enhanced public safety services, employment training, as well as services for seniors, youth and the disabled.

Most recently, USCM President New Orleans' Mayor Mitch Landrieu issued a new policy proposal, Mayors' Agenda for the Future, which called on the federal government to allocate additional resources directly to cities and counties through the CDBG program – stipulating that these additional funds be first used to invest in low and moderate-income neighborhoods to accelerate infrastructure improvements and make neighborhoods more "investment ready." Such commitments to address street safety concerns and expand mobility options can help address income inequality, specifically by improving access to jobs and lowering household transportation costs.

Bloomberg Brief Weekly Video - 07/13

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

Watch video.

Bloomberg

July 13, 2017

The Week in Public Finance: Lobbying Congress on the 'Tax Perk,' Chronic Deficits and the Credit Threat in Illinois.

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

GOVERNING.COM

BY LIZ FARMER | JULY 14, 2017

Management Strategies for an Era of Budget Uncertainty.

To minimize the impact on services from future spending cuts and economic downturns, governments need to take a proactive, multi-year approach.

The National Association of State Budget Officers recently released its annual Fiscal Survey of the States, and the picture is not a particularly pretty one. Far from having completely rebounded from the Great Recession of 2007-2009, NASBO reports that states have continued to experience a slow recovery: Thirty-three of them projected fiscal-year 2017 revenues to come in slower than anticipated and 23 made mid-year budget cuts.

Moreover, while budgets are expected to recover somewhat for fiscal 2018, many states are preparing for a possible recession by taking actions such as building up their rainy day funds. In addition, there is the wild card of possible federal cuts, to Medicaid and other federally funded programs, that could make both state and local budgets even more volatile. Put all of this together, and it appears that what NASBO previously identified as the "new normal" — a world in which budget constraints are ubiquitous rather than cyclical — may indeed be upon us.

For state and local officials, this kind of budget situation requires an ongoing, conscious strategy of financial and program management to minimize impacts to citizens. Governments and their agencies can lessen the chances of service disruptions and degradations by anticipating and planning. Pushing problems and decisions about them into the future only works if we know that the future environment will be more hospitable than the present one. This seems a dicey proposition for states and localities, given the liabilities — pensions and infrastructure, to name two — that are already present.

Here are some specific actions, in addition to continuing to maintain healthy rainy day funds, that can and should be taken now to be better prepared for the inevitable budget uncertainty of the future:

Focus on efficiency and productivity: Actions that can bring more bang for the buck — carefully contracting out services, consolidating services between agencies and the like — can be considered much more thoughtfully and deliberately now than they can be later when agencies are responding to a mid-year budget cut.

Ask mission questions, prioritize and focus on performance: Many agencies, often through no fault of their own, may have experienced a kind of "mission creep." Now is the time to reassess priorities by focusing on program performance and reassessing the need for high-cost, low-return initiatives. This increases the odds of avoiding the time-honored but ill-advised practice of across-the-board spending cuts — a strategy that implies that everything is equally important at the margin.

Consider long-term commitments: The underfunding of state and local pensions and retiree health care is well documented. States and local governments need to continue assessing the affordability of these and other future commitments and find ways — and the political will — to get them under control. Once they determine how generous these plans will be in the future, they need to develop a realistic strategy for funding them prudently, including catching up on any underfunding that may have occurred in the past.

There was a time when governments and their agencies could expect to be saved by the natural cycles of budgeting. If an economic downturn created budget problems for a year or two, temporary fixes might be sufficient until more normal times returned. But the new normal requires a new strategy that explicitly recognizes that only a multi-year strategy for budgeting and program management can truly confront the fiscal challenges that governments are virtually certain to face.

GOVERNING.COM

By Philip Joyce | Contributor

Professor at the University of Maryland School of Public Policy

JULY 12, 2017

About $330M Left in New Clean Renewable Energy Bond Program.

WASHINGTON – About $329.7 million of New Clean Renewable Energy Bonds can still be allocated to states, localities and other users, according to the Internal Revenue Service.

The unused allocations stand at $150.3 million for governmental bodies and $179.36 million for cooperative electric companies, the IRS stated in its latest update published on July 3.

The overall program was authorized for $2.4 billion in bonding authority.

One third of the $2.4 billion New CREBs program was authorized for use by public power companies, but unlike governmental bodies and electric cooperatives they faced a deadline to apply.

Public power companies had a June 3, 2015 deadline to apply for their $800 million share of the program.

An initial round of New CREBs for public power agencies was over-subscribed at the 2009 deadline, according to the American Public Power Association, which reported there were 38 applications for $1.446 billion. The IRS prorated the allocations, setting a 2012 deadline for their use.

However, many of the public power projects were not undertaken by the first deadline. A reallocation was undertaken in 2015, but it’s not clear how much of the remaining $516.56 million was used.

School districts, cities and counties around the nation have used new CREBs to finance the installation of solar panels on rooftops and pay for the construction of windmills to produce electricity for schools and government buildings, said Ed Oswald, an attorney at Orrick, Herrington & Sutcliffe here.

No more than $40 million of New CREBs in the latest round can be used for each project by any governmental body or electric cooperative, according to the IRS.

The IRS hasn’t tracked how many of the projects have financed solar power versus wind power or other renewable energy sources. It also hasn’t looked at the type of governmental bodies, such as school districts, where New CREBs may be most often used, according to an IRS official.

A database maintained by Thomson Reuters lists the Grant County Public Utility District in Washington State as the largest user of New CREBs with $222.4 million issued for three projects followed by American Municipal Power Inc. of Ohio with $136 million for two projects as well as the City of Seattle, Wash. at $84.9 million for three projects.

Seattle City Light, a municipal owned power company, used New CREBs to rebuild generators at the city’s Boundary and Diablo hydroelectric dams. Boundary accounts for about 60% and Diablo accounts for 9.5% of the electricity generated by Seattle City Light.

“New CREBs have been relatively well received by the public finance community,’’ Oswald said.

“It’s, if you will, another tool in the toolbox. It’s a tax credit bond, not a tax-exempt bond.’’

New CREBs did not work for every community. The town of Norwich, Vermont received an authorization in 2009 to use new CREBs to finance solar panels for a municipal building, but the town ultimately opted for a private company that offered to supply low-cost solar power to the town, public library and local elementary school.

“Over the length of the project it would have been a plus for the town, but there were certain years where it would be a negative,” said Linda Gray, chair of Norwich energy committee. “And I have to say the bonds were pretty weird.’’

New CREBs are currently taxable and issued in a direct-pay mode, under which the issuer receives a direct subsidy from the federal government to reduce the interest costs. The subsidy equals 70% of interest costs minus cuts from sequestration.

The Energy Improvement and Extension Act of 2008 allocated an initial $800 million for the New CREBs.

Another $1.6 billion was authorized under the American Reinvestment and Recovery Act of 2009 signed by President Obama that also contained broader measures to stimulate the economy.

Limiting the financing to $40 million for individual projects has been a major obstacle for big cities and other potential large users.

“I think that the most significant limitation for these bonds has been the volume cap level,’’ Oswald said. “If you think about the needs of the nation at large in terms of renewable energy, they are somewhat significant and the volume cap allocated here still falls short of the aspirations of a lot of the issuers.’’

The original Clean Renewable Energy Bonds program, also known as Old CREBs, was authorized in 2005 as part of the Energy Tax Incentives Act. The initial authorization for $800 million in Old CREBs was increased to $1.2 billion under the 2006 Tax Relief and Health Care Act. Those bonds were issued as taxable tax credit bonds under which purchasers received tax credits.

By Brian Tumulty

Published July 10 2017, 4:40pm EDT

The Bond Buyer

[P3 Digest: July 5, 2017]()

[Read the Digest.]()

NCPPP

July 5, 2017

KBRA Affirms AA+, Stable Outlook, for National Public Finance Guarantee and Releases Corresponding Surveillance Report.

Kroll Bond Rating Agency (KBRA) has affirmed the insurance financial strength rating of AA+, with a Stable Outlook, on National Public Finance Guarantee Corporation and released its surveillance report. National demonstrates an ability to withstand KBRA's conservative stress case loss assumptions and satisfy all claims in full and on time.

KBRA's rating methodology and analysis are fundamentally different from those of the rating agency that recently downgraded National. In KBRA's opinion, bond insurance financial strength ratings should be heavily focused on an assessment of the likelihood a financial guarantor will meet all its obligations to policyholders when claims come due. KBRA disagrees with our competitor's emphasis on new business production and competitive position in light of National's substantial balance sheet and book of legacy business.

Please click the link below to access the full report:

National Public Finance Guarantee

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

Unlocking Value from Public Assets: Leveraging Private-Sector Expertise to Generate New Public Benefits.

In cities and states across the United States, public-sector entities are harnessing new ideas and technologies to transform their assets for broad public benefits. Today, on any given block in New York City, the same spot where a payphone once stood is a digital "Link" kiosk. Here, a worker can charge her phone, a visitor can look up directions, and a resident can register to vote. Along select highways in Oregon, Georgia, and other states, previously underutilized right-of-ways are now home to solar panels positioned to help illuminate roadways and power local electricity grids. In Boston, a paratransit rider is no longer limited to public van services and can now use on-demand transportation providers such as Uber or Lyft to travel throughout the city at lower costs for the local authority.

RBC Capital Markets has sponsored a new report focused on how government and public institutions, including higher education, can create value from their assets by collaborating with the private sector: *Unlocking Value from Public Assets: Leveraging Private-Sector Expertise to Generate New Public Benefits.*

Through five case studies, this report demonstrates how private sector expertise, when applied to public assets, can generate a range of diverse public benefits. The case studies highlighted in the report include:

- **LinkNYC** is transforming outdated payphones into 7,500 "Links," communication hubs that provide free Wi-Fi, phone calls, USB charging, access to City services, and maps, among other features.
- **The Ohio State University Comprehensive Energy Management Plan** is leveraging existing

energy assets to generate $1.2 billion in upfront investments for the University's endowment and sustainability initiatives.
- **Massachusetts Bay Transportation Authority On-Demand Paratransit Program** is re-envisioning paratransit services by supplementing publicly-owned vehicles with private, on-demand Uber and Lyft.
- **Oregon Department of Transportation Solar Highway Program** is working with private utility and equity partners to transform previously unused right-of-ways into solar highways that produce cost savings and feed the private energy grid.
- **University Center of Chicago, The Educational Advancement Fund** – a nonprofit representing Columbia College, DePaul University, and Roosevelt University – has employed an innovative disposition strategy that will redirect university resources toward core academic objectives while retaining high quality student housing.

RBC Capital Markets

July | 2017

Puerto Rico Insured.

We closely follow the bond insurers because they remain an important part of the municipal market, and they are integral to our Insured Puerto Rico Strategy.

Cumberland exited all uninsured Puerto Rico exposure in 2011, as it was clear that population loss and economic circumstances combined with the heavy indebtedness and dysfunctional governance would result in deteriorating credit quality.

In 2014 we saw an opportunity to invest in insured Puerto Rico backed by Assured Guaranty or National (MBIA), because headline risk had caused yields to rise higher than warranted given the claims-paying ability of the insurers.

Assured Guaranty Municipal (AGM) and National Public Finance Guarantee (National or NPFG) have very strong claims-paying resources and insure billions of dollars of mostly low-risk municipal bonds. On June 6, 2017, S&P placed National and Build America Mutual (BAM) on CreditWatch negative based on competitive position and lack of business-line diversification, particularly in the case of National. Market participants were surprised, because in the early 2000s the rating agencies' concern that the financial guarantors were not diversified enough misled the insurers to expand into subprime and other asset-backed securities that soured and led to downgrades of the bond insurers, which had previously had AAA ratings.

On June 26th S&P downgraded National to A from AA- based on its very low market share compared with AGM and BAM, while – importantly for our strategy – affirming that National continues to have very strong claims-paying resources.

Current ratings

Prior to the financial crisis, the bond insurance industry insured over 50% of municipal bond new issues. Market penetration, or percentage of insured bonds to all new bond issues, is now under 10% (though the figure could grow with higher interest rates or increased credit concerns). AGM and

National write less business than is running off, and the companies are not releasing capital at as fast a rate as previously. Thus leverage of claims-paying resources to insured book has been decreasing.

Bond insurers have very strong claims-paying resources for several reasons:

- They possess a large book of high-quality investments relative to bonds insured, a result of having been in business for over 40 years.
- Stress testing by the companies and the rating agencies shows that claims could be paid in many stressful scenarios.
- Insurers are regulated by state insurance commissions, which constrain the amount of capital that can be released – although the insurers have capital well in excess of required minimums to meet internal and external stress testing.
- Premiums are collected up front and earned over the life of the bonds, so that the companies continue to have earnings even if no new business is written.
- Insureds pay only regularly scheduled principal and interest; payments are not subject to acceleration.
- Any claims paid are contractually required to be repaid over time, so the insurer may not be paid on time but will eventually be paid in full.
- Insurers have strong underwriting and surveillance capabilities.
- They have experience with workouts. The large exposure represented and the fact that the companies are protecting bondholders generally gives them a greater voice in negotiations.
- Bond insurers often become part of the solution when an issuer needs market access at a lower cost after emerging from bankruptcy.

The National downgrade caused a blip up in yields of insured Puerto Rico paper, with slight widening in MBIA-insured bonds but not to levels beyond those seen at other points in the past few years. We continue to like the story of insured Puerto Rico municipal bonds. We disagree with S&P's approach on ratings, as they are reviewing business prospects and not claims-paying ability, which they themselves admit is still very strong. At 4.00–4.50% tax-free yields (depending on maturity and calls), we feel that the overall market still presents opportunity.

By Cumberland Advisors

Jul 06, 2017 08:51AM ET

Monetizing Masterpieces in Detroit's Bankruptcy.

General Motors filed for bankruptcy in 2011 and sold off divisions Hummer, Saab, and Saturn. The city of Detroit filed for bankruptcy in 2013 and faced the prospect of selling off a Matisse, Cezanne, and a Van Gogh. This article discusses the treatment of public assets such as the DIA's art collection in municipal bankruptcy. Municipal bankruptcies are rare, and parties to such a case have little precedent and little research on which to rely. The purpose of this article is to better inform academics, local officials, and bondholders of the consequences of debt adjustment under Chapter 9 of the Bankruptcy Code.

Read the article.

American Bar Association

By James L. Tatum III

[The Week in Public Finance: Late Budgets, Illinois' First in Years and Risky Pension Investments.]

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

GOVERNING.COM

BY LIZ FARMER | JULY 7, 2017

[Restructured Federal Freight Grants to Offer 'More Bang for the Buck.']

DALLAS — The Trump administration has reconfigured and renamed a $4.5 billion discretionary grant program dedicated to freight-related transportation infrastructure to put more emphasis on projects that can leverage additional state, local, or private financing.

The freight infrastructure program authorized by 2015's Fixing America's Surface Transportation Act will now be known as Infrastructure for Rebuilding America (INFRA) grants rather than the Fostering Advancements in Shipping and Transportation for the Long-term Achievement of National Efficiencies (Fastlane) as it was called by the Obama administration, according to a notice published in Thursday's Federal Register.

The revised program is intended increase the impact of projects by leveraging capital and allowing innovation in the project delivery and permitting processes, including public-private partnerships, the Transportation Department said in a fact sheet on the changes.

"We need to take steps to get more bang for the buck," according to the fact sheet. "By getting more of our partners to use federal funding as a supplement — not a substitute — we seek to increase the amount of overall funding that goes to infrastructure."

Though the INFRA grants can be used to fund highway, rail, and port projects, the program is specifically focused on projects in which the local sponsor is significantly invested and is positioned to proceed rapidly to construction, said Transportation Secretary Elaine Chao.

"By ensuring the right incentives, projects selected under this program will be better able to make significant, long-term improvements to America's transportation infrastructure," she said.

The notice of funding opportunity in the Federal Register said approximately $1.5 billion of the grants would be available through fiscal 2018.

The notice gives states and localities 120 days from publication to submit new applications for the revised grant program. Projects proposed for the 2017 Fastlane grant cycle submitted by the mid December 2016 deadline can be refiled, but the applicants must show how their new proposals address the program's amended criteria.

The FAST Act authorized $800 million of the discretionary grants in fiscal 2016, $850 million in 2017, $900 million in 2018, $950 million in 2019, and $1 billion in 2020, the final year of the five year highway funding bill.

The INFRA grant program preserves the statutory requirement in the FAST Act to award at least 25% of funding for rural projects.

"The administration understands that rural needs may well exceed this limit, and the department will consider rural projects to the greatest extent possible," the fact sheet said.

Highway projects in rural areas may not have the revenue stream needed to attract private investments, so the grant process "will consider an applicant's resource constraints when assessing the leverage criterion," the Transportation Department said.

The FAST Act caps the grants at no more than 60% of project costs, although additional loans and grants could boost the federal share to as much as 80%.

The first and so far only round of the annual grants provided $759.2 million for 18 projects in 15 states and the District of Columbia in 2016. The successful projects were chosen from 212 applications seeking a total of $9.8 billion.

No more than $500 million of the $4.5 billion of grants authorized by the FAST Act may go to freight rail or port projects, with the remainder reserved for highways and bridges. Approximately $326 million of freight rail and port funding remains after the first round of grants.

More funding for freight infrastructure could be provided by a bill (HB 3001) introduced in the House on June 22 by Rep. Alan Lowenthal, D-Calif. The measure would create a Freight Transportation Infrastructure Trust Fund, funded through a national 1% tax on the cost of transporting goods.

The proposed tax would generate $8 billion per year dedicated to freight-related infrastructure projects with a focus on multimodal projects and projects to restore aging infrastructure while relieving bottlenecks in the freight transportation system, Lowenthal said.

The Bond Buyer

By Jim Watts

Published June 29 2017, 1:22pm EDT

Bill Would Lift Caps on PABs Used to Finance Water, Sewer Infrastructure.

WASHINGTON – Advocates of removing state volume caps for tax exempt private activity bonds used to finance water and sewer projects have once again reintroduced bipartisan legislation in the House.

Reps. John Duncan, R-Tenn., and Bill Pascrell, D-N.J. introduced the Sustainable Water Infrastructure Investment Act (H.R. 3009) on June 22 with seven other cosponsors.

No Senate version of the bill has been introduced this year, though there were identical bills cosponsored by Sens. Mike Crapo, R-Utah, and Robert Menendez, D-N.J. in the Senate and Duncan and Pascrell in the House during the previous Congress. Versions of this legislation have been proposed in the House since 2008 and Pascrell has always been a sponsor.

States and territories issue most private activity bonds, including those used for water and sewage projects, under volume caps based on population data from the U.S. Census Bureau and a formula set by the Internal Revenue Service. For 2017, the cap is either $305.32 million per state or $100 per capita based on a state's population, whichever is greater.

Nationally the cap for all 50 states, the District of Columbia and Puerto Rico stands $35.69 billion this year. Nine states have individual caps of more than $1 billion each with California topping the list with a $3.93 billion limit.

President Trump campaigned last year on a pledge for a $1 trillion, 10-year infrastructure initiative that would rely on tax credits to attract private investment.

But the president's fiscal 2018 budget requested only $200 billion for the federal share of the infrastructure initiative spread out over nine years. Trump also proposed eliminating community block development grants and other programs that provide funds for infrastructure projects.

State and local governments would have to provide matching funds to qualify for some of the $200 billion in proposed federal funding. But it's still uncertain to what extent there will be a role for tax-exempt bonds, if any, in the plan. Tax-exempt bonds have been the primary way by which states and localities finance infrastructure, including so-called exempt-facility PABs for water furnishing and sewage facilities.

Eliminating the federal cap on PABs for water and sewer infrastructure projects would leverage $50 billion in private capital investment, the bill's cosponsors said. In addition, they estimate it would create 1.4 million jobs and add $101.5 billion in tax revenue for federal, state and local governments.

"If we do not start investing in our water infrastructure now, it is going to cost our nation many billions more in the future," Duncan said at the time of the bill's introduction.

The water and wastewater infrastructure projects would help communities comply with safe drinking water and sanitation standards.

"Our deteriorating water infrastructure regularly causes water main breaks in communities across our country, destroying property, disrupting neighborhoods and wasting our limited water supply," Pascrell said. "By encouraging private investment to help fund critical water infrastructure upgrades, we are encouraging stronger investments in our country's future at a reduced cost to the taxpayer."

The Bond Buyer

By Brian Tumulty

Published July 06 2017, 3:48pm EDT

Free Interactive Course Simulates Decision-Making about Investing in Municipal Bonds.

Washington, DC – The Municipal Securities Rulemaking Board (MSRB) today launched a free, interactive online course to help investors understand how municipal bonds work and assess how they might fit into a balanced portfolio.

"For sheer variety, there is no market quite like the universe of municipal securities," said MSRB Executive Director Lynnette Kelly. "One million securities are outstanding, a total that dwarfs all other equity and bond instruments. The MSRB is committed to providing objective and authoritative information to help investors navigate this diverse marketplace."

"Exploring Municipal Bonds: A Course for Investors" uses real-world scenarios to show investors where to get information about municipal bonds and to highlight considerations for selecting an individual security. Appropriate for both individual investors and professionals, the course was developed to supplement the [MSRB's online Education Center](), which provides free, objective information about the municipal bond market. [Create an account in MuniEdPro®]() to take the free, 45-minute course.

The municipal bond investor course is part of MSRB's MuniEdPro® suite of online, interactive courses about municipal market activities and regulations. Other topics in the series include primary market offering disclosure responsibilities, roles and responsibilities of market participants in a primary offering, and the role of the regulator.

"We wanted to leverage the latest in online technology to engage investors seeking a deeper understanding of municipal bonds," said Ritta McLaughlin, MSRB's Chief Education Officer. "Our investor course enables them to experience a variety of scenarios to explore how municipal bond investing would have an impact on their portfolio and their income. It is an exciting addition to the growing catalog of MuniEdPro® courses."

The MSRB developed the free course to educate fixed-income investors about municipal bonds and help them evaluate how municipal bonds can fit into a balanced portfolio of investments. Municipal bonds attract perennial interest through ups and downs in the broader financial markets because of their tax advantages and historically low default rates.

Date: July 5, 2017

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Goldman Leaps Into Ranks of Top Muni Underwriters With Big Sales.

- **Bank of America holds its lead in municipal-bond business**
- **RBC gains most market share during the first half of 2017**

Goldman Sachs Group Inc. vaulted into the ranks of the biggest U.S. municipal-bond underwriters in the first half of 2017 by managing large sales for New York City's Hudson Yards redevelopment, the city of Chicago and American Dream, a long-stalled shopping and entertainment center in New Jersey's Meadowlands.

The New York-based bank oversaw $9.8 billion of long-term state and local debt issues in the first half of 2017, rising to seventh biggest muni underwriter from 11th. Goldman hasn't finished in the top 10 in a full year since 2014, according to data compiled by Bloomberg.

Meanwhile, Bank of America Corp. held the lead in state and local government debt underwriting, a title it's kept for five straight years, followed by Citigroup Inc. Bank of America managed $26.5 billion of municipal bond sales in the first half compared with $23.9 billion for Citigroup.

RBC Capital Markets boosted its market share in the municipal business by 2.4 percentage points in the first half, the most of any bank, by handling 7.5 percent of new issues, according to data compiled by Bloomberg. The Royal Bank of Canada-unit climbed one spot into fifth place, behind JPMorgan Chase & Co. and Morgan Stanley.

The underwriters are chasing fewer deals as the pace of debt sales slows from last year, in part because interest rates have risen from more than half-century lows. There were about $187 billion of municipal bonds issued through June 30, a 13.1 percent decline from the same period last year. The number of advance refundings, a popular technique used to refinance debt before it can be paid off, has lagged, according to Bank of America Merrill Lynch.

Last month, Goldman managed a $1.1 billion sale of unrated municipal bonds for American Dream, a planned 2.9 million square-foot amusement mall about 10 miles (16 kilometers) west of Manhattan. It was the year's biggest offering of unrated municipal securities, which are sold for speculative projects that are often risky enough to be awarded below investment-grade ratings.

In May, Goldman managed the refinancing of $2.2 billion of debt issued to fund infrastructure at Hudson Yards, a 26-acre residential, office and retail development on Manhattan's far west side.

The prices Wall Street banks charged U.S. cities and states to sell bonds in the first half were little changed. Fees averaged $5.08 per $1,000 of long-term bonds compared with $4.95 in 2016.

Bloomberg

By Martin Z Braun

July 3, 2017, 9:55 AM PDT

Bloomberg Brief Weekly Video - 07/06

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

Watch video.

Bloomberg

Why Tolling is Often a Political Minefield.

Taxes and tolls have become synonymous in the context of the US.

Taxes and tolls have become synonymous in the context of the US. People often think about tolls as a tax, and whether merited or not paying the two of them is perceived as double taxation. Part of the reason is because many tolling entities are run by the public sector. As such, these corporations have boards that are appointed by the state and are in turn subject to the political cycle; a cycle that has interwoven decades of these practices into the decision making process. Then you have to factor in what is an anti-tax environment. If you are a politician seeking election and plan to raise taxes, you are automatically placed in a hole irrespective of the merits of your position.

Tolling is not the only public sector where this marriage of business and politics is in play. US airports, for instance, implement user fees called ‘passenger facility charges’ (PFCs) that are controlled by the government. Though these PFCs are passed down to the passenger, it is not transparent where they are coming from. They blend in with several other taxes and charges added to the airline ticket price, versus the clear transactional nature of paying a highway toll. And despite some resistance from the airlines, it’s normally not as political an issue to raise PFCs from the public’s perspective. The airlines that have to deal with a total ticket price understandably have a different view. The business and politics relationship is also evident in the structure of public power utilities and electricity prices, albeit in a more indirect and less transparent form. We as consumers have become acclimated to electric prices going up over time. Water, though, is exposed to the political winds but you do need it to live so the value proposition is clearer. Consequently, very essential improvements do get paid for with rate increases.

Raising tolls, by contrast, is transparent but the benefit less clear. The road is almost never unavailable. As a result, the idea of raising tolls may be the toughest sell. That may be due to simple complicity. While tolls by and large have increased in recent years, the cost of operating highways has gone up even more but that increase has not always been passed on. It’s a tenuous equilibrium that we as the public have been passively aware of for a long time and have been content to live with. As a result, no politician stepped in to rectify these “minor imbalances” when they were still minor and when the price would have been affordable.

What we’re seeing today is these negligible issues that could have been solved incrementally over time have instead morphed into a singularly large issue, one that the American Society of Civil Engineers has placed a US$4tr price tag to fix all of our infrastructure. So now you have the opposite problem of too large of a bill and not enough people willing to pay for it. So whether it’s tolling the interstates or taxing everybody, it’s a bitter pill any way you swallow it.

So what is the solution for managing tolling in the US? Part of it could rest with taking business decisions out of the hands of politicians and devolving authority to the lowest level, i.e. an appointed board with no veto authority from elected officials. If a politician is responsible for making business decisions on how to run a business like a toll road or an airport, the politics will be rampant within that process. Creating distance between an elected official and an executive decision and creating transparency in the decision making process is a way to limit the impact of politics. Having a representative board of major stakeholders—not elected officials or their direct appointees—with longer and staggered terms that focuses on the objectives of providing quality services and maintaining financial viability at least cost can also serve to create a sorely needed independent component in the process.

Another possible solution could be the creation of a regulated structure similar to a Public Utilities Commission among power and water authorities. While there remains a degree of political influence in this structure, it can be limited and thus still prove to be a positive.

Conclusion

Highway, road and bridge funding deficits have become a huge chasm for the US economy largely through inertia. But, this can be alleviated by creating distance between the business of highways and politics. It has proved easier around the world to introduce tolls on new roads rather than introduce a toll on an existing free road. Nonetheless, a common theme exists here: The greater distance to an election cycle, the greater the independence.

Fitch Ratings

by Cherian George

Cherian George is a managing director and head of the Americas in Fitch Ratings' global infrastructure and project finance group. He is based in New York.

Fitch: Budget Wrangling Continues in Seven States.

Fitch Ratings-New York-06 July 2017: Illinois, Connecticut, Massachusetts, Pennsylvania, Oregon, Rhode Island, and Wisconsin remain without a budget for the new fiscal year, although Fitch Ratings anticipates no immediate rating implications, except potentially in the case of Illinois. Fitch placed the state on Rating Watch Negative, due partly to its inability to enact a budget in the prior two fiscal years.

The Illinois (Issuer Default Rating [IDR] of 'BBB'/RWN) legislature appears close to enacting its first full budget since fiscal 2015 but still needs to override the governor's vetoes. The budget bills approved by the legislature and vetoed by the governor, include permanent income tax increases and recurring expenditure reductions, along with a plan to issue bonds to pay down a portion of the state's significant accounts-payable backlog. The state Senate overrode the governor's vetoes on Tuesday; the House will likely convene this afternoon for its own vote. The original House votes on the budget bills had enough legislative support to override the vetoes.

Weak revenue performance has complicated budget negotiations in several states without enacted budgets while idiosyncratic issues have pushed others beyond their June 30 deadline. Many states retain statutory or constitutional authority to make debt service payments without enacted budgets. Fitch anticipates states will take appropriate measures to make timely payments in accordance with their generally high credit quality.

Revenue shortfalls in the prior fiscal year in Connecticut ('A+'/Stable) and Pennsylvania ('AA-'/Stable) contributed to structural budget gaps for the current year, challenging legislators and governors to come to fiscal agreement. Connecticut's House rejected the governor's proposal for a short-term budget and negotiations are at a standstill on how to address the sizable projected budget gap in the 2018-2019 biennium. The governor has signed an executive order authorizing limited current spending until the budget is resolved.

The Pennsylvania legislature and governor have agreed on a spending bill though negotiations are ongoing for a revenue plan. The commonwealth took the same approach last year and the governor has until midnight on July 10 to sign, veto or allow the spending bill to go into law without his signature.

Massachusetts ('AA+'/Stable) also dealt with a revenue shortfall in fiscal 2017, creating a budget challenge for 2018. The commonwealth has already enacted a one-month interim budget through the end of July to provide additional time to negotiate a full-year budget (similar to the approach taken in recent years). In Wisconsin ('AA'/Stable), legislators have been working to address a shortfall in transportation funding. The state also enacted its last biennial budget two weeks late.

Oregon’s (‘AA+’/Stable) budget process includes multiple bills. Most have been approved for the current biennium. The legislature is still deliberating over several measures including a bill to cut state spending through various means including the merger of two boards that provide health benefits to teachers and state employees, and changes to state hiring practices.

Rhode Island’s (‘AA’/Stable) late budget is arguably the most surprising development. Legislative leadership and the Governor had appeared set to finalize a budget on June 30. Before final approval, the state Senate amended the House’s proposed six-year phase-out of a car tax levied by local governments, with the state reimbursing municipalities for the lost revenue. The Senate’s amended bill would freeze the phase-out along with state reimbursements if the state accessed its Budget Reserve and Cash Stabilization Account (rainy day fund). The state last drew on the fund in fiscal 2009, during the last recession. Rhode Island’s House did not take up the revised bill and the Speaker has indicated he may hold his chamber out of session indefinitely. Without a budget, the state operates under fiscal 2017 appropriations levels per statutory provisions.

Several states resolved budget disputes over the holiday weekend. Delaware (‘AAA’/Stable), Maine (‘AA’/Stable), and New Jersey (‘A’/Stable) all enacted budgets several days into their new fiscal years. Delaware and New Jersey’s budgets were delayed primarily by disagreements on policy issues rather than spending plans, and late negotiations in both states led to resolution. Maine’s budget was the first to be signed into law by the current governor, rather than enacted over his veto, in three biennia.

Washington (‘AA+’/Stable) enacted its budget less than an hour before the start of the new fiscal year, with the legislature voting on a budget bill the same day it was publicly released. The budget includes significant additional state funding, primarily through an increase in the state property tax levy, to address long-standing demands from the state’s Supreme Court to address education funding issues.

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Ill-Funded Police Pensions Put Cities in a Bind.

Municipalities that try cutting the retirement plans face pushback both from the officers, some of whom quit, and from a generally pro-police public

When the city of San Jose had trouble affording services such as road repair and libraries because of the cost of police pensions, it obtained voter approval to pare them. What happened next proved sobering for other cities in the same pickle. Hundreds of police officers quit. Response times for serious calls rose.

Faced with labor-union litigation, San Jose this year restored previous retirement ages and cost-o--living increases for existing police officers, and last month it gave them a raise.

Police pensions are among the worst-funded in the nation. Retirement systems for police and firefighters have just a median 71 cents for every dollar needed to cover future liabilities, according to a Wall Street Journal analysis of data provided by Merritt Research Services for cities of 30,000 or more.

The combined shortfall in the plans, which are the responsibility of municipal governments, is more than $80 billion, nearly equal to New York City's annual budget.

Broader municipal pension plans have a median 78 cents of every dollar needed to cover future liabilities, according to data from Merritt. The 100 largest U.S. corporate pension plans have 85% of assets needed on hand, according to Milliman Inc. data as of March 31.

And yet any attempt to bring police pensions into line with today's municipal budgets and stock-market performance runs into the reality that many officers won't stand for it—and they often have the public behind them.

"They have extra clout because people love police," said Dallas Mayor Mike Rawlings. "I love police. You love police. An electrician—you don't have that emotional tie."

His city, like San Jose, found itself facing widespread police-officer resignations when it moved to cut their pensions. In Dallas, the situation became so difficult the state legislature stepped in this spring to work out a solution.

Police pensions were the first nonmilitary retirement systems to be created in the U.S., in second half of the 19th century. In later years, when municipal budgets were tight, augmenting pension promises in lieu of raises became a way governments could make peace with politically powerful police unions without incurring immediate new spending.

In the 1980s and 1990s, robust investment returns made governments' pension promises look affordable. By 2001, major police and firefighter plans followed by the Public Plans Database, which tracks 150 major state and local pension plans, had a median 101% of what they needed to pay for future obligations.

The 2008 financial crisis wiped out pension-plan earnings at the same time that it put stress on municipal budgets, leading some cities to contribute less to the plans each year than what actuaries calculated was needed.

Also, many cities continued to assume robust 1990s-era investment returns when they calculated annual pension contributions. Their pension debt grew as those returns failed to materialize and cities didn't adjust their contributions to the plans.

Memphis, Tenn., gambled it could cut police pensions without any impact on public safety. The city council voted in 2014 to end pensions for municipal workers, including the police, with 7.5 years of service or less, and replace the pensions with a hybrid plan combining pension and 401(k)-style benefits.

In the following two years, about 100 officers affected by the changes left the force, out of a total of about 2,000. Homicides rose to a record 228 last year from 167 in 2014. Billboards erected by the police union around town read, "Welcome to Memphis: 228 homicides in 2016, down over 500 police officers." Memphis currently has 1,928 officers, down from 2,416 in 2012.

The city's mayor, Jim Strickland, has since pledged to increase police staffing. A spokeswoman for the city said enrollment in the police academy is increasing despite the reduced benefits package. Even so, city officials recently announced a $6.1 million grant for retention bonuses. Meanwhile, the police union is trying to get certain benefits restored in court.

One of the first cities that tried to bring police pension costs down was San Jose, where former Mayor Chuck Reed asked voters to approve pension cuts as part of a 2012 ballot measure.

Among the hundreds of police officers who quit after voters said yes to the change was Tim Watermulder, who left to join the Oakland police department in 2013. It had been announced that the police-academy class in which he graduated would be the first to operate under a new system providing lower cost-of-living increases and a retirement age of 60 instead of 50.

"You start to see what police work is really like every day," said Mr. Watermulder, 35 years old, who fought in Iraq with the U.S. military before becoming a police officer. "I really started thinking about 'Can I do this job till I'm 60?'"

About 180 of 1,109 sworn officer positions in San Jose are currently vacant. San Jose has the lowest number of officers per capita among the nation's 35 largest cities, according to a Journal analysis of Federal Bureau of Investigation data from 2015, the most recent available.

Response times for the most serious calls rose to an average of 7.3 minutes last year from 6.1 minutes in fiscal 2011, according to the police department.

San Jose is still safe compared with many other cities, but its violent-crime rate jumped last year to the highest since 2008. "A lot of it had to do with us not having enough officers," said San Jose Police Chief Eddie Garcia. His advice to other cities seeking to shore up their finances by cutting police benefits: "Don't make a crisis into a bigger crisis."

Crime has risen in many cities in recent years, not just in those that have lost officers. Per capita homicide rates are up in 27 of the country's 35 largest cities since 2014, according to homicide data. The causes of such increases are hard to pinpoint, but there is little doubt "losing hundreds of officers would make a big difference in the ability to control crime," said Richard Rosenfeld, a criminologist at the University of Missouri-St. Louis.

San Jose, to retain and recruit officers, has gone beyond rolling back changes it had tried to make in retirement ages and cost-of-living increases for existing police officers. Police got a 10% raise last month, to be followed by 3% raises in 2018 and 2019.

Since those measures were put in place, police-academy enrollment has risen sharply. “It looks like were now on the right track,” a city spokesman said.

Dallas has had an unusual struggle with the police-pension issue. The funding level of its plan for police and firefighters earlier this year fell to just 36%, among the lowest in the nation.

A trouble spot has been a plan created 25 years ago in an effort to keep experienced officers from leaving for police jobs elsewhere after they qualified for police pensions around age 50.

Officials figured they couldn’t afford sufficient wage increases to keep those officers, so instead they would sweeten pension benefits, said Steve Bartlett, who was mayor when the special fund was created.

That deal allowed officers who worked into their 50s to earn a pension and a salary at the same time. Terms provided for a guaranteed 8% to 10% return on the assets contributed to the plan, forcing the pension fund to make up the difference when market returns came in below that threshold. Officers who stuck around long enough could potentially accumulate $1 million in the special fund.

“They said, ‘Hey, the retirement is top notch. You may not be paid well initially, but in the end you’ll be a millionaire,’ ” said Brad Uptmore, a Dallas police officer for 10 years.

The promised return became harder to deliver after the financial crisis, as real-estate investments the fund made from Hawaii to Paris went sour and triggered more than $500 million in losses.

Spooked by the losses and talk of benefit cuts, hundreds of police and firefighters quit, withdrawing $500 million from the roughly $3 billion fund and pushing it closer to insolvency.

The city sought help from the Texas legislature. In late May the state government approved a package that requires the city to contribute an additional $25 million to $40 million a year to the pension plan while also cutting benefits.

Under the legislation, a police officer who is now 40 and retires in 2035 can get a pension that year of $95,339, compared with $109,583 under the old pension structure, according to a hypothetical calculated by the pension fund.

The changes may not be enough. The plan will still have less than half what it needs to cover its liabilities, according to an estimate provided by the fund to legislators. A review by S&P Global Ratings concluded that “more reforms will be needed.” Mayor Rawlings agreed the city has “much work ahead.”

Many longtime Dallas police officers won’t be around to see how the changes pan out, including Mr. Uptmore. He left to join the much smaller police department of Southlake, Texas, in the spring of last year—one of 336 Dallas officers who left in 2016.

“Once you realize there’s no gold at the end of the rainbow, I think you stop pursuing that,” Mr. Uptmore said.

The Wall Street Journal

By Heather Gillers and Zusha Elinson

July 4, 2017 10:59 a.m. ET

Fitch: US Senate Bill A Risk for Governments, Health Providers.

Fitch Ratings-New York-26 June 2017: A proposed Senate healthcare bill, the Better Care and Reconciliation Act (BCRA), would have negative credit implications for US States and public non-profit hospitals, says Fitch Ratings. It would mean significant reductions in federal funding to states and changes in the payor mix and lower patient volumes for public hospitals. Higher uninsured rates would also act as a structural headwind for growth for corporate healthcare entities, though those issuers would benefit in the near term from the roll back of most of the industry taxes and fees that were implemented under the Affordable Care Act (ACA).

These outcomes are based on an unlikely total adoption of the BCRA and the Congressional Budget Office's (CBO) estimates of the impact of the previous House version of the bill, the American Healthcare Act (AHCA). The CBO will report on the BCRA in the coming days. That report will be seminal to when and how the Senate will vote on it. If BCRA passes the Senate, before going to the President's desk it will need to be passed by the House in its final Senate-approved form, or reconciled with the House's AHCA and then passed by both houses.

Federal aid for Medicaid currently represents approximately 20% of all state budgets. The CBO estimates that the AHCA would lower federal Medicaid spending by 24% by fiscal 2026. The speed and scale of that contraction could be difficult for states to manage and could affect both the states that expanded Medicaid under the ACA and those that did not. The 2020 and 2021 implementation dates for most Medicaid provisions would likely result in pressure on states to cut funding to local governments, public colleges and universities, and healthcare providers.

Amongst healthcare providers, acute care hospitals would be the most pressured by those state cuts and by the rise in uninsured patients. The CBO estimates that the AHCA would raise the uninsured rate of the non-elderly segment of the US population to 19% from its current 10%. That change would mean hospitals would have a higher percentage of uninsured patients and lower patient volumes as people will opt out of less critical care. Unless offset by cost savings or higher reimbursement from insured patients, this would pressure margins and could result in downward ratings pressure.

In the near term, acute care hospitals and other healthcare providers would get a reprieve from the pressures of a decline in the number of insured people as the bill includes federal appropriation for approximately $7 billion (annually, through 2019) of cost-sharing subsidies for middle income enrollees to the individual health plan market. Healthcare companies would also benefit from the repeal of the taxes and fees imposed by the ACA. This will boost financial results for many companies in the near term since those taxes and fees mitigated much of the initial financial benefits of the ACA's insurance expansion.

However, that initial positive benefit will evaporate as higher uninsured rates will be an important structural headwind to topline growth for healthcare companies over the longer term.

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Bloomberg Brief Weekly Video - 06/29

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

Watch video.

Bloomberg

June 29, 2017

American Dream Mall Bonds Climb.

- **Prices rise by more than 2 percent in secondary market trades**
- **Offering by Goldman was year's biggest of unrated muni bonds**

Investors are seeing quick profits from the American Dream.

Prices of some unrated bonds issued for the long-stalled shopping and entertainment center in New Jersey's Meadowlands have risen 2.4 percent since they were issued last week, cutting the yields by more than 0.3 percentage point to 6.3 percent. The price increase surprised some investors, given that the sale had been delayed amid speculation over whether there was sufficient demand for the risky securities. Borrowers frequently sell unrated bonds to avoid the potential taint of being labeled junk.

"It's a little bit bigger and quicker in narrowing than I expected," said John Miller, who oversees more than $120 billion in municipals at Nuveen Asset Management, including its $14.8 billion high-yield open end muni fund, the market's biggest. "There's a difference between negotiating the structure and not knowing whether they will have a complete financing package to get the mall built, to now that you're certain it's settled, maybe you want in."

The outcome of the sale illustrates the growing appetite for risk in the municipal market after a rally pushed yields to the lowest since early November. Prices have been supported in part because traders are building up inventory, anticipating investors will need to reinvest a flood of cash from July 1 coupon and principal payments, Miller said.

Goldman Sachs Group Inc., which managed the $1.1 billion bond issue for Canadian mall developer Triple Five Group, postponed it for a week as it fielded questions from investors and gauged where to set the price. The 2.9 million square-foot mall will have indoor amusement and water parks, a skating rink, ski slope, Ferris wheel, aquarium, and performing arts theater with 500 stores, anchored by Saks Fifth Avenue and Lord & Taylor. The total cost of the project is estimated at $2.8 billion.

Bonds due in 2050 that are backed by payments the developer will make in lieu of taxes were priced to yield 6.63 percent on June 22. They fell to an average yield of 6.29 percent the following day and traded Monday at 6.27 percent.

"There were a lot of negotiations," said Miller, who declined to say whether he bought any of the debt. "It was a relatively large deal, perhaps a bit controversial, doing some things that haven't been done before."

Bloomberg Markets

By Martin Z Braun

June 27, 2017, 10:51 AM PDT

[The Week in Public Finance: Alaska Avoids Its Problems, More Health-Care Pain and Municipal Defaults Are Up.]

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

GOVERNING.COM

BY LIZ FARMER | JUNE 30, 2017

[S&P: Typical U.S. Water and Sewer Utilities and the Margin Between High and Medium Investment Grade Ratings.]

S&P Global Ratings maintains long-term ratings on more than 1,600 waterworks, sanitary sewer, and drainage utilities in the U.S. In this sector, roughly half of all ratings are 'AA-' or higher, and roughly half are 'A+' or lower. We therefore believe it's worthwhile to highlight noteworthy distinctions that differentiate utilities at these two rating levels.

Continue reading.

Jun. 27, 2017

Florida Train Developer May Switch Tracks on Federal Financing.

BRADENTON, Fla. – The private company preparing to offer new passenger rail service in Florida appears to hedging its bets on whether to use private activity bonds to finance the project.

All Aboard Florida and its parent company, Florida East Coast Industries, inquired in recent months about obtaining a low-interest loan to finance its Brightline-branded train service from the U.S. Department of Transportation's Federal Railroad Administration, according to correspondence obtained by The Bond Buyer.

"As a follow-up to our call today, I write to advise you of All Aboard Florida-Operations LLC's intention to submit promptly an application for a Railroad Rehabilitation and Improvement Financing loan," Brightline Chief Executive Officer Dave Howard wrote in an April 11 letter to Roger Bohnert, deputy executive director of USDOT's Build America Bureau.

Howard said the loan would be used to complete AAF's express passenger railroad system between Miami and Orlando.

All Aboard Florida received a $600 million PAB allocation from the USDOT to finance the initial service route from Miami to West Palm Beach, which it expects to begin operating this fall.

When asked if AAF planned to forego using tax-exempt bonds to finance its project, the company said in a statement that it remains open to using PABs and other forms of federally supported financing.

"Brightline is considering all funding options," the company said. "We continue to explore financing mechanisms that exist for projects that incent private companies to invest in infrastructure used by the public."

Private activity bonds are funded by private investors, who don't pay income tax on the interest they receive.

Letters and emails between All Aboard Florida, Florida East Coast Industries and transportation officials during April and May show that meetings have been scheduled to discuss updates to AAF's financing plan, a new ridership and revenue study that is underway, and what will be necessary for the RRIF application to complete the underwriting process.

This is not the first time AAF has sought a RRIF loan. In 2014, the company said it applied for a $1.6 billion RRIF loan to finance its 235-mile project. The application triggered an extensive environmental review process under the National Environmental Policy Act.

While the NEPA review was underway, the company changed course and received a $1.75 billion private activity bond allocation from USDOT.

Martin and Indian River counties challenged the bond allocation in early 2015, filing federal lawsuits contending that the bonds should have been considered in the NEPA environmental review process.

As the company defended the suits, All Aboard Florida was unsuccessful several times attempting to sell the bonds using the Florida Development Finance Corp. as the conduit issuer.

In August 2016, U.S. District Judge Christopher R. Cooper said – in a potentially precedent setting ruling – that the counties proved that the private activity bond allocation should have been subject to the NEPA process.

The decision prompted AAF to withdraw its $1.75 billion PAB application for the entire project. The company then received $600 million to finance phase 1 of the route from Miami to West Palm Beach, stopping short of passing through Indian River and Martin counties.

Cooper ruled on May 10 that the county lawsuits were moot because the $600 million PABs would finance a portion of the project that does not affect them. The ruling is not yet final, and could be appealed. Indian River County has not made a final decision with respect to Cooper's ruling, County Attorney Dylan Reingold said Friday.

Last week, Florida East Coast Industries Executive Director Michael Reininger discussed a number of difficulties All Aboard Florida has encountered – and how those problems affect the private sector – when he testified before the U.S. House Transportation and Infrastructure Subcommittee on Railroads, Pipelines and Hazardous Materials.

"Regulatory hurdles" and "opaque and complex" rules for federally supported financing such as tax-exempt bonds create uncertainty for private companies like his to develop new transportation projects, Reininger said.

"In the face of so many regulatory hurdles, combined with the ease by which narrow interests can delay worthy projects through legal and administrative challenges, rationalization of this reality will dramatically improve the interest and motivations of private investment capital," said Reininger, who is also AAF's former president.

Reininger also said when All Aboard Florida submitted its original application for a RRIF loan, it triggered a comprehensive study through the NEPA process that required nine different entities to follow "prescriptive guidelines" in order to sign off on the federal environmental impact study.

The EIS was released in 2015, although the NEPA process remains incomplete because a "record of decision" – a USDOT official's signature signing off on the project – has not been issued.

"We believe a two-year goal, from initiation to record of decision for NEPA reviews, is not only achievable, but a necessary regulatory requirement in order to attract private investment," Reininger told the subcommittee.

Opponents of the train project view the situation differently. Reininger's testimony before the subcommittee was disingenuous, said attorney Stephen Ryan, who represents Martin County and the local anti-train group CARE (Citizens Against Rail Expansion).

"He should get the chutzpah award for claiming that NEPA and other program rules are difficult and opaque, when AAF and USDOT have used the rules to prevent the appropriate path to a legal challenge of the railroad," he said.

Ryan contended that All Aboard Florida in conjunction with the USDOT has purposely withheld the release of the record of decision on the environmental impact statement, because once the ROD is released it can be challenged in U.S. District Court by the citizens impacted by it.

“They have manipulated the process in an unfair way,” he said. “It insults the intelligence of voters who pay taxes that AAF would complain in a congressional hearing room about the problems in the process when they’ve deliberately manipulated and frustrated the process the way they have.

“We did not delay [AAF] a day,” he added. “They tried four times to sell the bonds and failed.

Now they are giving up on tax subsidized bonds and switching back to a different form of subsidy, a federal loan.

The irony is they previously abandoned the subsidized loan for subsidized bonds in 2014. As Yogi Berra would have said: ‘Its déjà vu all over again.’”

CARE Chairman Brent Hanlon said his organization has worked the past three years to “shed light on the All Aboard Florida project and how it threatens the health and safety of our communities.”

He also decried payments that local taxpayers must make in perpetuity for new train crossing and safety equipment maintenance because of the new passenger train service.

“We have also tried to reveal the facts about AAF’s insatiable need for public subsidies of its business plans,” he said, referring to the interest payments that the federal government does not receive from the issuance of tax-exempt bonds.

Hanlon also said that AAF’s latest strategy to seek a low-interest federal loan from the FRA also amounts to a “multi-billion-dollar loan subsidized by the U.S. taxpayers.

“The new RRIF loan poses many new risks to the taxpayers because there are no guarantees that AAF will be able to repay the loan,” he said. “If that happens, taxpayers will be left holding the bag for potentially billions of dollars.”

During last week’s House subcommittee meeting, Reininger said All Aboard Florida is “not publicly funded at all. It’s completely an investment of private-sector capital.”

Rep. Brian Mast, R-Fla., asked Reininger about the potential subsidy the project would receive from the use of a RRIF loan or private activity bonds. The RRIF loan would be from the federal government and the bonds are “100% capital” from the private sector, Reininger said, adding, “That’s not the same as an investment by the federal government.”

All Aboard Florida plans to run 32 trains per day between Miami and Orlando, at speeds up to 120 mph.

Company officials have said the service will begin this fall initially between West Palm Beach and Fort Lauderdale, with the addition of a stop in Miami later.

Work on the second phase between West Palm Beach and Orlando has not begun, although construction is underway on a new terminal at Orlando International Airport where AAF has said it will rent space at fair-market prices.

The Bond Buyer

By Shelly Sigo

Published June 28 2017, 12:40pm EDT

KBRA Releases 1st Published Project Finance Rating.

KBRA Assigns Preliminary Rating to the Riverside County Transportation Commission Toll Revenue Bond, 2017 TIFIA Series

Kroll Bond Rating Agency (KBRA) announces the preliminary rating for the Riverside County Transportation Commission Toll Revenue Bond, 2017 TIFIA Series. The bond evidences the $152.5 million loan ("the TIFIA Loan") from the United States Department of Transportation to the Riverside County Transportation Commission (RCTC). The TIFIA Loan constitutes federal project credit assistance under the Transportation Infrastructure Finance and Innovation Act for the I-15 express lanes project ("the Project").

The TIFIA Loan will have senior lien priority in project revenues. The interest rate will be set at closing at the 30-year U.S. Treasury State and Local Government Series rate plus 0.01%.The maturity of the TIFIA Loan will be limited to the earlier of 35 years after substantial completion of the Project (currently projected for July 1, 2020) or June 1, 2056. Interest on the TIFIA Loan will be paid semi-annually while principal will be paid annually. The TIFIA Loan will fully amortize by the projected maturity date, and therefore there is no refinancing risk in the transaction. Proceeds of the TIFIA Loan will be used to fund a portion of design-build and other costs for the Project, which are currently estimated at $471 million. Other sources of funds for such Project costs include RCTC's Measure A sales tax revenue and Measure A sales tax bonds issued in relation thereto and various federal grants. Senior debt service coverage ratios for the TIFIA Loan average 3.13x under KBRA's rating case and stressed assumptions KBRA used in analyzing Project cash flows include higher construction and O&M costs and lower traffic volumes.

The Project consists of the design-build, operations and maintenance of improvements to approximately 15 miles of the I-15 freeway, in particular the construction of one to two tolled express lanes in each direction along the median of the approximately 15 mile project corridor from Cajalco Road in the City of Corona in Riverside County to just south of the I-15 freeway's intersection with State Route 60. The Project is expected to reduce congestion for motorists using the I-15 freeway and traveling between the Inland Empire and Los Angeles and Orange Counties. As noted above, the Project is projected to open to traffic on July 1, 2020.

RCTC is partnering with the California Department of Transportation and the Federal Highway Administration in the implementation of the Project and to ensure that development is in compliance with all applicable federal laws and regulations. Other key project participants include Skanska-Ames, a Joint Venture, as design-build contractor, Kapsch TrafficCom Transportation NA, Inc., as toll services provider, Parsons Transportation Group Inc., as independent engineer and RCTC's project and construction management consultant, and Stantec Consulting Services Inc., as traffic and revenue consultant.

KBRA analyzed the transaction using the Project Finance Rating Methodology published on November 15, 2013. KBRA will review the final operative agreements and legal opinions for the transaction prior to closing.

The preliminary rating is based on information known to KBRA at the time of this publication. Information received subsequent to this release could result in the assignment of a final rating that differs from the preliminary rating.

The rating report will follow.

Moody's: Government Default Trend Is Expanding.

There has been a trend certain hedge fund managers, many with a mathematical bent, have been aggressively following since the 2008 financial entanglements. The topic of how voters in a democracy react to tough decisions regarding government debt has been modeled to a wide degree, with fund managers having behind the scenes and in public discussions to address the issue. This one-time whisper topic is now trending to the point of the the unthinkable: the State of Illinois, as one example, might have their bonds downgraded to junk. Enter into this conversation a June 27 Moodys report on "US Bond Defaults and Recoveries" and the force of this Bond Default Rate trend becomes visible.

Continue reading.

ValueWalk

By Mark Melin on June 29, 2017 10:52 am

New House FAA Bill Text Released; Good News for County Priorities.

FAA reauthorization bill increases Essential Air Service funding, topping out at $350 million

House Transportation and Infrastructure Committee Chairman Bill Shuster (R-Pa.) introduced his much-anticipated FAA reauthorization bill June 21. With the current one-year extension expiring on Sept. 30, this new bill would last for six years, providing more long-term certainty regarding aviation policy. While the national headlines may gravitate to the intention of privatizing air-traffic control, there are several provisions included in the bill that are positive for county governments.

Chairman Shuster's bill, the 21st Century Aviation Innovation, Reform and Reauthorization Act (21st Century AIRR Act)" will be brought before the House transportation committee this week for a markup with the hopes of a full floor vote when Congress returns from the July 4 recess. The Senate will soon introduce its own version of a long-term FAA bill in the coming days as well.

The bill contains several key features for counties. The Essential Air Service (EAS) program, which supports commercial flights for the nation's most rural communities, would see increased funding each year throughout the bill's lifetime. In fact, the final year of the authorization would fund EAS at $350 million, almost double the current funding level.

This vital program to connect the nation's most rural communities with larger transportation hubs will ensure continued travel options for county residents as well as key opportunities for economic development. In his budget blueprint earlier this month, President Trump had advocated for the program's elimination.

Also included in the bill is language that acknowledges NACo's call for greater local government involvement in the development and implementation of policy regarding unmanned aerial systems, or drones, within their boundaries. The bill mandates that recommendations for local government roles and responsibilities be addressed specifically through the Drone Advisory Committee's (DAC) Task Group on Roles and Responsibilities (TG1).

NACo is the only local government group with representation both on the DAC and TG1. This will make NACo a primary voice as these federally-formed groups continue their work to develop an appropriate framework for local government involvement and successful UAS implementation.

Another NACo priority, the Airport Improvement Program (AIP), a key grant mechanism to assist airports in starting new projects, would see an increase in the 21st Century AIRR Act. Funding levels under the bill would increase each year through 2023, in total raising AIP funding from the current level of $3.35 billion to slightly more than $3.8 billion, which amounts to a $467 million increase.

With committee markup scheduled for this week, amendments to the bill may be made in hopes of patching together enough support to pass the full House. NACo will continue to advocate for county priorities, including raising the Passenger Facilities Charge (which remained unchanged), which has not been increased since 2000. Currently capped at $4.50, an increase in this ticket fee would allow all airports to address their infrastructure needs in a timelier manner.

Other provisions in the bill address passenger rights, including banning airlines from bumping a passenger once they have boarded the airplane— a direct result of the United Airlines incident earlier this year — to new requirements to provide space for mothers to nurse at medium and large-sized airports. Additionally, commercial airlines will now be required by law to notify the public of any system-wide power outages, which have caused substantial delays for passengers over the past few years.

The future of the bill, though, remains uncertain, primarily due to the inclusion of language that would privatize the air traffic control system. Some fear the measure could see a repeat of last year, where the insistence on privatizing air-traffic control as part of the bill resulted in time running out on the congressional calendar, forcing the one-year extension that is now in place.

Currently there is both support and opposition on both sides of the aisle, and given the potential for debate over privatization and other provisions of the bill, it is unclear how quickly the legislation will be able to proceed.

National Association of Counties

Jun. 26, 2017

by Kevan Stone

Associate Legislative Director – Transportation

Kevan Stone serves as NACo's Associate Legislative Director for Transportation and Infrastructure. He is responsible for all policy development and advocacy pertaining to the county role in ownership and maintenance of roads, bridges, airports and other important infrastructure.

NACo's Analysis of Senate Health Proposal: Massive Costs for Counties.

On June 22, 2017 Senate Republicans released a 142-page discussion draft of their health overhaul bill, the "Better Care Reconciliation Act (BCRA) of 2017." It builds off H.R. 1628, the "American Health Care Act (AHCA)," which the U.S. House of Representatives passed on May 4 after multiple attempts. The legislation, originally intended to repeal and replace the Affordable Care Act (ACA), makes major changes to the nation's health care system.

The National Association of Counties (NACo) opposes the "Better Care Reconciliation Act" because it would:

- Adversely alter the federal-state-local partnership for Medicaid
- Significantly shifts costs to county taxpayers, and
- Negatively impact counties as health providers, payors, administrators and employers.

Continue reading.

NATIONAL ASSOCIATION OF COUNTIES

By BRIAN BOWDEN Jun. 23, 2017

Municipal Debt Lures Yield-Hungry Investors in Second Quarter.

Bond inflows this year show that investors view public debt as a safe way to make money

For evidence of investors' appetite for municipal debt, look no further than New Jersey.

That is where delays have plagued the planned megamall American Dream for more than a decade. Nevertheless, investors last month flooded into unrated public authority bonds designed to revive the 2.9 million-square-foot project.

The $1.1 billion offering, which promised returns of as much as 6.86%, is a sign of how hungry investors are for new municipal debt despite mounting fiscal problems in some cities and states around the country.

Buyers have snapped up nearly $88 billion in new public bonds this year through Friday, up 8% from the same period last year, according to Thomson Reuters. That happened as annual borrowing by local governments rose to a seven-year high.

It also comes as ratings firms have downgraded Illinois and Hartford, Conn., to the brink of junk status, and the troubled U.S. territory of Puerto Rico was placed under court protection as a way of sorting through its mountain of liabilities.

"The market is able to take these individual events in stride," said John Miller, co-head of global fixed income at Nuveen Asset Management.

The demand for new bonds is driving down costs for government borrowers and making existing debt more expensive for investors. The S&P Municipal Bond Index gained 3.25% year to date through Friday.

One high performer was a bond issued by the Harris County Sports Authority to refinance Houston's NRG Stadium. It returned 20.7% during the second quarter through Thursday, according to bondholder Nuveen Asset Management.

The same authority struggled during the latest recession with soured debt deals, a cash crunch and ratings downgrades. But it has now been able to set aside enough money to repay the bonds, making them more valuable.

Many investors still view public debt as a relatively safe way to make money because municipal defaults are rare and states aren't allowed to seek bankruptcy protection. But some observers say they see greater potential for losses as public expenses rise.

"Risk in the municipal market is building," said Matt Fabian, a partner at Municipal Market Analytics, in a recent note.

The performance of the municipal-debt market in 2017 is a surprise to many observers, who expected a pullback following the election of President Donald Trump. The S&P Municipal Bond Index fell 3.46% last November largely because of expectations that tax cuts and higher inflation would reduce the value of tax-exempt debt, analysts said.

About $27 billion flowed out of municipal-bond mutual funds and exchange-traded funds during the last two months of 2016, according to the Investment Company Institute.

But those outflows reversed at the start of 2017 as tax cuts and higher inflation looked less likely in the near term. Inflows have totaled $15 billion so far in this year. Lower inflation expectations typically give investors confidence that the debt will retain its value.

"People got more comfortable with the fact that tax reform is not going to happen anytime soon," said Triet Nguyen, a managing director at New York-based NewOak Capital, a research and advisory firm.

A drop in municipal-bond refinancing combined with an increase in debt coming due during 2017 have also driven up bond prices as investors look for ways to use their cash, analysts said.

"Despite the Illinois and Connecticut headlines, munis have performed just fine," added J.R. Rieger, managing director of Fixed Income Index Product Management at S&P Dow Jones Indices, LLC.

The Wall Street Journal

By Heather Gillers

July 1, 2017 7:00 a.m. ET

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

Moody's Places 6 Local Government Obligors On Review, Direction Uncertain.

New York, June 26, 2017 — Moody's Investors Service has placed the ratings of six local government obligors on review with direction uncertain, affecting approximately $644.6 million of outstanding debt.

RATING RATIONALE

The review is prompted by the lack of sufficient, current financial information. If the information is not received over the next 30 days, we will take appropriate rating action which could include the withdrawal or lowering of the ratings.

Indianapolis Public Schools, IN

Yellow Springs Exempted Village S.D. OH

Waynesfield-Goshen Local School District, OH

Van Buren Local School District, OH

Arcanum-Butler Local School District, OH

Williston Public School District 1, ND

The following debt is being placed on review: Indianapolis Public Schools, IN’s enhanced ratings on Series 2009A, 2009C, 2010C, 2010D and the lease underlying ratings on Series 2010C and 2010D. The general obligation ratings of Arcanum-Butler Local School District, OH’s 2008 bonds, Van Buren Local School District, OH’s Series 2001 and 2010 bonds, Waynesfield-Goshen Local School District, OH’s Series 2013 bonds, Williston Public School District 1, ND’s Series 2011, 2014, 2015A, 2015C and 2016A bonds and Yellow Springs Exempted Village School District, OH’s Series 2011 bonds.

METHODOLOGY

The principal methodology used in the general obligation rating was US Local Government General Obligation Debt published in December 2016. The principal methodology used in the lease rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2016. The principal methodology used in the enhanced rating was State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody’s rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider’s credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody’s legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

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U.S. Municipal Bond Sales to Total Lowest This Year Next Week.

Sales of U.S. municipal bonds and notes will sink to $357 million in the upcoming holiday week, significantly lower than this week's approximately $9 billion of debt issuance, according to Thomson Reuters data.

Bond issuance has been generally lower this year compared to last because of fewer refunding issues, said Alan Schankel, a managing director at Janney Montgomery Scott.

Schankel said that the U.S. Fourth of July holiday falling on a Tuesday this year shortens the week even further because most issuers and trading desks will only operate in full for three days.

The amount of municipal debt issuance has dropped off this year as investors are past the 2016 U.S. presidential election and interest rates have risen from record lows, said Mikhail Foux, head of municipal research at Barclays Capital.

Texas's Denton County plans to issue about $77 million worth of refunding bonds next week, the largest deal set to market, according to Thomson Reuters data.

Next week's issuance sales consist of about $233 million from the competitive calendar and about $123 million from the negotiated calendar.

U.S. municipal bond funds recorded $496.4 million of inflows for the week ended June 28, according to Lipper data.

REUTERS

By Stephanie Kelly | NEW YORK, JUNE 29

(Reporting by Stephanie Kelly; Editing by Daniel Bases and Meredith Mazzilli)

[Senate Health Bill Would Lower the Medicaid Per Capita Cap Rate, Causing Greater State Budget Shortfalls.]

This post was updated on June 22, 2017 to reflect the release of [the Senate's health care bill.]

The Senate's health care bill reduces the growth rate for Medicaid per capita caps from the rate used in the American Health Care Act (AHCA) passed by the House last month.

The Senate bill lowers the growth rate to the Consumer Price Index for All Urban Consumers (CPI-U) beginning in 2025, rather than the medical Consumer Price Index (m-CPI). This change would ensure a shortfall between federal Medicaid payments and projected Medicaid costs that will grow over time.

Why? The m-CPI is projected to grow at about 3.7 percent over the next decade, but the CPI-U would only grow at about 2.4 percent.

States will have to fill this shortfall by raising taxes, cutting enrollment, reducing benefits, or reducing provider reimbursement—all of which are difficult choices.

[Continue reading.]

The Urban Institute

by Matthew Buettgens

[Fitch: Falling US Public Power Capex Should Maintain Credit.]

The capex-to-depreciation trend was more pronounced for 'A' rated wholesale systems than for retail systems where the ratio has stabilized, but at lower levels than we have observed in most of the past decade.

[Continue reading.]

[Fitch: Senate AHCA Includes Medicaid Repeal and Replace Provisions for States.]

States that expanded Medicaid access to the newly eligible population under the Affordable Care Act are particularly at risk. But, even non-expansion states will face budgetary challenges, which will likely accelerate for all states over time.

[Continue reading.]

Supreme Court Rules Against Property Owners in Takings Case.

The U.S. Supreme Court on Friday ruled against four siblings who contended zoning regulations constituted a taking of their Wisconsin vacation property.

The court ruled that there was no regulatory taking that required compensation to the landowners. Justice Anthony M. Kennedy wrote the majority opinion (PDF).

The siblings owned two adjacent lots; their cabin was on one of the lots. They had argued a taking occurred because of a regulation that barred them from selling the undeveloped lot separately.

The regulation prevented the sale because the adjacent lot didn’t meet size requirements. A grandfather clause exempted adjacent, substandard-sized parcels that were separately owned, but the siblings didn’t qualify for the exclusion.

Appraisals had valued the merged lots at $698,300, and at $771,000 if they were two separate properties.

The Supreme Court has previously held that there is a regulatory taking if the government prevents all economically viable use of a piece of property, University of California at Irvine law dean Erwin Chemerinsky explained in a preview of the case. If the two land parcels are considered separately, the zoning regulation is a taking. If they are considered as a whole, the government is not preventing all development.

The Supreme Court said the property should be considered as one parcel.

The siblings had argued that the lot lines always define the relevant parcel. Their argument, however, “ignores the fact that lot lines are themselves creatures of state law, which can be overridden by the state in the reasonable exercise of its power,” Kennedy said.

The state had effectively merged the properties into one parcel when it enacted the zoning restriction, and it was “a legitimate exercise of the government’s police power,” Kennedy said.

“Merger provisions often form part of a regulatory scheme that establishes a minimum lot size in order to preserve open space while still allowing orderly development,” Kennedy wrote.

Chief Justice John. G. Roberts Jr. dissented in an opinion joined by Justices Clarence Thomas and Samuel Anthony Alito Jr.

Roberts said he was not troubled by the majority’s “bottom-line conclusion” that the property owners were not entitled to compensation. But he disagreed with the majority’s multipart test for arriving at that conclusion and asserted that it will undermine takings clause protections.

The case is Murr v. Wisconsin.

ABA JOURNAL

BY DEBRA CASSENS WEISS

POSTED JUN 23, 2017 09:28 AM CDT

Bloomberg Brief Weekly Video - 06/22

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

Watch video.

Bloomberg

June 22, 2017

Muni Hospital Bonds Resume Winning Run as Obamacare Repeal Lags.

- **Niche of tax-exempt market returns 4.3 percent this year**
- **Industry in status-quo mode as Congress yet to agree on plan**

Tax-exempt hospital debt has resumed its more than three-year run of outperformance as the Republican-led Congress struggles to come up with a replacement for the Affordable Care Act, which helped health-care providers by reducing the ranks of the uninsured. The securities have returned 4.3 percent this year, 0.7 percentage point more than the broader municipal market, according to S&P Global Ratings indexes.

"It's aggressive to get it through in such a short period of time — probably unrealistic on their time frame for something as far-reaching and complicated,'" said George Huang, director of municipal securities research for Wells Fargo Securities. "The fact that the hospital industry – the people in the health-care space – are not a part of the conversation, that makes it difficult."

Trump's victory in November initially weighed on the performance of hospital bonds because he pledged to quickly roll back and replace President Barack Obama's signature law, casting uncertainty over the industry. By expanding the Medicaid program for the poor and requiring others to purchase insurance, the Affordable Care Act reduced the financial strain on hospitals from treating the uninsured.

The Obamacare replacement passed by the House of Representatives included cuts to Medicaid and other health expenditures, with the Congressional Budget Office estimating it would eventually leave 23 million more Americans without insurance by 2026. The Senate is currently working behind closed doors to draft its own replacement.

"We're in status quo for ACA," said Huang, noting that there's skepticism among investors that the Republicans will be able to agree on a replacement. "There hasn't been a lot of proposed rules and regulations, so that's all good for the hospital sector."

Politics aside, hospital bonds have also benefited from a decline in interest rates that has left investors willing to take on more risk to get higher returns. The health-care industry is attractive to such municipal buyers, given the scarcity of high-yield bonds, Barclays Plc analysts said in a report last week.

"It's probably not the best time to buy it, but it is the best compared to everything else," said David Ashley, a portfolio manager with Thornburg Investment Management, which holds $11.5 billion of municipal bonds.

Bloomberg clients: We’ll be doing a TOPLive Q&A on Thursday, June 22 at noon ET, moderated by Martin Z. Braun, in which you can ask Joe Mysak questions about the latest with Connecticut, its debt downgrades, budget deficit and more. You can watch it here. If you want to ask a question, please send to TOPLive@bloomberg.net

Bloomberg Markets

By Kristy Westgard

June 21, 2017, 2:00 AM PDT

The $4 Trillion Pension Problem.

Retirement funds raise more contributions that have to go somewhere.

A California retirement system just provided a sobering reality check for the U.S. public pension industry. But there’s a potential opportunity for credit traders, at least in the short term.

Earlier this month, the $20.2 billion Los Angeles Fire and Police Pension System lowered its assumed rate of return by a quarter of a percentage point to 7.25 percent. This seems like a fairly minor and obvious move. It’s no secret that future returns will be harder to come by given the current historically low bond yields and high stock valuations.

But the fund’s relatively minor adjustment will probably cost taxpayers $27 million in additional contributions to help make up the shortfall in fiscal year 2018 alone, according to estimates that New Albion Partners Chief Market Strategist Brian Reynolds put in a note on Tuesday.

Reynolds expects that a considerable chunk of that money will go toward buying credit, adding new fuel to a seemingly interminable debt rally and keeping yields at their uncomfortably low levels for longer.

Taking a step back, it’s important to recognize just how troubled U.S. public pensions are. Even if pensions’ investments deliver a 25 percent return from 2017 through 2019, which is a best-case scenario, that won’t be enough to fortify these pensions’ budgets. The gap between how much state and local governments are projected to pay retirees and the amount they’ve set aside has risen to more than $4 trillion, Bloomberg’s Kristy Westgard reported in an article on Tuesday, citing a Moody’s Investors Service report.

Taxpayers have been contributing more money into these plans in recent years, giving pension funds new cash to pile into long-term Treasuries, corporate and private debt, among other investments. This has helped suppress bond yields, which are near all-time lows as central banks globally have sought to stimulate their economies by dropping short-term rates to zero (or below) and buying trillions of dollars of assets.

Of course, most of these investments won’t go all that far toward meeting the investment returns most pensions have. U.S. public pensions are broadly assuming a 7.58 percent average rate of return as of 2015, according to Public Plans Data. That compares with a mere 2.7 percent yield on 30-year Treasuries and 5.48 percent for U.S. junk bonds. A decade ago, the yields on both types of debt were substantially higher and could be counted on to deliver a safe stream of money to hit annual returns. The low yields are also pushing pension funds into riskier investments like hedge funds and private equity, which have the potential to juice returns but can go the other direction in a hurry as well.

All this adds up to bigger estimated budget gaps for pensions, requiring even more taxpayer contributions. This is incredibly unpopular politically and will have negative social ramifications. It will probably crimp salaries of public employees and constrain the size of municipal staffs as a greater proportion of public money goes toward supporting the pensions.

Pension funds will need to chase returns somehow, and bonds will play a big role even with their stunted yields. Credit traders will be waiting.

Bloomberg Businessweek

By Lisa Abramowicz

June 21, 2017, 11:00 AM PDT From

This column does not necessarily reflect the opinion of Bloomberg LP and its owners.

Pension Crisis Won't Be Reversed by High Returns, Moody's Says.

- **Base case sees net pension liabilties 15% higher by 2020**
- **Deeper funding gaps threaten state and local credit ratings**

Even a stock market soaring to record highs won't rescue America's struggling state and local pension plans.

A "best case" scenario of a cumulative 25% investment return during the 2017-2019 period will not offer a respite for chronically underfunded U.S. public pension plans, according to a Moody's Investors Service report.

The growing gap between how much state and local governments are projected to pay employees and how much funds they actually have set aside has risen to over $4 trillion nationwide. New Jersey sports the widest funding gap, followed closely by Kentucky and Illinois.

The optimistic "best case" of cumulative 25% investment return would reduce net pension liabilities by just 1% through 2019 year-end because of past bad investment returns and weak contributions. Meanwhile, the "base case" scenario of 19% returns would see net pension liabilities rise by 15%.

"For many states and municipalities, exposure to unfunded pension liabilities is already at or near all-time highs. Since cost burdens are already expected to further increase, pension fund investment performance is critical for the credit quality of many governments," the report noted.

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Bloomberg

By Kristy Westgard

June 20, 2017, 11:18 AM PDT

[In Property Rights Case, U.S. Supreme Court Sides With Government.]

A St. Croix River private property dispute was settled Friday when the U.S. Supreme Court ruled against a Wisconsin family that wanted to sell shorefront land to finance improvements on an adjacent cabin.

The 5-3 ruling rejected the Murr family's argument that conservation rules unfairly stripped the land of its value and restricted their use of the property, in Troy Township south of Hudson, Wis.

The case was closely watched by property rights and business groups that say it should be easier for landowners to get compensation when government regulations restrict land use.

In oral arguments before the court in March, the family asked the government for compensation, while the government argued that it's fair to view the property as a whole and said the family is owed nothing.

At issue was the constitutional requirement that private property can't be taken for public use "without just compensation."

Justice Anthony Kennedy, joining the court's liberal members in Friday's opinion, called the government's action "a reasonable land-use regulation" meant to preserve the St. Croix River and surrounding land. He said the property as a whole remains valuable and the family could not claim they expected to sell or develop lots that were regulated before they acquired them.

In dissent, Chief Justice John Roberts said the majority had undermined the Constitution's protections for private property owners. Roberts said the court should have relied on state property lines to define the relevant parcel of land rather than consider outside factors.

More than 100 cities and counties across the United States have similar "merger" restrictions that treat two adjacent properties as one if they have the same owner.

The Murrs were represented by an attorney from the Pacific Legal Foundation, a private property advocacy group.

The dispute began in 2004 when four Murr family siblings tried to sell the vacant lot to pay for improvements on a rustic cabin that sits on the plot next door. Their father had purchased the two 1.25-acre lots separately in the 1960s and both parcels had been taxed separately. The lots were later transferred to his children in the 1990s.

St. Croix County, Wis., officials blocked the sale, citing 1976 regulations that bar new construction on lots in the area to prevent overcrowding and pollution on the St. Croix, one of the original eight U.S. Wild and Scenic rivers.

A grandfather clause exempted existing owners, but the county said it didn't apply to the Murrs' empty lot alone since it was connected to the family's other land.

The Murrs wanted the government to pay what the vacant property was worth — it was assessed at $400,000 — because regulations prevented them from building on it. A Wisconsin appeals court sided with the county, saying zoning rules did not take away the property's value because the Murrs could still use both lots as a vacation property or sell them as a whole.

BY TRIBUNE NEWS SERVICE | JUNE 23, 2017

Uncertain of the Future, States Save and Save Some More.

In the face of a politically and financially uncertain fiscal 2018, states are hunkering down, pulling back on spending increases and beefing up rainy day funds.

General fund revenues for fiscal 2017 are coming in below forecasts in 33 states, according to a new survey by the National Association of State Budget Officers (NASBO). That's the highest number since the recession, and it also marks the second straight year that more states have failed to meet projected revenues than exceeded them. As a result, it's increasingly likely that more states will be forced to make spending cuts (23 have already reported doing so).

The survey also finds that thanks to states' "thin margins," spending for fiscal 2018 will tick up by a mere 1 percent — the lowest growth rate since 2010, when states were in the midst of dealing with the recession. Most of those spending increases will be targeted toward education, where many states are still trying to make up for cuts following the recession, and Medicaid.

Despite slow revenue growth — or perhaps because of it — governors and legislatures in many places are prioritizing saving money for the next economic downturn. After a slight dip in 2017, rainy day fund balances are expected to hit the highest total ever at more than $53 billion across 48 states. (Georgia and Oklahoma were not able to provide data.)

"We're seeing legislatures also tout being ready in some cases for whatever might be the next recession," says NASBO's Executive Director John Hicks. "They're talking with more emphasis about structural balance in budgets, having more reserves in place and being mindful of using one-time funds."

On a state-by-state level, the budgeting data is varied. Governors in 15 states propose outright general fund spending decreases in 2018. In most states, the declines amount to a less than 3 percent budget cut. North Dakota, however, is cutting its 2018 budget by roughly 23 percent. The state, which is suffering from lower oil revenues, is cutting nearly $367 million from its budget — roughly one-third of that from education.

Meanwhile, governors in seven states (Colorado, Idaho, Nevada, North Carolina, Oregon, Tennessee and Washington) are proposing spending increases of at least 5 percent. North Carolina is increasing its general fund spending by nearly 6 percent, directing most of that increase into K-12. And Washington is putting more than half of its $1 billion increase into Medicaid to help comply with a court-mandated expansion in coverage for hepatitis C patients.

Uncertainty at the federal level has also forced states to be more fiscally conservative. When asked about their top concerns, NASBO survey respondents said they were worried about "potential federal legislation that would repeal and replace the [Affordable Care Act] affecting both the Medicaid expansion and capping federal funds to the Medicaid program." Medicaid now represents $1 out of every $5 states spend.

Another major concern is the threat of federal tax reform, which some argue has already impacted state revenues. A number of states saw sharp year-over-year declines in their income tax revenue collections this April, which is typically the biggest month for the tax. According to Fitch Ratings, Connecticut posted the steepest decline of nearly 14 percent while Massachusetts reported a more than 6 percent drop off. It's not clear whether the declines are real or whether taxpayers in these high-tax states are shuffling income into fiscal 2018 in anticipation of more favorable rates under federal tax reform.

GOVERNING.COM

BY LIZ FARMER | JUNE 21, 2017

The Week in Public Finance: Bleak Pension Forecasts, Down on Stadium Debt and More.

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

GOVERNING.COM

BY LIZ FARMER | JUNE 23, 2017

How States Can Make the Most of Their Rainy Day Funds.

They can effectively smooth economic bumps. But it's important to have clear rules for how and when to use the money.

Texas policymakers are grappling with an unusual question: how — and even if — to spend some of the state's ample savings. As of the end of the last fiscal year, the state's rainy day fund had amassed $9.7 billion, the largest fund in the country as measured in dollars.

That may seem like a welcome quandary. After all, some states lack a robust savings account like the Lone Star State's Economic Stabilization Fund. But Texas lawmakers disagree on how to use their fund, and similar arguments are playing out in many other states where rainy day reserves have grown, leaving policymakers to debate whether they should tap them and for what reasons.

State government budgets are greatly affected by fluctuations in the economy. During boom periods, tax revenue can exceed a state's spending needs and produce a surplus. But when the economy slows, tax payments decrease while mandatory costs stay constant or increase. Between 2003 and 2007, state tax revenue grew by a robust 7 percent on average annually. But between 2008 and 2010, when the recession hit, states experienced the worst revenue downturn in decades, forcing many legislatures and budget officials to make painful cuts, raise taxes or both. They had little choice. State policymakers have only limited influence over the business cycle and changes in tax revenue — and no control over factors such as natural disasters that drive revenue volatility and wreak havoc on state budgets.

To minimize the need for uncomfortable choices between raising taxes or cutting spending, 48 states have created budget stabilization funds — rainy day funds — that take advantage of boom times by directing surplus revenue into savings that can offset future shortfalls. However, many of these funds lack rules to effectively smooth the ups and downs in revenue. Designing a robust fund, and knowing how and when to use it, gives state and local officials a critical tool for managing an economic slowdown or natural disaster. A well-managed rainy day fund can also help raise a state's bond rating, which in turn lowers the cost of borrowing and frees budget resources for other uses. But creating clearly defined funds with specific operating instructions is crucial to ensuring that these set-aside reserves are used to effectively safeguard a state's fiscal health.

First, state policymakers need to differentiate between one-time, non-recurring revenue — such as a federal grant for school construction or money from a legal settlement — and ongoing sources of revenue. Without doing so, they risk using a finite financial resource to fund ongoing costs, leading to structural budget problems. In Utah, policymakers recently enacted rule changes that require legislators to treat above- trend revenue — revenue that exceeds a 15-year average growth rate — as one-time revenue. So when lawmakers identified $116 million in above-trend revenue for fiscal 2016, they designated it as a one-time source of money, ensuring that it would not be used to pay for ongoing expenditures.

Moving the funds into a "one-time bucket" had an important effect, says state Rep. Brad Wilson, who proposed the rule change. "It helped all the lawmakers who were paying attention to the budgeting process understand we are, in fact, above trend. We are at a point in the business cycle where we should be preparing for lean times again."

Second, defining a fund's savings rules helps states smooth over bumps in the economic cycle. In Connecticut, state officials track and project radical shifts in the stock market, a wise practice given that nearly 40 percent of the state's tax receipts come from capital gains, dividends and other investment earnings paid to the many Connecticut residents whose income is tied to Wall Street. Beginning in 2020, whenever the state takes in above-average revenue from capital gains or the corporate income tax, those funds will be automatically deposited in the emergency reserve. Connecticut law also outlines conditions for using the fund — essentially clarifying just what "rain" means for a rainy day fund.

Understanding the nature of revenue, clearly designing a rainy day fund's rules for saving, and stipulating just how and when the money can be spent will not only help lawmakers and budget managers offset periods of economic volatility but also make them better and more responsible stewards of the taxpayers' money.

GOVERNING.COM

BY SUSAN K. URAHN | JUNE 21, 2017

Executive vice president and chief program officer for the Pew Charitable Trusts

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[Commentary: With the Trump Administration, `Strategic Patience' on Infrastructure May Be the Key.]

The phrase "strategic patience" has been used to describe the Obama administration's approach to North Korea and its various disturbing initiatives. The idea was that the U.S. would study up on the situation and be patient, avoiding a headlong rush into any approaches that couldn't be counted on to bear results. The patience part was the biggest challenge, as critics asked: where does it begin and end?

Although strategic patience may not be best alternative towards North Korea, it may be the best approach to infrastructure and the municipal market. We keep hearing about various proposals from federal officials that may be expected to gather momentum at some point in the not too distant future. No clear funding source for the proposed $200 billion of federal support has been locked in at this point. The current consideration appears to be how does one trade using that information? The message has been inconclusive. Even though uncertainty is the trader's friend, discerning the direction and speed is also key.

Continue reading.

The Bond Buyer

By John Hallacy

Published June 20 2017, 11:21am EDT

S&P: For Some U.S. State Budgets, Eleventh-Hour Negotiations Prevail.

As the end of June approaches, several states are nearing the conclusion of their 2017 fiscal year without having finalized budgets for fiscal 2018. While some states, such as Pennsylvania and Illinois, have become notorious for their late budgets, or no budget adoption at all, they tend to be the exception and not the rule.

Continue Reading

Jun. 22, 2017

U.S. Municipal Sales to Sink to $7.56 bln Next Week.

Sales of bonds and notes by U.S. states, cities, schools and other issuers will fall to $7.56 billion next week, down from more than $11.2 billion this week, according to Thomson Reuters estimates on Friday.

Debt issuance so far this year in the U.S. municipal market totals $179.3 billion, a drop of 12.8 percent from the same period in 2016.

Late last week, Bank of America Merrill Lynch lowered its full-year issuance forecast to $440 billion from $470 billion, citing lower advance refundings of debt coming to market.

Meanwhile, the muni market is reaching an annual peak in terms of reinvestment cash flowing into investors' pockets from muni bond principal and coupon payments. Those payments are expected to total $46.6 billion in July and $43 billion in August, according to BofA.

Two New York deals top next week's negotiated offerings. New York state's Dormitory Authority will sell $1.72 billion of state personal income tax revenue bonds through Morgan Stanley & Co. Underwriters will hold a retail presale period for the highly rated bonds on Tuesday ahead of formal pricing on Wednesday.

Reuters

Fri Jun 23, 2017 | 4:25pm EDT

Australian Super Funds Open-Minded on US Infrastructure as Trump Plots $1 trl Spend.

Australian superannuation funds are prepared to invest in new infrastructure projects in the US if they are "structured right" as President Trump plans a $US1 trillion spending spree.

Hostplus directors Mark Vaile and Peter Collins were on their way back to Australia last night following meetings with US officials in Washington as part of a superannuation delegation discussing infrastructure investment opportunities.

The Australians have been keen to promote superannuation funds as "reliable trustworthy owners" of infrastructure, stressing to US officials they are prepared to own assets for the long term and have "a community licence to exist," Hostplus chief investment officer Sam Sicilia told The Australian Financial Review.

The super funds have stressed that while they expect to earn "reasonable" returns of between 8 and 12 per cent on their infrastructure investments, they do not plan to squeeze excessive returns out of them, saying that if investors do not "behave," they lose their licence to operate.

US President Donald Trump is planning a $US1 trillion infrastructure investment program over the next decade, with about 80 per cent of the cost to be funded by the private sector and states.

IFM Investors, which has an office in New York, has been encouraging US funds to "buy into" the infrastructure story, Mr Sicilia said. IFM Investors chief executive Brett Himbury met with US Vice President Mike Pence last week to discuss America's infrastructure plan.

Australian superannuation funds have traditionally been reluctant to invest in new infrastructure projects like tollroads before knowing how many cars will use them for fear of losing money.

But Mr Sicilia said funds had "long time horizons" and they could invest in new projects if they were structured appropriately.

The Australian have been marketing their experience in owning and managing infrastructure assets to the US government, as well as explaining how asset recycling schemes work. Many US infrastructure assets are owned by municipalities who have not had any incentives to sell them.

Martin Fahy, CEO of the Association of Superannuation Funds of Australia, said the US meetings showed Australian funds were "world leaders" in the international infrastructure market.

Australian fund needed to invest money overseas to avoid investments being too concentrated in Australia, he said.

Finding overseas infrastructure investments has typically been difficult for Australian funds because of intense competition for assets like London City Airport, which was sold last year to Canadian pension funds for £2 billion.

But if President Trump's infrastructure spending plan goes ahead, a broad range of infrastructure projects, both new projects and upgrades to existing assets, should open up for investment.

Australian investors can currently invest in US infrastructure through municipal bonds, which are used to fund many projects. But investors prefer direct investments in assets so they can have a role in how the assets are operated rather than being passive investors, Mr Fahy said.

Australian superannuation assets are currently worth a record $2.3 trillion. Infrastructure typically accounts for about 5 per cent of superannuation portfolios.

Other countries are also eyeing US infrastructure investments. US private equity firm Blackstone and Saudi Arabia's Public Investment Fund said in May they planned to create a US$40 billion fund to invest in infrastructure projects, mainly in the US.

AFR Weekend

by Jenny Wiggins

Jun 22 2017 at 5:15 PM

The Technical Case For Continuing To Love Municipal Bonds.

Summary

- Despite the low interest rate environment, State and Local governments are reluctant to borrow for new money purposes.
- Demand continues to grow for tax-exempt municipal securities as supply shrinks creating enhanced value for investors.
- Europeans and a host of Japanese, Chinese and others have discovered a sovereign market (The United States Municipal Bond Market) almost as highly regarded as US Treasuries.
- There's also a perfect storm of technicals to support the municipal investor.

Continue Reading

Seeking Alpha

by Andres Capital Management
Registered investment advisor, debt, bonds, medium-term horizon
andresreview.com

Jun. 21, 2017 8:50 AM ET

KPM Weekly Rate Update.

Read the Update.

KPM Financial | Jun. 20

[Municipal Market Snapshot.]

[Read the Snapshot.]

Hutchinson, Shockey, Erley & Co. | Jun. 20

[Social Finance Launches First Pay For Success Project Focused Exclusively on Workforce Development!]

Social Finance is excited to announce the launch of the *Massachusetts Pathways to Economic Advancement Pay for Success Project*! The project will support 2,000 immigrants and refugees in Greater Boston to make successful transitions to employment, higher wage jobs, and higher education.

[Read more.]

[Senators Aim to Stop Use of Municipal Funds to Finance Stadiums.]

A group of politicians who are tired of taxpayer money being used to build sports stadiums on Tuesday will introduce a bill in the Senate to prohibit the practice.

Cory Booker, D-N.J., and James Lankford, R-Okla., are sponsoring a bill that would prohibit teams from using municipal bonds, whose interest is exempt from federal taxes, to help finance stadium construction.

“Professional sports teams generate billions of dollars in revenue,” Booker said in a statement. “There’s no reason why we should give these multimillion-dollar businesses a federal tax break to build new stadiums. It’s not fair to finance these expensive projects on the backs of taxpayers, especially when wealthy teams end up reaping most of the benefits.”

A report in September by the Brookings Institution revealed that $3.2 billion in federal taxpayer money, through municipal bonds, has been used to fund 36 newly built or renovated sports stadiums since 2000. The largest federal subsidies, according to the report, include the New York Yankees ($431 million), the Chicago Bears ($205 million), the New York Mets ($185 million), the Cincinnati Bengals ($164 million) and the Indianapolis Colts ($163 million).

“Everyone likes free federal money to build their expensive stadiums, but with $20 trillion in federal debt, this is waste that needs to be eliminated,” Lankford said in a statement.

A similar bill was introduced by Congressman Steve Russell, R-Okla., into the House of Representatives in March 2016.

ESPN.com

Jun 13, 2017

Darren Rovell
ESPN Senior Writer

[Rieger Report: Muni Market's Moot Reaction To Bond Insurers Credit Watch Negative.]

So far, the municipal bond market has seen only a modest reaction to the recent negative credit watch being placed on the ratings of several bond insurers.

Month to date as of June 12, 2017, the S&P Municipal Bond Insured Index tracking over $148 billion in par value of insured bonds has performed in sync with the overall market. The insured bond index has an average yield that is higher than the broader S&P Municipal Bond Investment Grade Index which tracks over $1.5 trillion in par value. As an additional validation, the insured bond market performance as compared to larger more liquid bonds in the S&P National AMT-Free Municipal Index also seems to be at a parity, at least so far in June.

Year to date, the higher yielding bonds in the S&P Municipal Bond Insured Index have contributed to outperformance versus the rest of the investment grade market place.

By J.R. Rieger

Jun. 14, 2017 5:14 AM ET

[Trump Infrastructure Plan Envisions Greater Role For Public-Private Partnerships.]

Last week, the White House released an infrastructure "fact sheet"[1] (the "Fact Sheet") that accompanied its proposed Fiscal Year 2018 budget.[2] The Fact Sheet includes an Infrastructure Initiative (the "Initiative") that provides a glimpse into how the Trump administration may approach infrastructure policy. This client alert highlights major aspects of the Initiative with a focus on its potential impact on private investment in the infrastructure sector and, in particular, public-private partnerships or P3s.

Shifting Responsibility to States, Localities and Private Sector

The Initiative—like the budget—establishes the Trump administration's target of $1 trillion in infrastructure investment over 10 years. This goal dates back to the presidential campaign, when it was set forth in an October 2016 white paper[3] by senior policy advisors Wilbur Ross and Peter Navarro, who are currently serving, respectively, as Secretary of Commerce and Director of the White House National Trade Council. That paper envisioned $167 billion of the $1 trillion coming from equity investments made by the private sector, which would be subsidized by an 82 percent tax credit. Although it alluded to possible debt financing options, the paper did not specify the sources for the remaining balance of the investment.

The Initiative and budget provide more insight into the Trump administration's contemplated approach, featuring a similar leveraging structure to the white paper. The budget calls for $200 billion in direct federal outlays over 10 years designed to stimulate a trillion dollars in investment over the same time period, accompanied by cuts to programs such as TIGER and Capital Investment Grants (New Starts) as well as to the budget of the Army Corps of Engineers.[4]

The Fact Sheet indicates a plan to use a limited pool of federal dollars to make targeted investments in high-priority projects and leverage more investment from state and local governments and the private sector. It refers, among its key principles, to appropriate divestment opportunities for the federal government and "self-help" or "independence" of state infrastructure investment efforts. Such reduced federal role would result in a mix of projects that includes those with national importance, those financed largely by state and local governments and those with dedicated revenue streams such as tolls or user fees attractive to private sector investors. How projects not meeting these criteria—for example, smaller projects in rural areas where states and localities lack sufficient funding and which are not revenue generating—would fare is not clear.

Enhanced Role for P3s

The Fact Sheet suggests that the administration will be looking to private investment through public-private partnerships, or P3s, to fund nationally significant projects, and accordingly the Initiative includes several proposals that could create more P3 opportunities. These proposals, which generally focus on the expansion of successful existing programs, indicate a strong interest in leveraging both private dollars and expertise in pursuing infrastructure projects. They include:

- **Expanding TIFIA.** The Initiative supports an expansion of TIFIA eligibility and suggests that increasing the TIFIA credit subsidy to $1 billion annually (it is currently $275–$300 million) could leverage $424 billion in total investment.
- **Funding WIFIA.** As we discussed in our January 2017 client alert, Water Act a "WIIN" for Infrastructure[5], the Water Infrastructure Finance and Innovation Act, modeled on TIFIA, is now funded with $20 million in budget authority. The Initiative adds its support for funding this program.
- **Lifting the cap and expanding eligibility for PABs.** The Initiative calls for removing the $15 billion cap under current law for surface transportation Private Activity Bonds and expanding their eligibility beyond highway and freight transfer facilities to other non-federal public infrastructure.
- **Liberalizing tolling and incentivizing congestion mitigation.** The Initiative renews an Obama administration proposal to lift the restrictions on tolling of interstate highways and supports grant programs to incentivize states to mitigate congestion problems.
- **Encouraging alternative funding methods for Army Corps projects.** The Initiative promotes the Army Corps' ability to participate in projects with non-federally financed components. One prominent flood mitigation project using a split delivery model with the Army Corps and a private developer is the Fargo-Moorhead Area Diversion Project; this project could prove to be a model for similar projects elsewhere.
- **Easing environmental reviews and permitting process.** The Initiative seeks to enhance the environmental review and permitting process, in particular by reducing layers of reviews and transferring responsibility for permitting to state and local officials where possible.

Congressional Process

The proposed budget will inform the budgetary process and represents the administration's opening position at the start of the debate. Senate and House negotiators must each pass a budget resolution and reconcile any differences before October 1, 2017.

Advancing the Initiative's policy programs will likely require a separate bill through the normal legislative process. The last major transportation legislation to be signed into law, the Fixing America's Surface Transportation (FAST) Act of December 2015, was a five-year bill that reauthorized the core programs providing federal transportation funding to the states.

As with similar proposals in past administrations, we would expect a transportation bill proposed by the administration based on the Initiative to face significant challenges. To the extent they are included in a proposed bill, certain elements—in particular the expansion of TIFIA, WIFIA and/or PABs—would, however, likely find support on both sides of the aisle and could facilitate cooperation. We will be monitoring congressional negotiations relating to infrastructure and the budget in the coming weeks and months and will provide updates on key issues for industry stakeholders.

Footnotes

[1] Fact Sheet: 2018 Budget: Infrastructure Initiative (May 23, 2017), https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/fact_sheets/2018%20Budget%20Fact%20Sheet_Infrastructure%20Initiative.pdf.
[2] Budget of the US Government, Fiscal Year 2018: A New Foundation for American Greatness (May 23, 2017),
https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/budget.pdf.
[3] Wilbur Ross and Peter Navarro, Trump Versus Clinton On Infrastructure (October 27, 2016), http://peternavarro.com/sitebuildercontent/sitebuilderfiles/infrastructurereport.pdf.
[4] Budget, supra note 2; America First: A Budget Blueprint to Make America Great Again (March 13, 2017),
https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/2018_blueprint.pdf.
[5] Paul Epstein, Water Act a "WIIN" for Infrastructure (Jan. 3, 2017), http://www.shearman.com/en/newsinsights/publications/2017/01/water-act-a-wiin-for-infrastructure.

Article by Paul J. Epstein

Last Updated: June 14 2017

Shearman & Sterling LLP

Former GSA Head Reiterates Urgency for Scoring Reform.

Restrictive budgetary rules that make it difficult for the federal government to negotiate real estate leases need to be changed to allow more of these types of leases to be negotiated through P3s, argued Daniel Tangherlini, a former head of the U.S. General Services Administration in a June 8 op-ed for GovExec.com.

Federal scoring makes such projects very expensive for agencies to pursue because the Office of Management and Budget (OMB), treats as a capital lease any lease that ends in government ownership of the developed asset. An agency must record, or "score," in its budget the entire cost of a capital lease the year the agency enters into it. Operating leases, on the other hand, can be scored year by year.

"This has the effect of favoring operating costs, entitlements or tax expenditures over capital or other asset-based funding priorities. These rules tilt spending toward transfers over investments, bypassing a first principle of infrastructure financing — user pays," wrote Tangherlini, who chaired an NCPPP-Urban Land Institute advisory group that last year published a report on federal scoring, *Enabling Infrastructure Investment: Leveling the Playing Field for Federal Real Property.*

NCPPP

P3 Digest: June 15, 2017

Former GSA Head Reiterates Urgency for Scoring Reform

Restrictive budgetary rules that make it difficult for the federal government to negotiate real estate leases

Read more.

NCPPP

June 15, 2017

SRF For SRFs: A Solid Rating Foundation For State Revolving Funds Is Likely To Continue.

S&P Global Ratings rates 26 leveraged state revolving fund programs (SRFs). States administer the SRFs to provide low-cost financing for eligible water and wastewater infrastructure projects.

Continue reading.

Solving Infrastructure Problems From the Bottom Up.

More and more, local governments are coming to understand that they can't count on Washington.

Walking down the streets of San Diego, it's not immediately apparent that the city is at the center of a technological revolution in infrastructure. That's because the technology, 3,200 sensors, is hidden inside the city's new street lights. The sensors collect data that will help the city save $2.5 million on electricity each year, track air quality, and improve traffic flow and parking. They can even be of use to public-safety first responders.

San Diego's smart lights are just part of the city's push to rebuild its infrastructure. Last June, voters approved the Rebuild San Diego ballot initiative, which will provide up to $4 billion for infrastructure projects over the next 25 years.

Expect to see more local and state governments taking infrastructure problems into their own hands. Given the realities of politics in Washington, they know the folly of waiting for the federal government to step in and save the day. And it's highly unlikely that any new infrastructure plan that did emerge from Washington would cover more than a fraction of the $4.6 trillion that the American Society of Civil Engineers (ASCE) estimates it would cost to fix everything — more than the federal government spends in a year.

ASCE's latest report card gives America's infrastructure an overall grade of D-plus. And no one knows better than those at the local level how our deteriorating infrastructure makes us less competitive globally, not to mention the safety concerns it raises for the people who use crumbling bridges, overpasses and tunnels every day or who drink water that might be contaminated by sewage overflows, just to name a few issues. They need to take a page from San Diego's playbook and find creative ways to start solving infrastructure problems from the bottom up.

It's already beginning to happen. South Bend, Ind., for example, is a sewer overflow city. Hundreds of billions of gallons of raw sewage overflow into local rivers and lakes every year. Aiming to improve the situation, the city, under Mayor Pete Buttigieg, has begun using a system called CSOnet, developed by a local company, that collects data from sensors inside the sewers so the city can redirect water to empty pipes and reduce the overflows.

In Multnomah County, Ore., more than a third of the commercial buildings use more energy than they should. But the Building Ready Multnomah initiative, started by former County Commissioner Jules Bailey, helps finance capital improvements that reduce energy consumption or generate energy. The organization leverages public and private resources for the loans and encourages participants to use the savings generated from becoming more energy efficient toward seismic upgrades to prepare for natural disasters.

And as some Western states struggle to build up their renewable-energy infrastructure, other states, including California, have excess renewable energy capacity. California state Sen. Bob Hertzberg has proposed the creation of a regional grid operator and energy exchange to make it easier for states to buy and sell energy to each other, which could reducing overall carbon dioxide emissions.

These efforts might seem small, but they can add up to a serious impact. With the continuing dysfunction in Washington, it may be years before we see a comprehensive federal infrastructure effort. But as these local leaders have shown, that doesn't mean we can't begin to improve our grade.

GOVERNING.COM

BY KISH RAJAN | JUNE 14, 2017

The Week in Public Finance: A Rate Hike, Unpredictable Taxpayers and Stress-Testing Budgets.

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

GOVERNING.COM

BY LIZ FARMER | JUNE 16, 2017

Puerto Rico Finds Going Bust Isn't Cheap as Consultant Fees Rise.

- **Island spent as much as $154 million in run up to bankruptcy**
- **Court proceedings will boost tab as it seeks to cut debts**

For Puerto Rico, it's been expensive to go broke.

Even before the U.S. territory filed for a tailor-made form of bankruptcy, the government spent as much as $154 million on financial consultants and lawyers as it negotiated with bondholders to cut its $74 billion debt, according to the terms in contracts provided by the island's Office of the Comptroller. With creditors and Puerto Rico now squaring off in court, the fees will only grow.

"This can become very expensive in relationship to the benefits you receive if you don't get to a recovery and bring people along quickly," said James Spiotto, managing director at Chicago-based Chapman Strategic Advisors LLC, whose firm advises on municipal restructurings. "Dealing with financial distress is expensive."

Puerto Rico's May 3 bankruptcy, allowed under a unique process created by a federal rescue law enacted last year, is the largest ever for a U.S. government, promising significant paydays for lawyers and advisers clashing over who has a higher claim on the island's diminished cash. The amount the government spent during its slow-motion collapse approached the $180 million shelled out in Detroit's record bankruptcy — roughly equivalent to what it costs to cover the annual pensions of 11,000 Puerto Rico retirees.

Some of the spending on consultants has borne fruit: the Puerto Rico Electric Power Authority, known as Prepa, and the Government Development Bank have both reached out-of-court settlements with bondholders to reduce what's owed. The power company's deal struck this year, which amended an earlier one, promises to cut its debt-service costs by about $2.2 billion from 2018 to 2022 if it's executed. Puerto Rico was less successful with owners of other bonds, ultimately wagering on a better outcome from bankruptcy.

The amount Puerto Rico has spent on outside consultants is based on the maximums specified in the contracts. The actual amounts may differ, depending on the work performed. Following are the sums included in the agreements and the firms involved:

- $52.7 million: Cleary Gottlieb Steen & Hamilton LLP, which advised the commonwealth and the electric company on restructuring from February 2014 until January 2017 and negotiated with creditors
- $45.6 million: AlixPartners LLP, whose managing director, Lisa Donahue, served as chief restructuring officer of the power company from September 2014 until February 2017
- $26.5 million: Millco Advisors LP, an affiliate of Washington-based Millstein & Co., had advised former Puerto Rico Governor Alejandro Garcia Padilla since 2014 on Prepa's restructuring and the ultimately unsuccessful efforts to reduce the government's general debt
- $7.5 million: Kirkland & Ellis LLP, which represented the commonwealth in legal disputes including challenges to the island's debt-moratorium law
- $6.6 million: Proskauer Rose LLP, adviser to the Government Development Bank
- $6.4 million: Rothschild & Co., which Governor Ricardo Rossello hired to replace Millco, based on the contract running through this month. Puerto Rico's Fiscal Agency and Financing Advisory Authority has paid Rothschild $3.6 million, as of June 10, according to the agency.
- $6 million: Dentons LLP, which Rossello hired to replace Cleary Gottlieb, with a contract that runs through June 2017. Dentons has subcontracted legal work from O'Melveny & Myers LLP,

according to Puerto Rico's fiscal agency.
- $2.2 million: O'Neill & Borges LLC, adviser to the development bank

The conflict over Puerto Rico's series of defaults is now playing out in U.S. court in San Juan, where the island is seeking to have billions of dollars of debt written off. Its fiscal turnaround plan, approved by federal overseers in March, would cover less than a quarter of the $33.4 billion the commonwealth and its agencies owe in debt payments through fiscal 2026. Creditors have questioned the magnitude of the cuts they're facing.

It's unclear how long the workout will linger in court. Detroit, with $8 billion of bond debt, took 17 months to emerge from bankruptcy. Jefferson County, Alabama's, the second-biggest bankruptcy case, took about two years.

While the process will ultimately steady the government's finances and likely save it billions of dollars, it won't be cheap. Puerto Rico will also need to cover the legal fees for some creditors, which will add to the commonwealth's bankruptcy costs.

McKinsey & Co. was hired as a strategic consultant to the federal oversight board, whose bills are covered by Puerto Rico, under a $3.75 million contract. Proskauer, the lead legal counsel in the island's bankruptcy, was also hired by the board, as was O'Neill & Borges. Edward Zayas, spokesman for the panel, said it would disclose "soon" how much the board is paying the firms.

Spokespeople for Cleary Gottlieb, AlixPartners, McKinsey and Kirkland & Ellis declined to comment. Representatives of Rothschild, Dentons, O'Neill & Borges, Millstein, Proskauer, O'Melveny. Puerto Rico's fiscal agency said in a statement that it isn't responsible for contracts entered into before April 2016, when it was created.

Bloomberg

by Michelle Kaske and Jodi Xu Klein

June 12, 2017, 2:00 AM PDT June 12, 2017, 7:00 AM PDT

Opioid Costs Push Struggling States to Dust Off Tobacco Strategy.

- **Governments weigh legal approach as drug-abuse costs mount**
- **Cigarette-case lawyers circle, but strategy faces challenges**

State and local leaders fighting a worsening opioid-abuse epidemic are studying tactics used in the tobacco lawsuits of the 1990s, as they try to claw back billions from the companies who make and sell the powerful painkillers.

More than 20 U.S. states, counties and cities have sued firms including Johnson & Johnson, Purdue Pharma Inc., and McKesson Corp. in the past year, claiming they fueled a public-health crisis with misleading marketing and aggressive distribution of opioids. Attorneys general in Alaska and Tennessee are also considering lawsuits as their health and legal budgets are stretched to a breaking point by the surge in addictions, overdoses and crime.

It's a strategy cigarette manufacturers will recognize: Two decades ago, they faced similar allegations as states and local governments sued, saying they'd shouldered huge costs for treating diseases blamed on tobacco.

Last month, Ohio sued five drugmakers, alleging they made false and deceptive statements about the risks and benefits of prescription opioids. And Nassau County, New York, this week sued drugmakers, distributors and doctors, saying it has had to increase spending on health care and law enforcement as a result of the epidemic.

“The costs of this opioid crisis are more severe for governmental entities than those posed by tobacco,” said Steve Berman, a plaintiffs’ lawyer aiding the states, who helped negotiate the $246 billion tobacco settlement in 1998. “States and cities are getting slammed with opioid-dependence costs that are a much more immediate threat than long-term illnesses tied to tobacco.”

It’s difficult to say how successful such legal action will be. The companies who make and distribute opioids defend the drugs’ safety and say they work actively to keep them from being abused.

Janssen, the J&J unit that sells opioids, has acted “appropriately, responsibly and in the best interests of patients,” said Jessica Castles Smith, a spokeswoman. Purdue Pharma said it’s concerned about the crisis and is working toward solutions. McKesson said that it doesn’t comment on pending litigation. The Healthcare Distribution Alliance — a trade group that includes McKesson — called attempts to target the industry “misguided and unsupported by the facts.”

Unexpected Burden

There were 33,000 overdose deaths in the U.S. in 2015, up from 19,000 in 2014, according to the Centers for Disease Control and Prevention. Costs related to opioid abuse, including spending on treatment and policing as well as lost economic output, amount to tens of billions of dollars per year, according to a study by Wolters Kluwer Health in the journal Medical Care last year.

In Lorain, Ohio, about 30 miles (50 kilometers) west of Cleveland, Mayor Chase Ritenauer says that the epidemic is wearing out his fleet of police cars. A 25 percent jump in overdose-response calls is putting so much strain on the department’s Ford Explorers and Tauruses that some are breaking down.

“We had to have one towed after it just shut down during a call,” he said.

Ritenauer says he may have to put off replacing the roof on the police headquarters or fixing the jail’s elevator to come up with enough money to buy new cruisers.

“All these unexpected costs are crashing down on cities and leaving them scrambling to shift money around to keep things going,” said Hunter Shkolnik, a plaintiff’s lawyer who sued pharma makers and sellers on the city of Lorain’s behalf.

Critical Mass

Alaska Attorney General Jahna Lindemuth has asked law firms involved in the tobacco battle to pitch a possible opioid suit after Governor Bill Walker declared a state of disaster in February and ordered statewide distribution of naloxone, a drug that can reverse overdoses. There were at least 95 opioid-overdoses deaths in Alaska last year, up from 86 in 2015, and a cluster of nine deaths linked to fentanyl in Anchorage this year, said Jay Butler, the state’s chief medical officer.

“We saw that other states were gaining some traction with these suits and thought we should look at whether we have a shot at offsetting some of these opioid costs,” said Clyde “Ed” Sniffen, Lindemuth’s deputy. He said the state wants to hire an outside lawyer by August.

Tennessee lawmakers have encouraged Herbert Slattery, the state's attorney general, to consider suing drugmakers to recoup opioid costs.

"We're moving toward a critical mass" of states and municipalities suing pharma makers over their handling of opioids, "but we aren't there yet," said Joe Rice, a plaintiffs' lawyer who helped New York and other states in the tobacco fight and who has sued drugmakers on behalf of cities such as Chicago and Los Angeles.

Best Defense

The opioid lawsuits will be different in substance from the tobacco cases, said University of Kentucky law professor Richard Ausness. States went after tobacco giants over costs tied to an unregulated product being used as intended, he said. The drug lawsuits center on the misuse of regulated products, which may make it harder for juries to blame drugmakers and distributors, Ausness said.

"The companies' best defense is going to be that the FDA approved the manufacture and sale of these painkillers along with the addiction warnings,'' the professor said. "They can maintain they had no duty to investigate further into the misuse of their products."

The ultimate cost for the companies involved would depend on how many states and private plaintiffs' law firms join in and how aggressively they pursue the lawsuits, said law professor David Logan of Roger Williams University law school in Bristol, Rhode Island. States can pursue consumer protection, fraud or other claims, many with statutory fines for each inappropriate prescription, Logan said.

The U.S. Food and Drug Administration has taken a tougher stance on opioids, asking Endo International Plc last week to pull its Opana ER abuse-resistant opioid from shelves. The drug has been linked to an outbreak of HIV and hepatitis C infections among addicts injecting it with shared needles, the agency said. The cost of treating such outbreaks can fall to state or local governments.

The FDA has approved 10 opioids designed to thwart addicts who crush or liquefy medications to snort or inject. Endo said last week that it is confident in the benefits of Opana ER when it is used as intended.

Immeasurable Cost

In West Virginia, lawyers for Cabell County and other local governments have sued drug sellers including McKesson, Cardinal Health Inc. and AmerisourceBergen Corp., alleging they reaped $17 billion while creating a public-health hazard by flooding the state with drugs. In Cabell County, the companies sold 40 million doses of prescription opioids from 2007 to 2012 in a county with a population of 96,000, according to their lawsuit.

AmerisourceBergen and Cardinal Health said that they play no role in prescribing opioids and work diligently to stop diversion of drugs for inappropriate uses. AmerisourceBergen said it intends to defend itself vigorously and Cardinal called the suits "misguided."

As the numbers of emergency overdose calls mount, Huntington, a city of about 49,000 people in the southwest corner of West Virginia, laid off 18 firefighters and police officers amid an opioid-related budget squeeze, city officials say.

"It's going to bankrupt the country," said Jan Rader, Huntington's fire chief and a member of a local opioid task force.

Bloomberg

by Jef Feeley and John Lauerman

June 14, 2017, 2:00 AM PDT

Bloomberg Brief Weekly Video - 06/15

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

Watch video.

Bloomberg

June 15, 2017

The Federal Budget: How City Leaders Can Fight the Cuts.

The Trump Administration released their full Fiscal Year 2018 budget proposal last month, which includes $54 billion in domestic cuts that would eliminate dozens of successful programs, including CDBG, TIGER grants for transportation projects and the HOME Investment Partnerships Program. The proposal would have major consequences for every city in America – regardless of size, location or economic outlook.

Join NLC's Federal Advocacy team to learn more about the budget, the process and how you can join our fight to prevent these devastating cuts to cities from becoming a reality.

Register.

National League of Cities

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World Offers Cautionary Tale for Trump's Infrastructure Plan.

LONDON — The rest of the planet bears a warning for President Trump's plan to lean heavily on private business in conjuring a trillion dollars' worth of American infrastructure: Handing profit-making companies responsibility for public works can produce trouble.

In India, politically connected firms have captured contracts on the strength of relationships with officialdom, yielding defective engineering at bloated prices. When Britain handed control to private companies to upgrade London's subway system more than a decade ago, the result was substandard, budget-busting work, prompting the government to step back in. Canada has suffered a string of excessive costs on public projects funneled through the private sector, like a landmark bridge in Vancouver and hospitals in Ontario.

By contrast, China has engineered one of the most effective economic transformations in modern history in part through relentless investment in infrastructure, traditionally financed and overseen by an unabashedly powerful state. China illustrates both the benefits and perils of state domination. It has constructed projects strategically, as part of a highly successful effort to catalyze economic growth. Yet the state has wielded authoritarian powers, generating waste and corruption.

The Trump plan was heralded as a way to lift America's sagging infrastructure while spurring growth. But it risks yielding India-like problems while failing to produce China's economic benefits.

Many economists warn of a classic mismatch of incentives. Governments may have good reason to invest in projects that yield no profit, building roads to nowhere that ultimately open up undeveloped land for job-generating commerce. Government alone has the incentive to upgrade shoddy wastewater treatment and supply systems for drinking water. Absent public guarantees for profits, private companies have no inducement to bring such works into creation.

"Private investors need to have a decent rate of return," said Louis Kuijs, head of Asia for Oxford Economics, based in Hong Kong. "They cannot wait 40 years, and they are simply not able to take into account the additional tax revenues for the government."

India's heavy reliance on so-called public-private partnerships — the mechanism Mr. Trump has in mind — comes not from some ideological predisposition toward private enterprise, but from the fact that its government is short of financing. Like most countries, India cannot borrow as cheaply as the United States, which attracts virtually unlimited flows of investment by dint of the dollar serving as the global reserve currency.

India has expanded its highway network with private companies collecting tolls. Power stations have been erected, though often at costs far in excess of initial bids. Banks, many operated by the state, have been left with piles of bad debts as developers have failed to recoup enough to pay their loans.

"It hasn't worked out," said Pranab Bardhan, an economist at the University of California, Berkeley, and the author of "Awakening Giants, Feet of Clay: Assessing the Economic Rise of China and India." "Many of the infrastructure projects in India are now stalled."

In 2008, the Indian highway authority granted a contract to a private company, a subsidiary of L&T Infrastructure Development Projects, to establish a six-lane toll road beginning in the state of Tamil Nadu, running north from the city of Chennai. By the government's reckoning, the highway was supposed to be finished three years later at a cost of about $65 million. But difficulties in acquiring land led to delays and cost overruns. Two years ago, the company defaulted on its loans. The road has yet to be completed.

That Mr. Trump will find investors for his plans may be taken as a given. Be it Japan, Europe or North America, central banks have maintained rock-bottom interest rates in an effort to spur recovery from the worst financial crisis since the Great Depression. As a result, money managers are on the prowl for investments offering a decent rate of return.

"Infrastructure investment, which typically yields 3 to 4 percent, looks relatively attractive," said Linda Yueh, a visiting senior fellow at the London School of Economics.

But others question why the United States needs to involve private money. The American authorities can tap vast and sophisticated bond markets, with municipal bonds exempt from federal taxes.

“The borrowing costs for the U.S. government are zero,” said Mark Weisbrot, a co-founder of the Center for Economic Policy and Research in Washington. “There’s simply no reason to turn to private capital and all the complications, uncertainties, and opportunities for corruption and bad outcomes that you add to the mix.”

China provides a textbook case of what happens when the state invests aggressively in infrastructure. From 1992 to 2013, China allocated about 8.6 percent of its economic output toward infrastructure projects, according to an analysis by the McKinsey Global Institute. In 2013 alone, China spent $829 billion on infrastructure, more than the United States, Canada and Western Europe combined.

Inefficiency has added to the cost of many projects. Corruption has erected no shortage of white elephants. Still, China’s huge expansion demonstrates the benefits of the state guiding infrastructure spending.

Had the private sector been shaping plans, the Pearl River Delta in southern China would presumably not have gained the ports, highways and electrical supplies that transformed it into a clattering zone of industry. Once in place, the infrastructure attracted vast sums of foreign investment. The region grew into the factory floor to the world, generating millions of jobs for poor migrant workers.

That process has been aided by features of the Chinese political system that are anathema in the democratic world.

The government can seize land, moving less-than-enthusiastic residents to new homes. China has not been constrained by owls or fish or other environmental considerations.

In many areas, China overbuilt infrastructure, helping bring government debt levels to alarming proportions. The construction industry has frequently conspired with state banks and local officials to unleash projects that can be justified only as opportunities to make money change hands, enabling well-connected fingers to extract a cut.

Atif Ansar, the co-author of a paper studying China’s infrastructure investments and a management scholar at the Saïd Business School at the University of Oxford, said he and his colleagues found many roads that “were almost empty” in parts of southwestern China.

“Had China focused on about a third of its most productive investments, it would have reaped lasting economic benefits without the debt overhang,” Dr. Ansar said.

As China’s indebtedness has soared, the state has expanded infrastructure investment while turning to a new mode that limits the state’s direct outlay — the public-private partnership. Two years ago, China invited private investors to finance more than 2,000 proposed infrastructure projects totaling an estimated $622 billion.

Mr. Trump is not one to let cautionary tales stand in the way of his plans. The globe appears poised for another test case in what happens when private finance is handed control over public works.

THE NEW YORK TIMES

By PETER S. GOODMAN

JUNE 16, 2017

SIFMA U.S. Economic Outlook: Mid-Year 2017.

A semiannual survey of SIFMA's Economic Advisory Roundtable concerning the U.S. economic outlook and rates forecasts.

Summary

The Economy:

SIFMA's Economic Advisory Roundtable forecasted that the U.S. economy will grow 2.1 percent in 2017, strengthening to 2.3 percent in 2018. The current outlook for 2017 is slightly weaker than the Roundtable's end-year 2016 prediction.

Monetary Policy:

All but one respondent expect the Federal Open Market Committee (FOMC) to raise the Federal Reserve's target rate range at the June 13-14, 2017 meeting.

Respondents were also nearly unanimous for the number of rate hikes they expect in 2017; all but one respondent expect two rate hikes in 2017, inclusive of the rate hike in June. The dissenting respondent only expected one rate hike in 2017. Opinions were more varied for 2018, with half of respondents expecting three rate hikes, nearly a third (28.6 percent) expecting two rate hikes, about a fifth (19.0 percent) expecting four rate hikes, and the balance one rate hike.

The report also includes forecasts concerning the employment outlook, oil prices, and regulatory reform, among other issues.

Download the Report.

GFOA Alert: Public-Private Partnerships (P3).

GFOA Advisories identify specific policies and procedures necessary to minimize a government's exposure to potential loss in connection with its financial management activities. It is not to be interpreted as GFOA sanctioning the underlying activity that gives rise to the exposure.

Background:
Public Private Partnership (P3) Agreements are complex arrangements that use public and private sector resources to accomplish a stated goal. Many organizations have used P3 agreements successfully to gain access to capital, develop capital assets, provide services more efficiently, or provide large infusions of cash to help fund other organizational priorities. However, P3 agreements also contain varying degrees of risk, and some organizations have pursued projects that have been controversial and detrimental to the short-term and long-term fiscal health of the public sector entity. P3 agreements can leave the public entity exposed to fiscal and/or political fallout if proper due diligence does not occur, the private partner fails to perform, or if expected project outcomes do not happen. Careful planning and analysis is necessary with every P3 project. GFOA has developed

resources for approaching P3 agreements in a structured way that mitigates risk and improves prospects for long-term success.

Recommendation:
Organizations, and especially the finance officer, must understand what is at stake and make informed, strategic decisions on whether or not to pursue P3 opportunities. Finance officers should be involved throughout the process of a public entity's consideration of potential P3 opportunities. Not fully understanding the overall financial implications, including what the public entity may forfeit, can result in P3 agreements that may not serve the public interest or be detrimental to the long-term financial health of the organization.

Before deciding to pursue or enter into a P3 agreement, the public entity should carefully analyze the potential P3 agreement, including all financial impacts. The list of key considerations below has been developed to help the public entity decide whether or not to pursue a P3 opportunity.1

1. Legal Authority of P3. Does the public entity have the legal and regulatory capacity, including approval from any applicable oversight body, to enter into processes that result in a P3 agreement? Also, does the public entity's contracting/procurement policies or requirements provide for how to handle the proposed P3?
2. Justification for the Project. Does the project address a public priority and is the P3 project consistent with the overall strategic, master plans and financial policies of the organization
3. Competition. Will the potential P3 opportunity be open to competition? What is the expectation for competition in determining the best private partner? Otherwise, is there justification to support a non-competitive process? Also, has the financial, risk and legal analysis of the project been compared to a public-sector alternative?
4. Expected Project Revenue. If the P3 opportunity involves an upfront payment by the private partner in exchange for operation of a public asset, has the public entity evaluated and prioritized how to use project proceeds?
5. Independent Analysis. Has the public entity or an independent third party analyzed the P3 opportunity to verify revenue projections, demand and other assumptions used in the P3 evaluation?
6. Method for Performance Monitoring. Is there a proper management structure in place and within the proposed agreement in the event that anticipated/expected results are not achieved? How will performance be monitored against expected results and who will have this responsibility? Will there be check-in milestones, executive reporting and service-level targets in place to monitor and report performance of the project?
7. Flexibility During the P3 Term. Does the expected term of the P3 agreement limit the public entity's flexibility in responding to changing demographics or other circumstances? Does the P3 agreement limit the public entity's flexibility to make certain decisions about service provision in the future. Does the public entity have the ability to renegotiate the agreement?
8. Project Risks. Are project risks and risk transfer elements clearly articulated and understood by all key stakeholders? Is the public entity responsible for any costs should the private entity not perform?
9. Transaction Costs. Does the project proposal contain a comprehensive and realistic statement of transaction costs? Do expected transaction costs limit project benefits? Often, for smaller organizations and smaller projects, the time and costs associated with negotiating and finalizing a P3 agreement can limit the potential benefits from the project.
10. Bond Rating Impact. What are the potential positive or negative bond rating impacts on the public entity? Are municipal payments treated as operational expenses or debt service in a flow of funds?
11. Public Participation and Disclosure. Have appropriate public outreach mechanisms (such as

community meetings, informational newsletters, and other communications or actions as may be required by law) been met to provide transparency and feedback?
12. Availability of Assistance. Do external resources such as professional associations, state agencies or non-profit organizations exist to support and assist the public entity with the consideration, process and/or drafting of the agreement? P3 agreements are typically complex and will require access to specialized financial, legal or technical skill sets. Many smaller governments may also lack the resources necessary to ensure adequate, independent analysis and due diligence when evaluating potential opportunities.

Committee:
Economic Development and Capital Planning

Notes:
1 Note: this list is not intended to serve as a comprehensive analysis of all P3 terms and features, but as a listing of common risks and areas of focus.

BE AWARE: Governments Being Hit by Sophisticated Electronic Fraud Scams.

All governments should be aware of recent electronic fraud and other sophisticated measures being used to access banking account and other payables information. These schemes include sending extremely realistic e-mails from fake or hacked e-mails disguised as known vendors, including banks. Governments should exercise caution in their handling of e-mails announcing changes to a vendor's ACH or other account information, or from vendors requesting the government's account information. GFOA is cautioning governments to be aware and put safeguards in place to prevent fraud.

At GFOA's annual conference last month in Denver, the *Addressing Fraud in Electronic Payments* session focused on this topic. Speakers provided their own tales of how their governments' accounts had been or were nearly breached by sophisticated fraud attempts. Slides from the presentation, which are available on the GFOA website, provide valuable information about establishing policies and procedures to prevent and react to this type of fraud, as well as details about how it is executed.

Some key elements to help governments avoid being the victim of fraud include the following recommendations:

- Do not make any changes to vendor information, particularly payment addresses and/or bank account information, without carefully reviewing the information provided and corroborating the change through other sources.
- **Do not use e-mail to confirm changes to vendor payment information**—if the government or vendor has been recently hacked, you will likely be contacting the fraudster rather than the vendor. Verify changes by phone or regular mail, using information from existing vendor records.
- Revise the government's forms to require that vendors provide both the old and new bank routing and account numbers or billing addresses when requesting a banking change or a payment mailing change.
- Remove vendor change forms from the government's website to help avoid this kind of scam. Instead, ask vendors to contact staff directly for these forms.
- Communicate with staff and outside departments about the importance of prioritizing outstanding balance inquiries from vendors and resolving them quickly. Payment questions need to be addressed as quickly as possible because they may uncover vendor or payment fraud. Again, insist

that staff use telephones, faxes, or the postal service for correspondence rather than e-mail to address issues with vendors.

If you are aware of fraudulent account routing and numbers, notify your bank and law enforcement. They may already be involved in a related investigation and might be able to help.

Download the slides from the GFOA conference.

CUSIP Requests Surge in May Signaling Growth in Corporate and Muni Bond Issuance.

NEW YORK, June 12, 2017 /PRNewswire/ — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for May 2017. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity, found a surge in the pre-trade market for corporate and municipal bonds in May. This increased demand for new CUSIP IDs for corporate and municipal bonds is suggestive of a possible uptick in new security issuance volume over the coming weeks.

CUSIP identifier requests for U.S. and Canadian corporate debt and equity offerings totaled 2,289 in May, a 12% increase from April 2017 totals. So far this year, demand for new CUSIPs for both corporate debt and equity offerings are up 34% over the same period in 2016, reflecting the strong pace of request volume observed during February, March, and May of this year.

Municipal bond requests also increased in May. A total of 1,413 muni identifier requests were made during the month, an increase of 32% over April. This made May the most active month so far in 2017 for new requests for municipal bond CUSIPs. Despite this growth, municipal bond request volume was down 25% through the end of May 2017 on a year-over-year basis, reflecting some volatility in municipal bond issuance volumes over the course of this year.

“A combination of macroeconomic and technical variables have driven a fair amount of volatility in month-to-month CUSIP request volume so far this year,” said Gerard Faulkner, Director of Operations for CUSIP Global Services. “Overall uncertainty about where the markets and interest rates are going, and preparations for pending regulatory reforms such as the Fiduciary Rule have all conspired to create a choppy trend in pre-trade activity.”

International debt and equity CUSIP International Numbers (CINS) volume was mixed in May. International equity CINS increased 16% and international debt CINS decreased 1% during the month. On a year-over-year basis, international equity requests were down 9% and international debt requests were up 74%, reflecting continued volatility in international markets.

“In the big picture, we’re seeing very healthy levels of CUSIP request volume, indicative of robust new issuance activity,” said Richard Peterson, Senior Director, S&P Global Market Intelligence. “But the path we’ve been taking to get there has been bumpy with monthly surges in activity followed by slow-downs over the course of the year.”

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

The P3 Wars Continue – Trump vs. Texas vs. Tolls (the T3s)

A few years ago, I wrote a blog post entitled "The P3 Wars" in which I provided a brief explanation of how a P3 (i.e., a public-private partnership) works, and the general arguments for and against the use of P3s. More recently, President Trump proposed a $1 trillion U.S. infrastructure plan that likely includes the use of P3s. Although no details of his plan have been released, Elaine Chao, his Secretary of Transportation, recently told the Senate Environment and Public Works Committee that of the $1 trillion dollar infrastructure investment, approximately $200 billion would consist of public funding, which leaves $800 billion of private financing.

In the early 2000s, then Governor of Texas, Rick Perry, who is now President Trump's Secretary of Energy, was a big proponent of P3s. He promoted toll roads built and operated by private persons as a way to fund the construction and operation of Texas highways, because he found P3s to be preferable to raising fuel taxes for the same purpose. However, sometime in the mid-2000s, a populist movement began and continues in Texas that voraciously opposes toll roads operated by P3s. That movement was instrumental in getting the Texas legislature to pass a legislative moratorium in 2007 on most P3 funded highway projects. A few toll road projects were permitted to go forward, however, even after the legislative moratorium. One such toll road project involved a highway that would bypass the congested Austin metropolitan area. However, the private entity involved with the P3 declared bankruptcy last year, adding fuel to the populist movement's fire. (Advocates for P3s counter that the failure only supports the argument that toll roads should be used for major thoroughfares).

Continue reading.

By Cynthia Mog on June 8, 2017

The Public Finance Tax Blog

Squire Patton Boggs

Trump Plans to Shift Infrastructure Funding to Cities, States and Business.

WASHINGTON — President Trump will lay out a vision this coming week for sharply curtailing the federal government's funding of the nation's infrastructure and calling upon states, cities and corporations to shoulder most of the cost of rebuilding roads, bridges, railways and waterways.

He will also endorse a plan to privatize and modernize the nation's air-traffic control system. That plan, which is to be introduced on Monday at the White House and the subject of a major speech in the Midwest two days later, will be Mr. Trump's first concrete explanation of how he intends to fulfill a campaign promise to lead $1 trillion in United States infrastructure projects. The goal is to create millions of jobs while doing much-needed reconstruction and updating. But the actual details of the initiative are unsettled, and a more intricate blueprint is still weeks or even months from completion.

What the president will offer instead over the coming days, his advisers said, are the contours of a plan. The federal government would make only a fractional down payment on rebuilding the nation's aging infrastructure. Mr. Trump would rely on a combination of private industry, state and city tax money, and borrowed cash to finance the rest. It would be a stark departure from ambitious infrastructure programs of the past, in which the government played a major role and devoted substantial resources to paying the cost of large-scale projects.

“We like the template of not using taxpayer dollars to give taxpayers wins,” said Gary Cohn, director of the National Economic Council and an architect of the infrastructure plan, in an interview Friday in his West Wing office.

His language evoked the corridors of Wall Street, where he previously worked. “We want to be in the partnership business,” Mr. Cohn said. “We want to be in the facilitation business, and we’re willing to provide capital wherever necessary to help certain infrastructure along.”

As a model for the approach, Mr. Trump plans on Monday to send a proposal to Congress for overhauling the nation’s air-traffic control system. He would spin it off into a private, nonprofit corporation that would use digital satellite-based tracking systems, rather than land-based radar, to guide flights in the United States. There would be no cost to the government, Mr. Cohn said, because a newly formed corporation would finance the entire enterprise, using loans to handle the initial costs of equipment and other needs.

On Wednesday, Mr. Cohn said, the president will travel to the banks of the Ohio River to deliver a speech about overhauling the nation’s infrastructure, including the inland waterways that are in dire need of attention.

The philosophy undergirding the speech, administration officials said, is that melding public and private forces to rebuild the nation’s physical backbone will vastly expand the resources available to pay for doing it. The concept — a discussion of which helped cement Mr. Cohn’s hiring by Mr. Trump late last year — has driven infrastructure policy in the United States for many years. But Mr. Trump is proposing a far smaller federal investment than many Republicans and Democrats have long thought is necessary.

Mr. Trump is “trying to figure out, How do I get the most infrastructure improvements for the American citizens in the quickest fashion I can with the best return on investment for the U.S. taxpayers,” said Mr. Cohn, a former Goldman Sachs executive. “It’s sort of a businessman’s model.”

The White House has said Mr. Cohn will recuse himself from matters pertaining to Goldman, but it is unclear how that decision will affect any future plans by the company to bid for government partnerships in infrastructure. The White House noted on Saturday that the proposed air-traffic control corporation would be governed by independent directors with a fiduciary duty to the new entity.

On Thursday, Mr. Trump will hold listening sessions at the White House with a group of mayors and governors. On Friday, he plans to cap off what members of the administration are calling “infrastructure week” with a visit to the Transportation Department, where he will discuss drastically reducing the time it takes to obtain federal permits for projects.

The Trump administration clearly hopes the infrastructure rollout will provide a sorely needed policy victory. Its first attempt to overhaul the Affordable Care Act was so unpopular, even among Republicans, that House Speaker Paul Ryan called off a planned vote and began a rewrite. Senate Majority Leader Mitch McConnell recently said he was uncertain whether he could find a majority to move a health care bill through his chamber.

The president’s principles for a “massive” tax cut, encapsulated in what appeared to be a hastily written one-page document issued in April, were widely ridiculed for a lack of specifics and their underlying economic-growth assumptions, which many economists and policy experts considered overly rosy. And Mr. Trump has been roundly chastised for his recent decision to withdraw from the Paris climate agreement, a multinational plan to limit global warming through curbs on emissions that Mr. Cohn and many prominent corporate executives supported.

Despite the public push to promote the infrastructure package, Mr. Cohn acknowledged that the White House did not have a detailed proposal ready to release. He said, for example, that no decision had been made on whether the infrastructure plan would ultimately be married to a tax measure. Republicans and Democrats tried such a step during the Obama administration, in a plan that would have used revenue from repatriating corporate profits parked overseas to finance projects to improve roads, bridges, waterways, broadband and other areas.

"It's undetermined yet," Mr. Cohn said. "It may come before. It may come during. It may come after."

Mr. Trump said in an interview with CBS News in April that his infrastructure bill was "largely completed, and we'll be filing over the next two or three weeks, maybe sooner."

Mr. Cohn blamed the delay on lawmakers, saying the White House was reluctant to send its proposal to Congress until progress had been made on the health care bill, a budget bill, legislation to raise the debt ceiling and the as-yet-unformed tax bill.

"If we thought it was the time to release an infrastructure bill, we would release an infrastructure bill," Mr. Cohn said. "We just can't keep throwing stuff on Congress. We actually need them to get legislation done. And as they start getting legislation done, we'll come back with infrastructure."

When that happens, the package is likely to meet with substantial criticism from Democrats, who were heartened to hear Mr. Trump focus on infrastructure spending during his presidential campaign but crestfallen to see the budget he unveiled last month. The proposed spending plan devoted only one-fifth of the money that he had spoken of for building and improving infrastructure.

"When Trump talked during the campaign about $1 trillion for infrastructure, people were taking him at his word that it would be $1 trillion," said Sarah Feinberg, a former senior official at the Transportation Department in the Obama administration. Mr. Trump's budget proposal to spend $200 billion in the next 10 years falls far short of what is needed, she said.

"The idea that this really minimal amount of federal investment will spur that level of private investment is hopeful but not realistic," Ms. Feinberg said. "The reality is, the state of infrastructure has become an existential threat to huge portions of the economy."

For now, Mr. Trump is focused on popular ideas that have been discussed by members of both parties for years. At the Transportation Department on Friday, he will pitch what Mr. Cohn called his "10-to-two plan," an effort to cut permitting requirements so the process takes only two years instead of a decade. The current sluggish pace has prompted frequent complaints from construction and financing companies, who say the excessive bureaucracy that surrounds major infrastructure projects can be a costly and sometimes insurmountable hurdle.

Mr. Trump's air-traffic control privatization plan is based on a bill sponsored by Representative Bill Shuster, Republican of Pennsylvania and chairman of the Transportation and Infrastructure Committee. It has drawn criticism from Representative Peter DeFazio of Oregon, the ranking Democrat on the panel, who has said it would cater to large airlines at the expense of smaller operators.

Jonathan Root, a senior credit officer for the ratings agency Moody's, said privatizing air-traffic control could be a welcome change. "The expectation is that a private organization will complete the modernization much quicker than if it remains with the F.A.A.," he said.

Although many of the details of the privatized air-traffic control system are far into the future, administration officials said they did not anticipate higher airline-user fees or increases in ticket prices.

In a statement, Thom Metzger, a spokesman for the National Air Traffic Controllers Association, expressed cautious optimism about the air-traffic control reforms, which have been widely telegraphed in Mr. Trump's public comments and at White House gatherings. "Natca considers the status quo to be unacceptable," Mr. Metzger stated, adding that the group shares "the administration's commitments to infrastructure modernization." It supports the notion of privatizing air-traffic control, he said, but only in a nonprofit entity.

THE NEW YORK TIMES

By JULIE HIRSCHFELD DAVIS and KATE KELLY

JUNE 3, 2017

KBRA Rating Letters for Insured Bonds.

Kroll Bond Rating Agency (KBRA) issues a rating letter at **no cost** for all municipal bonds insured by a KBRA-Rated bond insurer.

Please see the links below for a sample KBRA rating letter as well an overview of our Public Finance/Financial Guaranty sector:

Sample Rating Letter
Public Finance/Financial Guaranty Overview

KBRA rates the following bond insurers:

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Assured Guaranty Municipal Corp. (AGM)
(Rated AA+, Stable Outlook)

National Financial Guarantee Corporation (National)
(Rated AA+, Stable Outlook)

Municipal Assurance Corp. (MAC)
(Rated AA+, Stable Outlook)

S&P Request for Comment: Limited-Tax General Operating Debt.

S&P Global Ratings is requesting comments on proposed revisions to its methodology for rating limited property tax general operating (LTGO) debt. The criteria are being updated to provide general guidance and transparency on S&P Global Ratings' view of limited property tax debt to the market.

Continue reading.

Jun. 8, 2017

S&P Request for Comment: Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness.

S&P Global Ratings Services is requesting comments on proposed changes to its methodologies for assigning issue credit ratings on obligations which are linked to the creditworthiness of U.S. Public Finance obligors, such as non-ad valorem/general fund-backed bonds, lease-backed bonds, appropriation-backed obligations and moral obligation bonds.

Continue reading.

Jun. 8, 2017

A Comprehensive Look At S&P Global Ratings' U.S. Public Finance Water And Wastewater Ratings.

S&P Global Ratings maintains long-term ratings on more than 1,600 U.S. obligors issuing a combination of water, wastewater, drainage, or irrigation system revenue bonds. This is in addition to the ratings on U.S. regional wholesale water and/or wastewater systems.

Continue reading.

Jun. 7, 2017

The Week in Public Finance: Kansas' Experiment Ends, Alaska Still Has No Budget and Keeping Track of Debt.

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

GOVERNING.COM

BY LIZ FARMER | JUNE 9, 2017

[Can a Cyberattack Cause a Credit Rating Downgrade?]

While it seems far-fetched, the danger is real for small governments.

Last month saw an unprecedented global ransomware attack that infected tens of thousands of computers in nearly 100 countries, including the U.S., the U.K. and Russia. Hospitals in the U.K. were the hardest hit as more than a dozen were forced to turn away nonemergency patients and doctors had to rely once again on pen and paper.

The disruption has caused many to consider how vulnerable U.S. government services are to a similar attack. But some are raising the possibility of another vulnerability: That a cyberattack has the potential to lower a government's credit rating, making borrowing to fix the problem even more expensive for taxpayers.

The possibility seems remote: No government yet has been downgraded because of a cyberattack. But S&P Global Ratings analyst Geoff Buswick says the risk is real, particularly for smaller governments with less financial flexibility. That's because attacks can cost a lot, but can also cost taxpayer trust. That in turn, can hinder a government's ability to raise taxes. "As a rating analyst, I look at the willingness and ability to repay debt," says Buswick. "Without taxpayer support you don't have that ability."

The concerns come as ransomware attacks — malicious software that blocks computer system access until a ransom is paid — have been on the rise. According to the U.S. Department of Justice, an average of more than 4,000 ransomware attacks per day occurred in 2016, a 300 percent increase over the prior year.

This year alone, the St. Louis Public Library; Licking County, Ohio; the library server system for Hardin County Schools, Tenn.; Bingham County, Idaho; and the network of the Pennsylvania Senate Democratic Caucus were all victims of a ransomware attack.

The success of such attacks vary. In St. Louis, the library had backups for the encrypted files and refused to pay the ransom.

But more sophisticated attacks on smaller governments can bring more damage. In Bingham County, which is not rated, a ransomware attack in mid-February brought down the county's website and disrupted the emergency dispatch center. The problems persisted for weeks as officials worked to rebuild the county's computer infrastructure to avoid paying the $28,000 ransom. In the end, though, it agreed to pay a $3,500 ransom to the hackers in early March after officials determined that it would be cheaper than buying new servers.

But the ransom was just the tip of the financial damage. Bingham County's IT Department told the East Idaho News that the cost of repairing the servers was nearing the $100,000 mark, and that it could take the remainder of the year to get back to normal. For a county with less than $1 million in reserves, the unplanned expense cuts into the government's financial flexibility, a key credit rating measure.

Often, the monetary damage can be bigger. In spring 2016, the city-owned Lansing, Mich., Board of Water & Light paid a $25,000 ransom to unlock its internal communications systems. The utility, which is rated, reported six months later that responding to the attack cost the city $2.4 million, all but $500,000 of which was covered by insurance.

Buswick notes that the Lansing utility was large enough to absorb the damage but says others might not be in that position. Utilities have monthly income but school districts, for example, only get their revenue twice a year. "[The utility] had to use some of the reserves they were not on using," he says. "In another situation, credit could be an issue."

GOVERNING.COM

BY LIZ FARMER | JUNE 7, 2017

Legal Judgments Put Financial Pressure on Local Governments.

A small rural county in southeast Nebraska might have to declare bankruptcy, not because of mismanagement or high labor costs but because of an unexpected legal judgment that the county government cannot pay.

Gage County on the Nebraska-Kansas border could be the next local government in the nation to file for bankruptcy protection after a federal jury awarded $28.1 million in damages plus attorneys' fees last July to six people wrongly convicted of a brutal rape and murder.

Leaders from the farming community of about 22,000 people said they can't afford that amount. The county's insurance carriers have declined to cover the verdict.

"No county could prepare for that," Myron Dorn, chairman of the county Board of Supervisors, said in an interview.

Increasing taxes to cover the judgment would be difficult, because Nebraska's property tax cap limits the county from raising taxes by more than about $3.7 million. Residents could theoretically vote to exceed the state-imposed limit, but that is unlikely.

The county has appealed the verdict and is awaiting a decision; in the meantime, officials have hired bankruptcy attorneys to explore their options in case they lose the appeal.

While municipal bankruptcies are generally rare—only 54 counties, cities, towns, and villages nationwide have filed for bankruptcy since 1980—it's not unusual for lawsuits to contribute to Chapter 9 filings. Of the 18 general purpose local government bankruptcies filed since 2006, legal judgments have been an important factor in five, or nearly 30 percent, according to research by The Pew Charitable Trusts. [General purpose local governments include entities such as counties, cities, towns, and villages and exclude special purpose districts such as school districts or and fire districts, which account for a much larger proportion of municipal bankruptcies. Nebraska historically has led the nation in special district bankruptcy filings.]

The legal judgments underscore the importance of local governments maintaining a healthy reserve fund balance to absorb unforeseen expenses. They also reinforce the need for states to be aware of the fiscal health of their local governments, so officials can prepare for situations when the state may need to step in to help. Washington state, for example, asks local governments about "litigation costs or pending legal judgments that risk depleting available fund reserves," to try to anticipate and to plan for potential fiscal shocks.

Elsewhere around the country, Hillview, Kentucky, filed for Chapter 9 in August, 2015, after losing a lawsuit filed by a local truck driving school over a property dispute and being ordered to pay $15 million. The bankruptcy was dismissed in May, 2016 after city leaders agreed to raise taxes and sell bonds as part of a settlement with Truck America.

Other municipal bankruptcies that were prompted at least in part by lawsuits include:

- Mammoth Lakes, California, filed for bankruptcy in June, 2012, after a property development dispute resulted in a $43 million legal judgment. Mammoth Lakes later settled with the land acquisition company out of court.
- Boise County, Idaho, was ordered to pay $5.4 million in damages and attorneys' fees to a developer for violating the federal Fair Housing Act. The county filed for bankruptcy in March 2011, but failed to prove in court that it was insolvent and the bankruptcy was dismissed. The county spent $2.25 million from its cash reserves and used bond financing to pay the rest. In addition, the Idaho Legislature passed a law to enable the county to levy additional property taxes to repay the bond.
- Washington Park, Illinois, filed for bankruptcy in 2009 after accumulating debts totaling over $1 million. The village struggled with numerous problems, including public employees stealing money and numerous lawsuits. A federal judge dismissed the bankruptcy, which followed another bankruptcy filing in 2004.
- Westfall Township, Pennsylvania, filed for bankruptcy in April, 2009, after a federal court decided in favor of a developer who had argued that township supervisors illegally halted development of a 1,500-unit residential project.

GOVERNING.COM | JUNE 9, 2017

By Stephen C. Fehr, Adrienne Lu, and Matthew Cook

Contrarian Barclays Says Munis Are Not Headed for a Strong Summer.

- **Very supportive supply/demand technicals trumped by valuations**
- **Ratios are 2+ standard deviations rich, close to 5-year lows**

While many on Wall Street expect a heady summer for state and local debt, Barclays analysts are making a different call.

Despite forecasts for negative net issuance amid steady demand, the municipal market is unlikely to see a strong performance over the summer, according to Barclays municipal analyst team led by Mikhail Foux. Valuation is a better indicator of where the securities' performance is headed, they wrote in a June 2 note to investors.

Municipal bonds current yields relative to U.S. Treasuries mean "there is very little value in the front-end but, with 30-year ratios already in mid-90s, the long end is hardly attractive." Barclays added that, "as it stands, muni ratios are 2+ standard deviations rich compared with their three-month average, and are close to five-year lows."

"Given that, currently, muni ratios are moving close to multi-year lows, we do not foresee strong performance from the asset class over the coming months, despite supportive technicals," the strategists wrote in the note.

The view differs from other strategists who expect municipal bonds to continue to strengthen as demand outpaces supply and cash-rich investors have more money to deploy. The Barclays analysts wrote they expect net issuance to be a negative $25 to $35 billion this summer, near the levels other analysts estimate, but that a similar amount of negative net issuance in 2014 did not translate into lower ratios that year. They also noted that negative net issuance is not uncommon for the summer season.

“We are unlikely to see a major selloff any time soon, but, in our view, ratios might end up higher by the end of August.”

Bloomberg

by Rebecca Spalding

June 6, 2017, 9:51 AM PDT

Bloomberg Brief Weekly Video - 06/08

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

Watch video.

Bloomberg

June 8, 2017

NACo Releases Analysis of Potential County Impacts of the President’s FY 2018 Budget Request.

On May 23, President Trump released his Fiscal Year (FY) 2018 Budget Request, laying out a $4.1 trillion spending proposal for fiscal year 2018 and the following decade. The budget expands upon the administration’s initial “skinny budget” request for FY 2018 released earlier this year. NACo has released a comprehensive analysis of the president’s FY 2018 Budget Request and its potential impact on programs important to America’s counties.

The budget proposes significant spending cuts, which combined with optimistic economic growth assumptions, attempt to balance the budget over the next decade. Specifically, it outlines discretionary spending levels at $1.151 trillion and mandatory spending levels at $2.943 trillion. This represents a $1.7 trillion cut in mandatory programs over 10 years and a 10 percent cut to domestic programs in 2018.

Counties are concerned with several of the president’s proposed spending cuts, which include the elimination and reduction of programs that aid counties and their residents. The proposed budget includes significant changes to the Medicaid program, converting the program to a block grant or per capita cap. Other significant proposed reductions compared to enacted FY 2017 levels include the U.S. Environmental Protection Agency (30 percent) and the U.S. Departments of State (32 percent), Agriculture (21 percent), Labor (20 percent), Commerce (15 percent), Health and Human Services (16 percent), Transportation (17 percent) and Housing and Urban Development (12 percent).

In response to the president’s budget, NACo Executive Director Matthew Chase expressed his concerns with the president's budget in a statement released May 23: "We are greatly concerned that this proposed budget essentially abdicates the federal role in the federal-state-local intergovernmental partnership that is essential to addressing our nation's most pressing challenges. This budget, if enacted, would deal devastating blows to some of the most vulnerable people in our communities."

For the full NACo analysis of the President's FY 2018 Budget Request, please click here.

NATIONAL ASSOCIATION OF COUNTIES

By DEBORAH COX

Jun. 6, 2017

President Trump to Launch Push for Infrastructure Investment.

Focus on infrastructure could help Mr. Trump find common ground with members of Congress

President Donald Trump will launch a new campaign this week aimed at fulfilling his pledge for $1 trillion of infrastructure investment, hoping to capitalize on lawmakers' support for rebuilding the nation's transportation systems at a time when his tax and health legislation are in flux.

Mr. Trump will begin with a White House event Monday announcing a push to privatize air-traffic control across the U.S., in what backers say could be a catalyst for improving speed and fuel efficiency across the aviation industry.

From there, the president will campaign for reviving infrastructure along the Ohio River, then meet with mayors and governors in the White House, followed by a speech at the Transportation Department on Friday.

The White House still hasn't said how it plans to pay for the federal government's share of the projects, and officials said a more detailed proposal will come at an unspecified later date. But Mr. Trump's top economic adviser said the administration aims to encourage states and cities to bear much of the burden.

"We want to talk to them and make sure we're partnering with them to make sure that they can use their tax dollars as efficiently," White House National Economic Council Director Gary Cohn told reporters Friday. "We can be a good partner with them in helping them to enhance their infrastructure projects."

Shifting the discussion to infrastructure could mean the best chance for Mr. Trump to find common ground with members of Congress who object to other elements of his agenda, given the broad agreement that the nation's roads, bridges, rails and water facilities are in disrepair. It would, however, mean finding a way to live up to campaign pledges that many believe are irreconcilable—investing $1 trillion in infrastructure, but doing so with funds raised almost entirely from the private sector.

The infrastructure push is "encouraging," said Scott Rechler, a real-estate developer and former official at the Port Authority of New York and New Jersey who consulted with Mr. Trump's transition team. “They should have started with this, since it’s one area with a level of bipartisan support.”

But Mr. Rechler, a Democrat whose own real-estate company has financed infrastructure like sewers and utilities in public-private partnerships with local government, said the administration’s plans should recognize that private financing won’t be able to replace federal funding in fixing some critical areas—from railroads to crumbling dams—where investors can’t turn a profit.

“It’s not free,” Mr. Rechler said. “At some point or another someone’s going to have to pay for this.”

In remarks to reporters last week, presidential advisers made clear they will be attempting to pair the president’s pledge to renew critical infrastructure with a shift of responsibility for some of the costs from federally funded grant programs to state and municipal taxpayers.

Some city and state officials say that they are already strapped for funds and worry about having to shoulder large additional costs.

“Voters in L.A. have done their part by passing the boldest and largest transportation measure in our nation’s history,” Los Angeles Mayor Eric Garcetti said. “And I expect Congress to act across party lines, and finalize a budget that provides direct funding for infrastructure projects that will improve quality of life for millions of people.”

The administration has called for spending $200 billion on infrastructure projects over 10 years, saying that infusion of federal money could help trigger roughly $1 trillion worth of total funding thanks to a surge in private investment.

Still, after nearly six months in office, the administration hasn’t said how it will pay for the federal government’s share of that investment, and hasn’t put forward legislation that would show exactly how it plans to spur private investment.

Senior administration officials didn’t say if Mr. Trump would put forward his own proposals for raising the funds for an infrastructure package or defer to Congress, saying that is “something we are currently debating inside the White House.”

An infrastructure proposal fleshed out with actual details will be ready “when the president tells us it should be ready,” a senior administration official said.

The administration has been most specific about its desire to cut regulation and permitting that can delay the start of new infrastructure projects. Mr. Trump has seized on a flow chart provided by Mr. Cohn’s deputy, DJ Gribbin, that shows how the permitting process for a new highway can involve up to 16 federal agencies.

Mr. Cohn said Friday that the administration would like to shrink the permitting schedule for such projects from as much as 10 years to “two or less.”

“The cost of infrastructure goes up dramatically as time goes on in the approval process, capital is tied up, it has people waiting for permits, and the amount of paperwork and the amount of fees that you just encumbered while you’re going through the approval process is enormous,” Mr. Cohn said.

Those comments would find agreement among some Democrats as well, and echo some of the Obama administration’s efforts to “fast-track” selected major capital projects by speeding environmental approvals.

The Wall Street Journal

By Ted Mann and Michael C. Bender

Updated June 4, 2017 9:59 p.m. ET

Write to Ted Mann at ted.mann@wsj.com and Michael C. Bender at Mike.Bender@wsj.com

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Private Funding Is Key Challenge of Trump Infrastructure Plan.

Effort reflects the difficulty of coming up with taxpayer dollars in era of constrained budgeting; administration has released few details

WASHINGTON — President Donald Trump's proposed infusion of funding for infrastructure turns on a critical question: how the administration will get private investors to put up most of the money.

Mr. Trump launched on Monday what he said would be a week focused on U.S. infrastructure with an embrace of a long-debated proposal to privatize the nation's air-traffic control system.

His advisers said the proposal is a model of how they want to approach an overhaul of national infrastructure maintenance, turning to user fees and private-sector management to fund and operate what has been a federal government service.

But there has so far been little detail on Mr. Trump's lofty infrastructure promise. The GOP president has proposed spending $200 billion over 10 years on programs to incentivize greater use of financing from private investors. The administration said that funding will leverage a total expenditure of $1 trillion to fix and build roads, bridges, dams and broadband lines.

The effort to shift to private funding reflects the difficulty of coming up with taxpayer dollars in an era of constrained budgeting. The last big transportation policy bill to pass Congress, in late 2015, was cobbled together with funding from a Federal Reserve surplus account and other sources that some lawmakers said were unorthodox.

"I think you'll see a huge increase in infrastructure fund balances once we put into place the two things we're doing investors care about," DJ Gribbin, the special assistant to the president for infrastructure policy, said in an interview.

The administration hopes to cut lead times to get projects from the planning stage to construction by reducing permitting requirements. That will lessen the political risk that has deterred some private investment, officials said.

Secondly, it plans to encourage cities and towns to raise fees—like roadway tolls or water-usage charges—that will provide the revenue streams for private-equity investors.

It isn't clear, however, that private investors will swarm to some of the country's most seriously decrepit infrastructure projects because not all of them will provide commercial returns.

"I'm a huge supporter of increasing private capital in infrastructure," said Heidi Crebo-Rediker, an adjunct senior fellow at the Council on Foreign Relations who served in the administration of former President Barack Obama, a Democrat. "But it is not a silver bullet, and as a country we are not set up to take on a fully private investment in public infrastructure."

The municipal bond market remains a more attractive source of funding to many state and local officials needing funding for major projects, Ms. Crebo-Rediker said, and many local governments lack expertise in how to structure public-private partnership deals.

Private-equity executives and bankers who specialize in infrastructure investing said that finding money for projects isn’t the problem. It is the dearth of attractive investments, they said.

Last year, investors world-wide committed a record of about $59 billion to private-infrastructure funds, pushing to more than $140 billion the amount of ready-to-invest cash in such funds, according to Preqin, a provider of investment-fund data. Much of that money is likely to be spent outside the U.S., where most private infrastructure investing happens in the energy sector

Fundraising has remained strong this year, with another $29 billion flowing into such funds during the first quarter, Preqin said. Blackstone Group LP disclosed last month that Saudi Arabia has agreed to invest $20 billion in an infrastructure fund that the New York firm hopes will reach $40 billion and have spending power of as much as $100 billion once debt is added.

The White House’s challenge will be to steer Wall Street’s mountain of infrastructure money to projects that have traditionally been bypassed, such as toll roads and bridges, because of political hurdles, low returns and project time lines that exceed the length of time these funds have investors’ cash locked up—usually 10 years or so. Speeding up permitting processes could make more projects palatable to private-equity investors, investors say, particularly as competition for deals that fit well within current funds, such as pipelines and power plants, pushes up asset prices.

Blackstone, for example, has spent more than six years securing permits to bury transmission lines that will carry electricity generated by dams in Quebec to New York City and Massachusetts. It could take years more before the power lines are completed, and the firm begins collecting on its investment. Blackstone executives say the massive fund they are raising, which would be more than twice the size of the current record, will have no timeline on returning cash to investors and targets lower returns.

Officials at several major transportation agencies have expressed concern about the administration’s infrastructure approach in recent days. One government official, referring to the administration’s desire to shift responsibility for providing direct funding from the federal to state and local governments, said Mr. Trump’s administration was trying to “starve the beast” and force states and cities to find ways to finance privately.

Others noted with alarm that while the administration said it would devote $200 billion more to infrastructure over the coming 10 years, the department is also cutting funding to existing programs that support major projects.

The administration’s infrastructure initiative will be “over and above” the amount of funding provided by Congress through conventional grant programs, said Reed Cordish, a White House adviser.

Ms. Crebo-Rediker praised the administration’s embrace of programs that provide loans, loan guarantees and lines of credit for projects with national significance, allowing states and cities that qualify to add leverage to building projects. The administration also called for expanding a similar loan program for water infrastructure, and it said it would lift the cap on a program that allows the Transportation Department to allow the issuance of tax-exempt bonds for private entities.

But she said it wasn’t clear how Mr. Trump’s plan will prepare cities and states to strike private-financing arrangements to take care of some of their most critical needs.

“The devil’s in the details and there have been no details,” she said.

The Wall Street Journal

By Ted Mann and Ryan Dezember

Updated June 6, 2017 7:03 p.m. ET

Write to Ted Mann at ted.mann@wsj.com and Ryan Dezember at ryan.dezember@wsj.com

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Public-Private Projects Where the Public Pays and Pays.

Faster, better, cheaper.

As President Trump prepares to deliver a speech on Wednesday about infrastructure, his administration is promoting the benefits of having local governments work with private corporations to build, repair and manage the nation’s ailing roads, bridges and airports.

Public-private partnerships, as they are known, have many potential benefits. Companies can complete projects quicker and more cheaply than governments can, proponents say. Letting private industry take the lead can also limit the amount of debt that cities and states need to take on.

Yet in the United States, public-private partnerships represent a tiny fraction of infrastructure spending. On toll roads, for instance, where they have been used the most, they accounted for just 1 percent of all spending between 1989 and 2011, according to a report by the Congressional Budget Office.

And whatever the advantages of giving the private sector a stake in public works — rather than leaving the government in control — experts agree that while some public-private partnerships may result in near-term savings, there is little hard evidence that they perform better over time.

“There is a significant misunderstanding of the way public-private partnerships actually work,” said David Besanko, a professor at the Kellogg School of Management at Northwestern University. “Taxpayers or users are going to need to pay for private infrastructure just as they need to pay for public infrastructure. You’re going to need to get revenues from somewhere.”

Whether through fees like parking meters and tolls on a road, or through government payments to the contractors, such projects are ultimately supported by taxpayers.

On Monday, Mr. Trump proposed creating a nonprofit corporation to modernize the nation’s air traffic control system. More glimpses of the administration’s plans are scheduled in the coming days, part of what the White House is calling “infrastructure week.”

Variations of public-private partnerships — known as P3 deals on Wall Street — are more common in Canada and some European countries than in the United States.

There is a reason for that. America is one of the few nations that exempt the interest on local and state bonds from federal taxes. As a result, the nation’s municipal bond market is bigger and more developed than in most other countries, and that makes public financing of infrastructure much more attractive, lessening the need for private partnerships.

In the United States, “the P3 market is in its infancy,” said Scott Zuchorski, a senior director in Fitch Ratings’s global infrastructure group, adding that there have already been “some growing pains.”

In California, a public-private partnership was created to ease congestion on bumper-to-bumper State Route 91. The solution was a four-lane toll road installed in the middle of the highway, which was then leased to and operated by a private consortium formed by subsidiaries of Peter Kiewit Sons, Compagnie Financiere et Industrielle des Autoroutes, a French toll road company, and Granite Construction.

Initially the toll road, which opened in 1995, was a success: Drivers paid for a faster road, and it employed cutting-edge technology, allowing for automated collections and congestion pricing.

Over the long-term, serious drawbacks surfaced.

The 35-year lease agreement included a noncompete clause that barred the state from making any other road repairs and improvements — like adding a lane and improving public transit — that might lure motorists away from the toll road.

Orange County Transportation Authority spent a decade in court before having to buy the express lanes outright for $207 million in 2003 so that it could go ahead with a highway and public transit overhaul.

Mildred Warner, a professor at Cornell University, pointed out that private firms and local governments can have fundamentally different interests.

The government has broad concerns, like improving overall regional transportation, reducing traffic and curbing pollution.

The companies have a narrower concern — maximizing financial returns.

“Is there a reason for there to be public control,” she asked. “Is there a public good?”

Nationwide, Virginia has among the most extensive experience with public-private partnerships. Beginning two decades ago, it turned to firms including Fluor and Transurban, an Australian company, to build and operate high-occupancy tolls lanes along the Beltway to and from Washington, D.C.

The Beltway project has helped reduce congestion, and the state government avoided taking on more debt.

Consumers still pay tolls, however. And if the number of car-poolers is too high — thus depriving Fluor and Transurban of tolls — the state is required to reimburse the companies.

Arrangements like this in which local governments essentially guarantee their private partners substantial payments are not uncommon, and leases that extend beyond the life of the project can also divert extra revenue from the public to the private sector.

The state of Indiana had to pay the private operators of a troubled toll road — one of the first big public-private partnership deals in the country — nearly $450,000 because it waived tolls during a flood emergency in order to speed escaping residents.

“You can make money when there’s a flood,” Ms. Warner said, criticizing the payment, “but the government looks to save lives.”

In New York, the Australian investment bank Macquarie — one of the biggest global funders of infrastructure projects — is working to build and maintain a new Goethals Bridge to replace the span that connects Elizabeth, N.J., and Staten Island. One phase of the bridge could open in the coming weeks, according to a spokesman.

As part of the arrangement, the Port Authority of New York and Jersey has agreed to pay the Macquarie consortium about $56.5 million a year for about 40 years once the bridge opens, regardless of how much traffic it handles.

Macquarie is working on other projects around the country. In 2014, Kentucky tapped the company to oversee the installation and maintenance of 3,400 miles of high-speed fiber optic cable throughout the state.

Construction has been delayed by a year as the Macquarie group works to obtain the rights to install some of the fiber optics on existing utility poles and "uncertainty regarding the magnitude of costs," according to Fitch. This led Fitch to issue a negative outlook on $300 million in bonds issued by a state entity to finance some of the upfront costs.

The delays on the project might well have occurred even if the government were in charge, and Macquarie said public-private partnerships helped local governments avoid taking on too much debt.

"PPPs have proven themselves to be an efficient and cost-effective project-delivery method, allowing state and local governments to access private-sector financing while effectively transferring risk," said Geoff Segal, manager of government advisory and affairs for Macquarie Capital.

Aaron Renn, a senior fellow with the Manhattan Institute who has studied a number of public-private partnerships, said one problem with them is that the public officials negotiating these arrangements sometimes lack the financial sophistication and advice to fully understand the deals.

"The most important question," he said, "is who bears the revenue risk if certain things happen?"

Though local governments can wind up on the hook for billions, sometimes it is private firms and their investors that get burned.

That is what happened with perhaps the nation's best-known public-private partnership, a 2006 deal in Indiana to lease an aging toll road to an investment group led by Macquarie and Cintra, a Spanish infrastructure firm, for $3.8 billion, which the state used primarily for other road projects.

The 75-year lease provided a big upfront cash payment for the state in return for the consortium's right to collect toll revenue. But the project to upgrade the antiquated 157-mile roadway ran into trouble as the consortium took on too much bank debt, and ridership on the highway dropped during the Great Recession as fewer people were driving to and from work.

Eventually the investment consortium had to file for bankruptcy in 2015.

Now, most of that $3.8 billion has been spent, and the new operator of the toll road is continuing to collect fees from drivers. In June, tolls more than doubled for many drivers after a state subsidy that was put in place when the lease deal was signed expired in May.

And just this week another road project in Indiana fell into disarray, with state officials announcing on Monday that Indiana was trying to take control of the job from a public-private partnership that led by a Spanish company.

Private money is beginning to line up to take advantage of new deals now that Mr. Trump appears to throwing his backing behind such arrangements.

Blackstone Group, the giant private equity firm, announced last month the establishment of a $40 billion fund to invest mainly in infrastructure projects, with Saudi Arabia's main sovereign wealth fund kicking in $20 billion.

Stephen A. Schwarzman, Blackstone's chairman and chief executive, is leading a White House business advisory group, which lists infrastructure work as one of its topics for discussion.

Even Lloyd Blankfein, the Goldman Sachs chief executive who has been critical of Mr. Trump on climate change, jumped into the debate Tuesday on Twitter with a message saying he just arrived in China and was impressed by the condition of the country's airports, roads and cell service.

"US needs to invest in infrastructure to keep up!" he said.

THE NEW YORK TIMES

By MATTHEW GOLDSTEIN and PATRICIA COHEN

JUNE 6, 2017

Public Works, Private Benefit.

President Trump's infrastructure plan is turning out to be a mirage. He had talked about a $1 trillion, 10-year effort. But the White House now proposes allocating only $200 billion, which would come from cutting aid to states and localities and giving it to Wall Street investors as tax credits, which it hopes will attract $800 billion in investment for big projects that would turn a profit through tolls and user fees. As an opening act, for example, Mr. Trump is pushing privatization of the nation's air traffic control system, which could jack up the price of air travel for passengers.

But most of the nation's unmet infrastructure needs involve smaller projects to operate, maintain and upgrade — not only highways, but also water, sewer and other systems that are of no interest to private investors. In Ohio, where Mr. Trump went on Wednesday to deliver a campaign-style speech about his plan, more than 1,500 highway projects to be completed over four years have an average cost of only $9.2 million, according to research by the Center for American Progress. That's far too little to attract huge investment funds that are the presumed recipients of the tax credits.

Since 1995, 14 of 36 privately financed highway projects across the nation have been completed, with mixed results, according to a 2015 Congressional Budget Office report. The C.B.O. found that private investments did not increase the amount spent or reduce costs — two supposed goals. It simply substituted for money that could otherwise have been raised through low-cost municipal bonds.

As to whether private financing resulted in more reliably completed and maintained projects, the C.B.O. found that it sometimes could be arranged more quickly than public financing, which allowed some projects to be completed sooner. But three of the projects went bankrupt and one required a public buyout of the private partners.

In recent years, investor risk in privately financed projects has been reduced through heavier public subsidies, federal tax breaks, federal loans or state and local grants. But the more public backing there is for any given deal, the greater the chance that taxpayers will ultimately bear excessive costs — including debt, cost overruns and litigation. In effect, when private partnerships with significant public backing go well, investors reap most of the reward; when they go badly, taxpayers take a hit.

A case in point is the South Bay Expressway in California, an $828 million private project whose financing included a $140 million federal loan. Completed in 2007, the project filed for bankruptcy protection in 2010. When the bankruptcy court imposed a new financing and ownership structure the following year, taxpayers essentially had to forfeit $73 million in loan principal and accrued interest, in all, a loss of 42 percent of the investment.

It's bad enough that Mr. Trump is not tackling the nation's critical infrastructure needs. It's worse that he seems determined to use the limited funds he has scrounged to enrich private investors at taxpayers' expense.

THE NEW YORK TIMES

By THE EDITORIAL BOARD

JUNE 9, 2017

Recognize the Magnitude of Municipal Securities in the Infrastructure Debate.

The Trump administration and legislators on Capitol Hill have a tall order to fill when it comes to developing policies that can spur more investment in the nation's infrastructure. To inspire informed dialogue on this topic, the Municipal Securities Rulemaking Board (MSRB), created by Congress in 1975 to oversee the $3.8 trillion municipal securities market, recently gathered bankers, developers and scholars for an infrastructure discussion.

Our goal was to look beyond the municipal market – which finances the lion's share of the nation's infrastructure – and better understand all it may take to fulfill the outsized need to maintain and build the nation's roads, bridges, tunnels, schools and more over the next decade. If the municipal securities market serves as the perpetual backdrop and most essential aspect of public finance, how might state and local government finance be coordinated with and enhanced by federal incentives and private sector involvement?

Potential innovations in infrastructure finance and related policies must contend with a legislative process on Capitol Hill that advances on a fragmented and episodic basis, and which is affected by the challenges of rising federal debts and soft economic growth. Transportation funding and water infrastructure bills are core priorities for appropriations and infrastructure committees in Congress.

According to the Congressional Budget Office, federal, state, and local governments collectively spent $416 billion on transportation and water infrastructure in 2014 – a quarter of which came from federal spending. This significant level of spending has been a relatively stable percentage of the GDP over the past 30 years.

Yet congressional involvement in infrastructure policy reaches much further. For example,infrastructure stimulus proposals have been at the top of the agenda for President Obama's, and now, President Trump's, first terms. These proposals engage congressional tax writers in seeking to jumpstart infrastructure through new incentives. While the Trump administration favors federal tax credits and public private partnerships for stimulus, the tax component of Obama-era stimulus legislation established new types of subsidized municipal securities that have since expired, including tax-credit bonds and direct-pay, "Build America Bonds." The return of these bonds, or the development of enhanced private activity bonds programs, is under discussion by the current administration.

A wide array of programs could be enacted by Congress or fine-tuned through regulatory relief in the name of infrastructure development – from P3s to infrastructure banks, QPIBs to QZABs, and WIFIA to TIFIA. Sometimes overlooked in this policy alphabet soup is the very foundation for successful infrastructure: efficient capital markets. Municipal securities, which are traditionally tax exempt, have been and remain the essential element for ensuring state and local governments can affordably access capital markets to maintain infrastructure, from roadways to alleyways, and from universities to elementary schools.

With 50,000 governmental and nonprofit issuers and counting, it is primarily the municipal securities market that assures community needs are identified, prioritized and financed at a reasonable cost. The municipal securities market must function well just to maintain current state and local government priorities, and must thrive to support policies aimed at bridging the nation's infrastructure funding gap. While the market hums along to meet much of the nation's infrastructure need – with an average $430 billion in municipal securities issued annually – experts are focused on removing policy barriers so that public and private finance can fit together more seamlessly and foster innovation.

The MSRB keeps top of mind its mission to promote a fair, efficient and transparent municipal securities market and those policies specifically targeted at its structure. As we seek to protect municipal securities investors and issuers, we are aware that new federal policies not directed at municipal securities or even infrastructure will nevertheless affect our market. Such policies may unleash or stymie the potential of capital markets as a whole – and may put the $3.8 trillion municipal securities market to work – or to rest. Democratic and Republican members of Congress have prioritized infrastructure investment, and the Trump administration is taking careful stock of infrastructure needs and the policies that could unlock the full potential of capital markets and the economy through the tax code and regulatory relief.

Within this debate, corporate or individual tax reform could change the relative value or tax treatment of municipal securities for investors and affect borrowing costs for issuers as priorities are aligned to support ideas for promoting U.S. competitiveness. Such legislative deal making can create surprise consequences, and the municipal securities market can adapt, having endured previous tax reforms, sequestration and economic recessions.

It is a resilient resource borne of the founding principles of a nation that reserves power, decision making authority and access to capital for state and local government. Yet hazards for the market should be avoided or overcome, and indirect consequences of tax proposals, carefully considered. An efficiently operating municipal securities market is the basis from which to advance essential priorities. As policymaking brings disparate ideas into focus, it must be remembered that the municipal securities market, operating quietly in the background, is the very foundation for financing the nation's infrastructure.

THE HILL

BY LYNNETTE KELLY, OPINION CONTRIBUTOR – 06/09/17 02:30 PM EDT

Lynnette Kelly is executive director of the Municipal Securities Rulemaking Board.

Social Finance Announces Awardees to Develop Nation's First Outcomes Rate Cards.

Social Finance Announces Awardees to Develop Nation's First Outcomes Rate Cards, Driving Government Performance through a Focus on Outcomes

Riverside County, CA and Yale Child Study Center with the State of Connecticut will employ pioneering tool to deliver results for at-risk children

May 31, 2017 – Boston, MA – Social Finance today announced the first round of awardees for the Outcomes Rate Card Development Competition, launching two new partnerships to advance outcomes-based contracting and financing in communities across the country. With support through funding awarded last year from the Corporation for National and Community Service's Social Innovation Fund, Social Finance will partner with the Riverside County Executive Office and the Yale Child Study Center with Connecticut's Office of Early Childhood to develop the nation's first outcomes rate cards.

Outcomes rate cards scale solutions to society's most pressing challenges by allowing government to identify priority outcomes for vulnerable citizens, and enabling service providers to achieve those outcomes through diverse interventions. An outcomes rate card standardizes the Pay for Success approach, by establishing a menu of outcomes a government seeks to "purchase" for a given issue and target population and the amount it is willing to pay each time a given outcome is achieved. With one outcomes rate card, governments can launch multiple projects, directing resources towards outcomes rather than outputs.

"Today's announcement represents the growing enthusiasm of state and local governments to tackle persistent social challenges through outcomes-based approaches," said Tracy Palandjian, co-founder and CEO of Social Finance. "Outcomes rate cards will allow us to scale Pay for Success, delivering even greater impact for children and their families in California and Connecticut."

The Yale Child Study Center and Connecticut's Office of Early Childhood, a state agency, will build on the state's history of collaboration and experience with Pay for Success to design an outcomes rate card addressing early childhood outcomes. The partners will work with Social Finance to analyze data from the state's Early Childhood Information System and identify the issues of greatest need facing the state's young children and their families. Together, they will develop an outcomes rate card to support outcomes-based projects addressing the identified area of need.

"Connecticut has been a national leader in Pay for Success thanks in large part to the state's collaboration with Social Finance and the Yale Child Study Center," said David Wilkinson, Commissioner of the Office of Early Childhood. "We are excited to be selected in this competition to work together again as we seek to make the promise and potential of PFS achieve broader reach more efficiently. Government and service providers share a mission of generating positive outcomes, so it makes sense to align payment with the outcomes we want to see."

"This award allows us to apply the rigorous research at the Yale Child Study Center on effective interventions for children and their families in our relationships with government and policy partners," said Dr. Linda Mayes, Professor and Director of the Yale Child Study Center, co-Principal

Investigator

Riverside County Executive Office will develop an outcomes rate card to improve services for Children of Incarcerated Parents (CIP). Incarceration in county jails and state prisons is a growing challenge in Riverside County, imposing a substantial social and economic burden on the community. Children of Incarcerated Parents face a range of challenging circumstances that put them at a higher risk for adverse health outcomes, low academic performance, and diminished economic opportunity. An outcomes rate card will help Riverside County expand the range of services needed to adequately support CIP, driving resources toward high-quality service providers and meeting the diverse needs of impacted children to help set them up for long-term success.

“The Riverside County Executive Office is honored to be selected as a service recipient. We will use the Outcomes Rate Card to develop a proactive model to reduce the incarceration rate by intervening early in the lives of children who experience risk factors that make them more susceptible to future incarceration,” said Brian Nestande, Deputy County Executive Officer, Riverside County.

Outcomes rate cards are one approach to developing Pay for Success projects, which combine nonprofit expertise, private funding, and independent evaluation to transform how government leaders respond to chronic social problems. Over the past six years, over 70 Pay for Success projects addressing chronic social issues have launched in 18 countries worldwide.

The Outcomes Rate Card Development Competition is supported by the Social Innovation Fund (SIF), a program of the Corporation for National and Community Service (CNCS). Social Finance was awarded funding as part of SIF’s Round 2 Pay for Success Grants Competition, which seeks to build the pipeline of Pay for Success projects for local governments.

“The Social Innovation Fund is an innovative program that seeks to invest in truly compelling solutions and expand programs that work,” said Lois Nembhard, acting director of the Social Innovation Fund. “We are pleased to support the development of the first outcomes rate cards in the United States and believe these projects will represent cross-sector collaboration at its best—laying the groundwork for more governments and nonprofits to follow the lead of the two service recipients announced today.”

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About Social Finance

Social Finance US is a 501(c)(3) nonprofit organization dedicated to mobilizing capital to drive social progress. We believe that everyone deserves the opportunity to thrive, and that social impact financing can play a catalytic role in creating these opportunities. As a Pay for Success intermediary, Social Finance has built upon the work of our sister organization Social Finance UK, who pioneered the first social impact bond in the world in 2010.

About the Social Innovation Fund

The Social Innovation Fund (SIF) is a program of the Corporation for National and Community Service, a federal agency that engages millions of Americans in service through its AmeriCorps, Senior Corps and Volunteer Generation Fund programs, and leads the nation’s volunteer and service efforts. SIF positions the federal government to be a catalyst for impact—using public and private resources to find and grow community-based nonprofits with evidence of results. The Social Innovation Fund focuses on overcoming challenges confronting low-income Americans in three areas of priority need: economic opportunity, healthy futures, and youth development. To learn more, visit www.nationalservice.gov/sif

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Fewer Muni Bonds have Investors Snapping up Riskier Hospital Deals.

(Reuters) – A lean issuance calendar in the municipal bond market is propping up debt prices for U.S. cities and states and will likely keep a floor under some of the market's wobbly sectors, even hospitals, according to data and analysts.

The scarcity of new deals also provides an opportunity for less credit worthy municipal issuers to come to market when cash levels are high and demand is strong.

Credit traditionally seen as more risky by investors, such as BBB-rated hospitals that rely heavily on government-funded Medicaid and Medicare, are seeing "enthusiastic demand" from the market, said Alan Schankel, municipal strategist at Philadelphia-based Janney Montgomery Scott.

But sweeping changes to the country's healthcare law currently under consideration by Congress has woven uncertainty into hospitals' future revenue streams. Such a tumultuous environment should give caution to investors to beware of debt tied to healthcare, in particular city and safety net hospitals.

"It certainly flashes a yellow light for me, a caution light," said Schankel. But when it comes to new bond issues coming to market, "there is nothing around, so investors are chasing this stuff."

Demand for bond deals will likely surge even more this summer, as billions of dollars worth of municipal bonds exit the market.

"The supply is way down. You have far fewer bonds in the market," said Greg Saulnier, municipal research analyst at Thomson Reuters' MMD. "With so much money and cash pouring back into the market, you have guys flush with cash with no where to put it."

Some $130 billion to $140 billion in bond redemptions will outweigh the $100 billion of new debt expected to be issued in June, July, and August. The extra cash will likely set records, municipal analysts say, driving demand and bond prices up because of a dearth of deals in which investors can participate.

The "wave of cash" will create a "steady if not strong performance for the marketplace going into the end of summer," said Jim Colby, portfolio manager for VanEck's municipal bond investments. "You can see why this is an interesting time."

HEALTHY DEMAND

Demand for hospital credits comes at a time of huge uncertainty and potential upheaval for the healthcare sector. U.S. President Donald Trump and the Republican-led Congress have vowed to repeal and replace the Affordable Care Act, the nation's healthcare law commonly referred to as Obamacare.

A Republican-proposed healthcare bill approved by the House and now under consideration by the Senate would likely reduce federal Medicaid payments to states, a large revenue source for hospitals.

“We have seen incremental rating pressure recently, even among some of our largest and strongest organizations,” said Martin Arrick, managing director at S&P Global Ratings. “This pressure could grow, and threaten our stable outlook on the sector, depending on administrative and legislative actions under the new administration,” Arrick said.

Tax-exempt 10-year BBB-healthcare bonds on Friday saw a 2.97 percent yield and a 111 basis point spread over the benchmark MMD AAA yield curve. That spread has remained the same since the end of last year, even as the sector’s yield has declined from 3.42 percent on Dec. 30th.

Recent examples of the lower rated healthcare sector bonds hitting some high notes include two California hospitals from the BBB-rated category – Children’s Hospital Los Angeles sold $275 million and Eisenhower Medical Center in Southern California’s Coachella Valley sold $233 million. Both deals, done in May, saw yields reduced after preliminary pricing by 5 to 15 basis points, evidence of stronger-than-expected investor demand.

Cleveland’s MetroHealth sold $946 million of revenue bonds in May, even after the system received a three-notch downgrade from all three rating agencies.

The bonds saw strong after-market activity, topping the list of most active issues.

One tranche of the 40-year maturity carrying a 5 percent coupon was initially priced at a slight discount of 99.48, and a 5.03 percent yield. Nearing the end of the day’s activity, however, block trade yields fell as low as 4.64 percent, lifting the price to 102.78, according to Schankel. MetroHealth reported that 122 banks, firms, and individuals competed for the bonds.

“I don’t know that it’s quite in the category of frothiness, but it’s getting close,” Schankel said.

Reuters

By Robin Respaut

June 05, 2017

(Reporting by Robin Respaut; Editing by Daniel Bases and Diane Craft)

Is It Time for an Infrastructure Garage Sale?

Australia has had success with ‘asset recycling.’ Maybe turning old into new could work here too.

The Trump administration’s proposed federal budget calls for spending $200 billion over 10 years to “incentivize” infrastructure investment by state and local governments. One key to the strategy is reportedly “asset recycling” — selling or leasing infrastructure assets to the private sector and using the proceeds to pay for upgrades, maintenance and new infrastructure. If the administration is indeed embracing this reinvestment mechanism, it deserves our serious consideration.

Asset recycling was developed by the Australian government in 2014. It may have hit the Trump administration's radar screen because Australia's 2016 budget demonstrated that $5 billion in federal funding incentives had stimulated more than $20 billion in infrastructure investments through asset recycling. It also attracted institutional investors by creating project pipelines, the lack of which has long impeded the development of a U.S. infrastructure market. Top Trump administration officials and advisers — including Vice President Mike Pence, Transportation Secretary Elaine Chao, National Economic Council Director Gary Cohn, and Steven Roth and Richard LeFrak, co-chairs of the President's Infrastructure Advisory Committee — have been championing the concept.

Asset recycling also involves another key to the Trump administration's trillion-dollar infrastructure strategy: the engagement of the private sector through public-private partnerships. P3s have received mixed reviews worldwide, and P3 activity in the United States has consistently trailed most countries. To move the debate on P3s forward in Australia, the government of Prime Minister Tony Abbott introduced the concept of asset recycling. Officials reasoned that tapping into a source of funding for needed infrastructure that would not cost taxpayers or add public debt might have the potential to overcome reservations about P3s.

To encourage Australian states and territories to mine their balance sheets for assets that could be divested, the Abbott government offered to contribute 15 percent of the value from the proceeds of divested assets to new infrastructure projects being financed with the proceeds from divested assets. The states and territories had a two-year window to identify the assets to be sold or leased and reach an agreement with the federal government.

Some jurisdictions jumped at the opportunity. New South Wales, for example, netted $3 billion from port leases to a consortium of Australian pension funds and a government-owned investment fund, then used the proceeds to improve roads and transit facilities. Tasmania sold an airport to fund transportation, agricultural water storage and irrigation projects.

Could what worked in Australia — essentially a garage sale of government-owned infrastructure — work in the United States? Maybe, but we've got some big challenges. In addition to the reluctance of local officials to give up control of infrastructure, current tax law provides powerful disincentives to the selling or leasing of assets. Assets that are sold or leased must not only repay associated tax-exempt debt, but state and local governments would also have to finance any new debt that is incurred on a more expensive, taxable basis.

Those challenges aren't insurmountable, as Indiana has shown. In 2006, the state leased the Indiana Toll Road, netting $3.5 billion after repaying $300 million of tax-exempt debt. The state put the proceeds into its infrastructure fund, which has since financed other transportation assets without taking on any additional debt or imposing tax increases.

Estimates of the potential value to be realized in the U.S. through recycling of existing revenue-generating assets — including not only toll roads but also ports, airports, bridges, water systems and parking facilities — exceed $1 trillion. And these estimates do not include the value of providing a reliable source of funding for infrastructure projects requiring "availability payments," the disbursements to concession-holders based on project or performance milestones.

As with other approaches to selling or leasing public assets to the private sector, any plan involving asset recycling will need much discussion to address risks. How do we guard against assets being sold on the cheap? How can we protect the public from potential misuse of market power by new private owners tempted to boost profits by increasing user charges? Other issues span the need to ensure that adequate regulatory frameworks govern divested assets to the task of assessing the impact of political pressure on market competitiveness. Not trivial issues.

Just as traditional public-private partnerships are not a silver-bullet solution to infrastructure financing, nor is asset recycling. Distinguishing assets most suited for recycling from those that are not will be tough. Resource-strapped governments will be hard-pressed to develop comprehensive asset inventories and master lifecycle management practices. And public pensions could be put under additional pressure to buy assets that don't fit into their investment strategies.

But it may be worth the work required. A federally driven asset-recycling program could help state and local governments access capital — without incurring debt or raising taxes — to build a new generation of infrastructure assets. More importantly, it would signal that the U.S. infrastructure market is open for business.

GOVERNING.COM

BY JILL EICHER | JUNE 1, 2017

The Week in Public Finance: Pension Reform in Texas, Fitch Lowers Expectations and Illinois Downgraded Again.

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

GOVERNING.COM

BY LIZ FARMER | JUNE 2, 2017

Bloomberg Markets: Manges Sees 'Smooth Sailing' for Muni Market.

Bloomberg Markets with Carol Massar and Cory Johnson.

GUEST: Hardy Manges Head of Municipal Dealer Sales MarketAxess Discussing the outlook for muni bond investing. Oliver Renick, Bloomberg News Stocks Reporter, also participates in the discussion.

Running time 08:00

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Muni-Bond Vultures Rethink Risks Lurking in Market's Junk Yard.

- **Puerto Rico bankruptcy rule changes surprised traders**
- **Distressed funds say they'll demand discounts in the future**

Puerto Rico's bankruptcy has left distressed municipal-debt traders like Hector Negroni wondering if the old rules still apply — not just in San Juan, but across the U.S.

The island's effort to shred protections written into its constitution to determine which creditors get paid first has made Negroni reconsider the high-yield, high-risk corner of the $3.8 trillion muni-bond market. "They're attempting to suspend the constitution," said Negroni, a principal at New York-based hedge fund Fundamental Credit Opportunities and a member of the general-obligation ad hoc group pushing for full payback.

It's true that no state has defaulted since Arkansas in 1933 — Puerto Rico is a U.S. territory — and that so far the island's actions have had no evident effect on the broader muni bond market. But the reverberations could, eventually, reach highly indebted states like Illinois, New Jersey and Connecticut. Puerto Rico's decision to renege on its constitutional commitment, the argument goes, may trigger a quicker deterioration in investor confidence in the next borrower that gets itself into real trouble.

As part of Puerto Rico's bankruptcy, made possible by an act of the U.S. Congress last year, a judge will now decide how investors will split repayments of $74 billion in bond debt, and Negroni and others will likely have to take less money than they were promised.

"People are going to start pricing in an increased probability of laws changing" by demanding discounts when they buy distressed debt, Negroni said.

Raise Taxes

Distressed muni-debt traders usually buy when the credit rating of a bond is downgraded to junk status. That's when institutions, such as mutual funds, are forced to sell or otherwise long-term retail investors get spooked.

"Next time around, you bet that they're going to be asking for lower prices when mutual funds want to unload something like Illinois," said Matt Fabian, a partner with Municipal Market Analytics Inc. in Concord, Massachusetts.

When faced with a swelling budget shortfall or a looming default, states are expected to do anything from raising taxes, cutting services or selling off assets to pay creditors. They don't have access to bankruptcy protection. Neither did Puerto Rico until last year, when Congress voted to help the commonwealth restructure its unsustainable debt. Puerto Rico has said it can only cover about $8 billion of $33.4 billion in bond payments due through 2026.

Doubly Protected

The law change came as a shock to some general-obligation bondholders, such as Negroni, who believed they were doubly protected. Not only would there be no bankruptcy, but the commonwealth's constitution said that repaying bondholders was a priority, even ahead of providing citizens with essential services. (That approach may not have thrilled those outside observers worried about worsening living conditions on the island, but it was the law.)

Although there's been no decision yet on how bondholders will divvy up the money, hedge funds holding $1.4 billion of the general-obligation bonds, including Aurelius Capital Management and Monarch Alternative Capital, have already sued to receive overdue principal and interest payments.

Puerto Rico's bankruptcy is the biggest in muni land. About half the states prohibit towns and cities from filing. Michigan isn't one of them. In Detroit, which was the second-largest muni bankruptcy, bondholders didn't do as well as they could have. Pensioners, despite not having first-paid status, were one of the least-impaired creditors, walking away with 82 cents on the dollar. General-obligation bondholders got 73 cents, and some water-and-sewer bondholders received as little as 1 cent on the dollar.

Bailout Packages

"You should know on the front end that laws can change, and that includes bailout packages as well," said Jon Schotz, co-managing partner at Saybrook Fund Advisors, a $250 million private equity firm that invests in distressed and defaulted municipal securities, including Prepa, Puerto Rico's public power utility.

Puerto Rico probably won't be the last U.S. entity to change the rules to cut down on its debt, said Kjerstin Hatch, managing principal of Lapis Advisers, which has about $380 million in assets under management but no Puerto Rico.

"How the country will deal with municipal default is likely in its infancy," Hatch said. "Ideas are forming, from a legislative and judicial standpoint, as to how we'll handle large insolvent municipal entities."

The flouting of constitutional rules may cause distressed muni-bond investors to insist on discounts, but it won't scare them away from the market, Fabian said.

"The ending of this movie might disappoint them, but they'd buy the ticket to watch it again."

Bloomberg Markets

by Kate Smith and Amanda Albright

May 30, 2017, 3:00 AM PDT

Bloomberg Brief Weekly Video - 06/01

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

Watch the video.

Bloomberg

June 1, 2017

Fitch: Pension Impact Adjusted in U.S. Public Finance Criteria.

Fitch Ratings-New York-31 May 2017: Under Fitch Ratings' updated U.S. public finance tax-supported rating criteria, released today, pension liabilities will be discounted at a fixed 6% investment-return assumption, with the upward liability adjustment determined by newly-reported sensitivity data. The accompanying report discusses the criteria changes related to pension analysis, and the rationale behind them in more detail.

The investment-return assumption had previously been set at 7%.

Pension liabilities and the cost of supporting them remain a source of uncertainty for governments given the generally irrevocable nature of vested benefits, the variable nature of liabilities, and the rising burden of contributions relative to resources.

"U.S. growth has been slower and more incremental over the current economic expansion than over longer time horizons. There is little evidence to suggest the economy will accelerate to previous levels of growth in the near term. Fitch believes that pensions will be hard-pressed to achieve their long-term growth expectations in the current economic context," said Douglas Offerman, Senior Director.

"The 6% return assumption, and increased total pension liability, better reflect the magnitude of the burden posed by pensions."

In another change announced in the new criteria, Fitch will compare its existing metric for the carrying cost of long-term liabilities, which relies on the reported actuarially determined contribution for pensions, to a new, supplemental metric that combines a hypothetical annual pension cost using a level repayment of the Fitch-adjusted net pension liability in a manner similar to bonded debt and an estimate of the cost of newly-accrued benefits.

The supplemental metric highlights outliers where expenditure flexibility can be expected to decrease substantially and unavoidably over time as a result of pensions.

The criteria adjustments will have only limited impact on current ratings because existing through-the-cycle assessments already capture Fitch's expectation for rising pension burdens.

The criteria report released today updates and replaces the tax-supported rating criteria dated April 18, 2016. The only material changes to those criteria relate to the analysis of defined benefit pension liabilities. Other revisions to the report are designed to improve clarity but are not substantive changes to the rating approach for U.S. state and local government credits.

For more information, a special report titled "Revised Pension Risk Measurements" is available on the Fitch Ratings web site at www.fitchratings.com or by clicking on the link.

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Muni Market to Benefit from 'Cash Blast' this Summer.

Demand for munis is rising while supply is set to shrink dramatically starting in June.

There are two big reasons why the muni market is likely to see a flood of new cash this summer, which should lift prices.

First, supply of new munis issued is expected to fall while munis mature at record levels. Peter Block of Ramirez & Co. wrote May 30:

> There is an acute supply-demand imbalance in the Muni market in June, which should help the Muni market outperform over the next few months. We estimate that in June alone, about $86 bil. will be available for reinvestment, including June 1 redemptions of $32 bil. and coupon of $54 bil. against the current 30 day visible supply of only $11 bil. New York (-$5.81 bil.), New Jersey (-$2.41 bil.), and California (-$2.37 bil.) will experience the greatest deficits, followed by Florida (-$1.75 bil.), and Georgia (-$1.24 bil.). We reaffirm our long-term new issue gross supply forecast for 2017 at $368 bil., for a decline of about $60 bil., or -14% YoY, which incorporates $204 bil. of new money bonds and $164 bil. of refundings.

Also, investors who fled munis, wary of the "Trump effect," are now coming back, writes Jim Colby, muni portfolio manager for municipal bond exchange-traded funds at VanEck in a Tuesday blog post. That means more demand.

He reports that as of May 23, the 37 municipal bond ETFs had, year-to-date, had collected $1.6 billion in net new assets. They now have $26.0 billion in assets, compared to $21 billion a year ago.

As individual munis become harder to find, Colby believes ETFs make more sense. He writes:

> On the one hand, for those for whom reinvesting (perhaps in individual bonds) in a potentially tighter muni market may pose unwanted challenges, a muni ETF can provide efficient and effective asset class exposure. They also offer the added advantages of both professional stewardship and, equally as important, diversification.

The biggest muni ETF is the iShares S&P National AMT-Free Municipal Bond Fund (MUB), which is approaching $111, after a nice run-up since mid-March. VanEck has a suite of muni ETFs that allow investors to target specific maturity ranges.

Barron's

By Amey Stone

May 31, 2017 3:33 p.m. ET

Retirees, Minimize Your Costs When Buying Bonds.

A new rule will require brokerage firms to disclose the markup or markdown on retail customers' trade confirmations for most corporate- and agency-bond trades.

For investors buying individual bonds, it's time to play "the price is right." Regulators are implementing new rules designed to help small investors get better prices on their bond trades.

Unlike stocks, whose prices are easily tracked on an exchange, bonds generally trade in an over-th--counter market where many small investors simply accept the price that their broker pins on a bond. But that price typically includes a "markup" from the prevailing market price (if you're buying the bond) and a "markdown" if you're selling it. These ups and downs are largely profits for broker-dealers—and they're usually not disclosed.

The new rules will change that. Late last year, the Financial Industry Regulatory Authority finalized a rule requiring brokerage firms to disclose the markup or markdown on retail customers' trade confirmations for most corporate- and agency-bond trades. The Municipal Securities Rulemaking Board also announced a similar rule for municipal-bond trades.

"Hallelujah, it's about time" that markups were disclosed, says Marilyn Cohen, chief executive officer of Envision Capital Management, in El Segundo, Calif. Just as competition has driven down mutual-fund fees and brokerage commissions, "there should be a price war in markups too," she says, and the disclosure rules could make that happen.

Although the rules don't take effect until May of next year, they put a spotlight on the importance of trading costs for bond investors—and recent research shows just how high those costs can be. A 2015 study from the University of Southern California Marshall School of Business found that individual investors pay an average of 0.772% in transaction costs when trading corporate bonds—or $115.80 on a $15,000 bond trade. Meanwhile, investors buying a stock through an online broker might pay a commission of $4.95 plus a penny or two per share in "bid-ask spread"—the difference between buying and selling prices.

Currently, many small investors don't even realize they're paying a markup, much less focus on its size. Investors buying the same bond on the same day and in the same amounts often pay very different prices.

But there are ways to minimize your bond trading costs. Online tools can help you research recent trades in the bond you're considering (or trades in bonds with similar characteristics) and raise your odds of paying a reasonable price. Armed with recent trade information, you may be able to haggle with your broker for a better deal. And when you have a better sense of how much bond trading is costing you, you can weigh the costs and benefits against alternatives such as bond mutual funds and exchange-traded funds.

To see recent trades, go to www.finra.org/marketdata for corporate bonds or www.emma.msrb.org for municipal bonds, and enter the CUSIP numbers of bonds that interest you. By looking at trades between dealers, you can get a sense of the prevailing market price. To figure out how much you should be paying, look for recent customer purchases of similar size to yours.

“If you’re buying small, weeny positions [say 10 or 15 bonds at a time], you’ll probably pay at least half a point,” or a markup of 0.5%, for an investment-grade bond, Cohen says. If you’re buying 50 to 100 bonds at a time, the markup may be closer to 0.25%, she says. Investors should expect to pay higher markups for lower-quality, “junk” bonds and bonds that are thinly traded.

But small investors can incur hefty trading costs even in higher-quality, less-obscure bonds. Research firm Municipal Market Analytics offers this example: Looking at a California general-obligation bond maturing in 2037, there were two inter-dealer trades on the morning of March 17 at nearly the same price: $112.73 and $112.67. Three minutes later, a customer bought $50,000 worth of the bonds at $115.10—2.2% more. Less than an hour after that, a large investor buying $6.9 million worth of the bonds got something much closer to the inter-dealer price: $112.99.

Such price discrepancies can make the muni market “very difficult for an individual investor,” says Thomas Doe, president of Municipal Market Analytics. The market actually resembles a “flea market,” he says, “because you have this eclectic product, very inconsistent supply and demand, and you’re just trying to match the product with a buyer.”

Prepare to Negotiate on Price

As in a flea market, you may have to haggle to get a good deal. Investors “don’t have to be price-takers,” says Lynnette Kelly, the Municipal Securities Rulemaking Board’s executive director. Prices can be negotiable. If you’re offered a bond at a price well above recent trade levels, you can say, ” ‘Why would I pay that? No one has paid that today on this transaction,’ ” says John Bagley, MSRB’s chief market structure officer. Then use comparable customer trades to name a price you think is fair.

In many cases, there may not be any recent trades in the specific bond that interests you. But recent trades in comparable bonds can give you a rough idea of how much you should pay for the bond you want. Use the advanced search on the Finra market data site or the price discovery tool on MSRB’s EMMA site to find bonds with similar credit quality, maturity and other characteristics.

Muni-bond investors may be able to get the best price by buying newly issued bonds during the “retail order period,” when orders are accepted only from small investors. That way, “on 10 or 15 bonds you’ll get the same price as Pimco buying 14 million bonds,” Cohen says.

Another simple way to limit your bond transaction costs: Trade them as little as possible. Hold individual bonds to maturity.

But some advisers question whether small investors buying individual bonds can ever get a fair shake. “I think it’s a sucker’s market,” says Frank Armstrong, chief executive officer of Investor Solutions, an advisory firm in Miami.

When clients come to him with individual bonds, Armstrong says, he generally sells them off and replaces them with bond mutual funds or exchange-traded funds. Some bond funds charge annual fees of just 0.04%, while it can cost 4% or 5% to do a “round trip,” meaning buying and selling reasonably liquid individual bonds, Armstrong says. “That just eats into your total return. In an environment where there’s hardly any income in fixed income, why would you want to give that up?”

KIPLINGER’S

By ELEANOR LAISE, Senior Editor

From Kiplinger’s Retirement Report, June 2017

Rising Seas May Wipe Out These Jersey Towns, but They're Still Rated AAA.

- **Cities at most risk from extreme weather still get top ratings**
- **Storms, floods could diminish tax revenue and raise costs**

Few parts of the U.S. are as exposed to the threats from climate change as Ocean County, New Jersey. It was here in Seaside Heights that Hurricane Sandy flooded an oceanfront amusement park, leaving an inundated roller coaster as an iconic image of rising sea levels. Scientists say more floods and stronger hurricanes are likely as the planet warms.

Yet last summer, when Ocean County wanted to sell $31 million in bonds maturing over 20 years, neither of its two rating companies, Moody’s Investors Service or S&P Global Ratings, asked any questions about the expected effect of climate change on its finances.

“It didn’t come up, which says to me they’re not concerned about it,” says John Bartlett, the Ocean County representative who negotiated with the rating companies. Both gave the bonds a perfect triple-A rating.

The same rating companies that were caught flat-footed by the downturn in the mortgage market during the global financial crisis that ended in 2009 may be underestimating the threat of climate change to coastal communities. If repeated storms and floods are likely to send property values — and tax revenue — sinking while spending on sea walls, storm drains or flood-resistant buildings goes up, investors say bond buyers should be warned.

“They are supposed to identify risk to investors,” said Eric Glass, a fixed-income portfolio manager at Alliance Bernstein, a New York investment management firm that handles $500 billion in assets. “This is a material risk.”

Breckinridge Capital Advisors, a Boston-based firm specializing in fixed-income investments, is already accounting for those risks internally: Last year, it downgraded a borrower in Florida due to climate risk, citing the need for additional capital spending because of future flooding.

Rob Fernandez, its director of environmental, social and governance research, said rating companies should do the same. “Either incorporate these factors, or, if you say that you are, tell us how you’re doing it,” he said.

S&P and Moody’s say they’re working on how to incorporate the risk to bonds from severe or unpredictable weather. Moody’s released a report about climate impacts on corporate bond ratings last November and is preparing a similar report on municipal bonds now.

Fitch Ratings Ltd. is more skeptical.

“Some of these disasters, it’s going to sound callous and terrible, but they’re not credit-negative,” Amy Laskey, managing director for the local government group at Fitch, said in an interview. “They rebuild, and the new facilities are of higher quality and higher value than the old ones.”

For more than a century, rating companies have published information helping investors gauge the likelihood that companies and governments will be able to pay back the money they borrow. Investors use those ratings to decide which bonds to buy and gauge the risk of their portfolio. For most of that time, the determinants of creditworthiness were fairly constant, including revenue, debt levels and financial management. And municipal defaults are rare: Moody’s reports fewer than 100 defaults by municipal borrowers it rated between 1970 and 2014.

Climate change introduces a new risk, especially for coastal cities, as storms and floods increase in frequency and intensity, threatening to destroy property and push out residents. That, in turn, can reduce economic activity and tax revenue. Rising seas exacerbate those threats and pose new ones, as expensive property along the water becomes more costly to protect — and, in some cases, may get swallowed up by the ocean and disappear from the property-tax rolls entirely.

Just as a shrinking auto industry slowly crippled Detroit, leading to an exodus of residents and, eventually, its bankruptcy in 2013, other cities could face the accumulating risks of storms or floods — and then suddenly encounter a crisis.

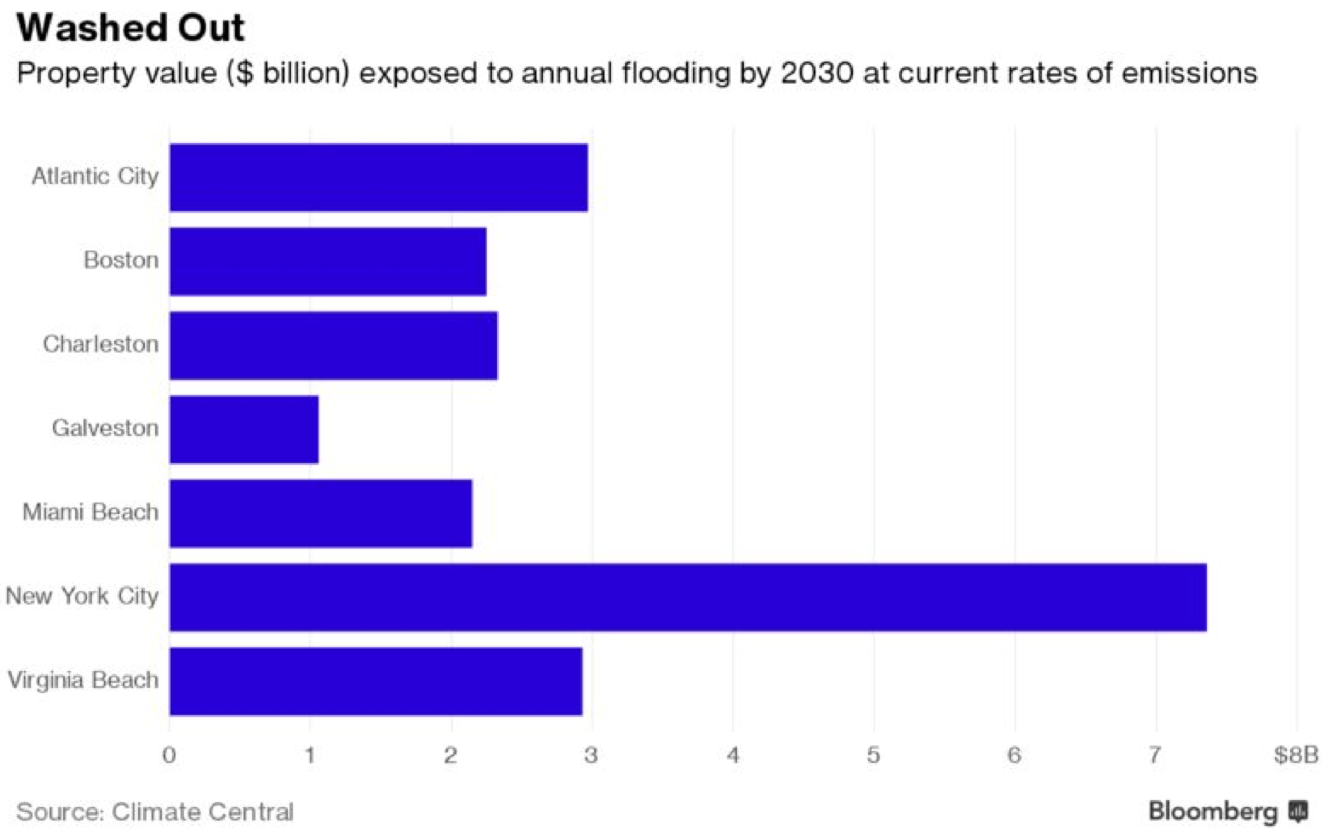
“One of the first questions that we’re going to ask when confronted with an issuer along the coast of Texas, or on the coast of Florida, is: How are you going about addressing, mitigating the impacts of climate change?” Glass, Alliance Bernstein, said. And if local officials don’t have a good answer to that question, he added, “We will not invest, period.”

When asked by Bloomberg, none of the big three bond raters could cite an example of climate risk affecting the rating of a city’s bonds.

Kurt Forsgren, a managing director at S&P, said its municipal ratings remain “largely driven by financial performance.” He said the company was looking for ways to account for climate change in ratings, including through a city’s ability to access insurance.

Henry Shilling, Moody’s senior vice president for environment, social and governance risks, said the company is planning to issue a report this summer that explains how it will incorporate climate change into its municipal ratings. “It’s a bit of a journey,” he said.

Last September, when Hilton Head Island in South Carolina issued bonds that mature over 20 years, Moody’s gave the debt a triple-A rating. In January 2016, all three major bond companies gave triple-A ratings to long-term bonds issued by the city of Virginia Beach, which the U.S. Navy has said faces severe threats from climate change.



The threat isn't limited to smaller cities. The World Bank called Boston one of the 10 cities globally that are most financially exposed to flooding. But in March, when Boston issued $150 million in bonds maturing over 20 years, Moody's and S&P each gave those bonds top ratings.

Of course, predictions are hard, especially about the future. While scientists are generally united about the science of climate change, its pace remains uncertain. And what all of that will mean for communities and their likelihood of paying back bonds is not a simple calculation. Ocean County continued to pay back its current debt load after Sandy, and will still have a lot of oceanfront property if its current coast is swamped. The oceanfront just won't be in the same place.

The storms or floods "might be so severe that it's going to wipe out the taxation ability," said Bob Buhr, a former vice president at Moody's who retired last year as a director at Societe Generale SA. "I think this is a real risk."

In May 2016, 117 investors with $19 trillion in assets signed a statement calling for credit ratings to include "systematic and transparent consideration" of environmental and other factors. Signatories also included rating companies from China, the U.S. and elsewhere, including Moody's and S&P.

Not Experts

Laskey, of Fitch, was skeptical that rating companies could or should account for climate risk in municipal ratings.

"We're not emergency-preparedness experts," she said in a phone interview. "Unless we see reason to think, 'Oh, they're not paying attention,' we assume that they're competent, and they're doing what they need to do in terms of preparedness."

That view is at odds with the picture painted by engineers, safety advocates and insurers. Timothy Reinhold, senior vice president for research at the Insurance Institute for Business & Home Safety, a group funded by insurers, said local officials aren't doing enough to prepare for the threats of climate change.

"While most coastal communities and cities have weather-related disaster response plans, many older, existing structures within these communities are not as durable, or as resilient as they could and should be," Reinhold wrote in an email.

Politically Fraught

The types of actions that cities could take to reduce their risk — including tougher building codes, fewer building permits near the coast and buying out the most vulnerable properties — are politically fraught. And the benefits of those policies are typically years away, long after today's current leaders will have retired.

The weakness of other incentives leaves the risk of a credit downgrade as one of the most effective prompts available to spur cities to deal with the threat, according to Craig Fugate, director of the Federal Emergency Management Agency under President Barack Obama.

"They need cheap money to finance government," Fugate said in a phone interview. If climate considerations meant higher interest rates, "not only will you have their attention. You'll actually see changes."

Fugate also said rating companies were wrong to assume that cities are well prepared for climate change, or that their revenue will necessarily recover after a natural disaster.

As an example, he cited the case of Homestead, a city south of Miami that bore the worst damage from Hurricane Andrew in 1992. The city's largest employer, Homestead Air Force Base, was destroyed in the storm; rather than rebuild it, the federal government decided to include the facility in its base closures.

Fugate said climate change increases the risk that something similar could happen to other places along the coast — and they won't ever be able to bounce back as Homestead eventually did.

"If that tax base does not come back," he warned, "they cannot service their debt." Asked about rating companies' insistence that such risks are remote, Fugate scoffed. "Weren't these the same people telling us that the subprime mortgage crisis would never happen?"

Bloomberg

by Christopher Flavelle

May 25, 2017, 1:00 AM PDT

S&P: The Top 10 Management Characteristics of Highly Rated State and Local Borrowers.

U.S. public finance government borrowers are a varied group, but those with the strongest credit profiles have a lot in common when it comes to management practices.

Continue reading.

May 22, 2017

P3 Digest: May 23, 2017

White House Pushes to Leverage Private Sector for Infrastructure Change

As part of its budget rollout this morning, the White House identified public-private partnerships…

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May 23, 2017

S&P Global Ratings Announces New Green Evaluation Service.

S&P Global Ratings announced the launch of its Green Evaluation service, a comprehensive approach to measuring sustainability at the asset level. Green Evaluations, which are separate from traditional credit ratings, can be used to assess the green impact of a variety of securities and are independent of credit characteristics.

Continue reading.

Apr. 26, 2017

Beyond Green Bonds: Sustainable Finance Comes Of Age.

Investment of some $90 trillion is needed in the next 15 years to achieve global sustainable development and climate objectives, according to estimates put forward by the Group of Twenty's Green Finance Synthesis Report. Over $800 billion needs to be invested every year to 2020 in renewable energy, energy efficiency, and low-emission vehicles alone, according to OECD estimates.

Continue reading.

Apr. 26, 2017

S&P: We Won't Solve for Green Finance Unless We Solve For Infrastructure.

The green bond market reached an estimated $42 billion of new issuance in 2015 and in excess of $80 billion in 2016. As anticipated, given the magnitude of China's environmental issues, its government has constructed a top-down push to solve the country's environmental issues.

Continue reading.

Apr. 26, 2017

How Much Do States Rely on Federal Funding?

There's a wide range of dependence across and within the states. Here's a state-by-state look at how welfare, education and roads could be impacted by the next budget that Trump signs.

As Congress debates the budget, states are eagerly waiting to hear how it will affect them.

Updated data from the Census Bureau's 2015 Annual Survey of State Government Finances published last week indicates that federal aid made up nearly a third of all states' general fund revenues in fiscal year 2015. The single largest line items in states' budgets include federal funding for transportation, Medicaid and other social assistance programs.

The survey, which provides a detailed portrait of how states generate and spend money, suggests states' reliance on federal money varies greatly. Even larger discrepancies exist across individual areas of state government.

We've compiled data below showing how much of each state's budget is tied to federal aid across select major spending areas.

Continue reading.

GOVERNING.COM

BY MIKE MACIAG | MAY 22, 2017

The Week in Public Finance: The Trump Budget Edition

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

GOVERNING.COM

BY LIZ FARMER | MAY 26, 2017

Where a Shopping Mall Used to Be, an Opportunity Arises.

The decline of malls in America can mean lost jobs and lower tax revenues for states and municipalities — but not always.

There are threats everywhere to state and local revenues. To that list add this one: The golden age of malls in America seems to be well and truly over. Several of the country's 1,000 enclosed malls and a chunk of the nation's 47,000 shopping centers have either shut down or are emptying out.

Overall investment in retail property assets declined nearly 20 percent last year. Vacancy rates in community shopping centers increased in 30 of 77 U.S. metro areas last year. Rents, which usually increase roughly at the rate of inflation in healthy markets, decreased.

These trends may accelerate. In recent months, department stores such as Sears and Macy's — bulwarks of shopping malls — announced plans to close hundreds of stores nationwide. It will surprise few that this change in the fortunes of shopping malls comes in the wake of the accelerating growth of online shopping. Amazon is expected to surpass Macy's as America's top clothing seller this year, according to Cowen Group Inc., a financial services firm.

The fiscal implications of mall closings for states and localities are significant. Not only are jobs, corporate income tax revenues, and sales and use tax revenues foregone, but so are property taxes. "If a mall closes or goes into decline, you're going to see declining property values in the area," says Arthur Nelson, a professor of urban planning and real estate development at the University of Arizona.

The Fort Steuben Mall in Steubenville, Ohio, is an example of what it looks like when a mall starts to fail. A former steel town on the edge of the Ohio River, the community is facing a double whammy of store closures: On one end of its mall is an empty space that used to house a Sears; on the opposite is a Macy's, which is set to close this spring. The mall went into foreclosure in February 2016 and was sold to the bank that held the mortgage — for roughly two-thirds of its previously estimated value.

But the depopulating of malls doesn't need to be a negative. One city leader says he sees a significant upside: "It can help hasten the eventual redevelopment of the entire mall site. It's potentially a big positive for the city's tax revenues as it makes much closer the day where redevelopment proceeds [start pouring in]."

I have watched this play out in my own city of Alexandria, Va., where the Landmark Mall has both a Sears and a Macy's as tenants. Seventeen years ago, the mall as a whole and the Sears store that anchored it generated $1.25 million in real estate taxes. Today, they bring in only about $500,000 in real estate taxes. Moreover, to aggravate the fiscal dilemma, the reduction in revenues from sales tax, dining tax and other business taxes has also been dramatic. And now Macy's has announced it is closing its Landmark store. As Alexandria Vice Mayor Justin Wilson told me, "There is no clearer demonstration of the city's financial challenges than the predicament that currently faces Landmark Mall."

But Alexandria is seeing and seizing an opportunity. It has rezoned the site and has encouraged the mall's owner, the Howard Hughes Corp., to move ahead with its plan to transform the enclosed portion of the mall and the Macy's parcel into an open-air urban village that has stores, restaurants, housing and entertainment venues.

Wilson notes that the passing of the glory days of malls ought not to be a dirge for times gone by, but rather an opportunity to latch onto a nationwide trend of returning to cities' historic urban centers both to live and to start businesses.

GOVERNING.COM

BY FRANK SHAFROTH | MAY 2017

Should Struggling Airports Be Turned Over to Companies?

St. Louis International could become the largest airport in the country under private control.

St. Louis has a vexing problem with its airport: It’s too big.

Lambert International today handles only about half as much traffic as it did just over a decade ago. That’s left the facility with more than enough runway capacity and a lot of empty gates.

Why the precipitous drop in traffic? Airline consolidations. When American Airlines took over TWA, which was based in St. Louis, it stopped using Lambert as a Midwestern hub. The airport has somewhat pulled out of that dive, especially as Southwest Airlines has expanded its operations there. But the city is still faced with the challenge of running an airport that’s much larger than it needs to be.

Now, with the help of a think tank that promotes limited government, St. Louis is exploring whether a private operator might do a better job. Thanks to the Trump administration, which has promoted the value of public-private partnerships, the city can now see whether that plan is feasible.

“This approach to airport management increases productivity, revenue and operating efficiency for airports, creating greater access to capital for infrastructure needs,” U.S. Transportation Secretary Elaine Chao said last month, pointing to the success of a similar effort in San Juan, Puerto Rico. Chao announced that the Federal Aviation Administration approved St. Louis’ request to join a federal program that allows airports to be run by private operators. FAA approval is the first step in that process.

A Clinton-era law allows for airports to be privately managed but sets strict rules for how those deals are carried out. The complicated rules are one reason that not many cities have opted to go that route. St. Louis is the fourth — and largest — airport that currently has FAA permission to use a private operator. (Other airports, such as LaGuardia Airport in New York City, have leased individual terminals to private operators, but, unlike the potential St. Louis deal, all of the proceeds from those arrangements must remain in the airport.)

St. Louis is a long way from handing over the keys to its airport. Mayor Lyda Krewson, who assumed office a week before Chao’s announcement, made that clear. “I appreciate their consideration of our application and look forward to working with the FAA throughout the process, but,” she cautioned, “the key is in the details.”

Krewson’s predecessor, Francis Slay, brought the idea to the federal government, but the main driver behind the effort is Grow Missouri, Inc., a group funded by Rex Sinquefield, an anti-tax activist who is a major force in Missouri politics.

Travis Brown, an organizer with Grow Missouri’s Fly 314 Coalition, says there are many ways a private operator could attract new business, update the airport’s facilities and even generate money for the city.

He says a private operator could take a more strategic approach to running the airport. They could, for example, improve the facilities to attract new vendors, negotiate better flight schedules with airlines or lure more cargo business, Brown says. He points to airports in Memphis, Indianapolis and Louisville that have improved their fortunes by expanding cargo operations.

Brown is confident that private investors would be willing to take on a project like running the St. Louis airport. While the arrangement is seldom used in the United States, it is very common in Europe. Plus, Brown points out, Chicago came close to a similar deal for Midway International Airport in 2013. While that plan eventually sputtered out, it did show that airlines could be willing to go along with a privatization plan, which federal law requires for approval of the deal.

But Chicago's experience also highlights how tricky it can be to execute a move to a private operator. Mayor Rahm Emanuel pulled the plug on the efforts to lease Midway after nine months of exploring a deal. The mayor said the companies bidding on the airport did not offer enough protections for taxpayers.

"I learned in the private sector that sometimes the best deals are the ones you don't make," Emanuel wrote in a Chicago Tribune op-ed. "My most important goal was to protect the interests of the city and its taxpayers in a way that had not been done on previous public-private partnerships."

In other words, Emanuel wanted to avoid the storm of controversy that followed a 2008 deal authorized by his predecessor, Richard M. Daley, to lease the city's parking meters for 75 years. The $1.2 billion deal led to skyrocketing parking costs, and the city's inspector general concluded that the value of the contract was far less than what the private consortium paid for it.

But Daley had tried to lease out Midway, as well. Chicago's city council approved the 99-year, $2.5 billion deal just eight days after it had been made public. But the arrangement fell apart in 2009 when capital markets froze during the Great Recession, and the private investors could not find enough money for the deal.

Emanuel said the city had learned a lot from those experiences. "While this partnership did not work out, the process was not a waste of time," he wrote in the Tribune. He continued:

"There are five things we learned over the past six months that should guide any future public-private partnerships: first, a group of outside experts should be impaneled at the start of the process to monitor each step; second, there must be a minimum 30-day review by the City Council before the project is voted upon; third, there should be a clear set of standards so the public can judge a potential partnership when it is presented; fourth, the funds should be invested in infrastructure rather than used as a plug for short-term budget holes; fifth, a true public-private partnership requires that taxpayers maintain control of the asset and share in management decisions and financial profit."

Those experiences will loom large for St. Louis as it explores its airport lease.

Brown, from Fly 314, says the process will help St. Louis, no matter the outcome. "The worst thing that can happen is that we don't like the proposals we see, but we learn a lot about ourselves and what we should be doing," he says. "We think we're at least as good as Chicago."

GOVERNING.COM

BY DANIEL C. VOCK | MAY 22, 2017

Where to Park Wall Street's Infrastructure Billions.

President Donald Trump is pushing for $1 trillion in U.S. infrastructure spending over a decade.

What will it take to make that happen and where could the money go?

Trump's proposed budget calls for setting aside $200 billion in federal funding with the aim of attracting an additional $800 billion or more of private, state and local investment in roads, bridges and other public works. An additional six pages released with the budget (noticeably longer than Trump's one-page tax plan) include proposals that cover everything from allowing tolling on interstate highways to leasing power-transmission assets.

Parts of the infrastructure plan (along with much of the budget) were quickly slammed by Democrats out of concern that some proposals could rack up costs for constituents and because of quibbles over where the money will come from, among other things. Some Republicans have issues, too — but despite all that, there's widespread recognition that revitalizing infrastructure should be a priority.

The belief that bipartisan support for an infrastructure package will eventually be reached has emboldened private investors — so much so, that newer players in the space like Blackstone Group LP and old hands such as Global Infrastructure Partners have raised or are raising billions of dollars, joining other investors that have long been scoping out the sector:

Building Bricks

Donald Trump's pledge to facilitate $1 trillion in infrastructure spending has sparked a surge in private fundraising for projects targeting North American infrastructure.

They're counting on the fact that the privatization schemes Trump is touting — which are commonplace in Australia, the U.K. and other nations — will play a key part in any new wave of U.S. investment, even if they haven't to a large degree thus far.

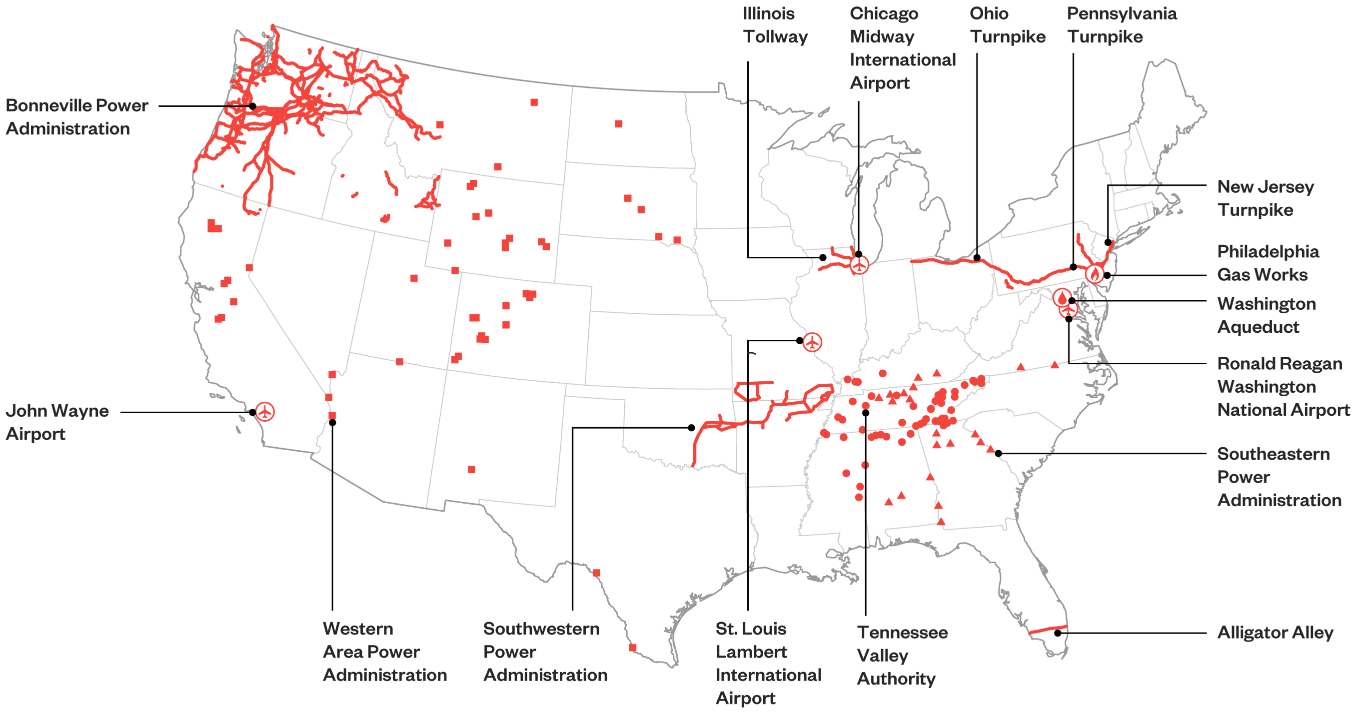
The logic is pretty simple: such programs traditionally involve the sale of long-term leases that give purchasers the right to operate and maintain a project. Sellers of those concessions — often states or municipalities — can then use proceeds and any bonus government incentives to fund additional infrastructure improvements or supplement spending in areas such as health care, transport and education.

Despite the many benefits, these programs haven't been easy sells in the U.S., owing in part to political wrangling at the federal, state and local levels and a general distrust of public assets like roads and airports being run as for-profit enterprises. That's understandable — but there is still merit to the idea of privatizations, and places where they could work:

First on the Runway

First on the Runway

If President Donald Trump's plan materializes, private infrastructure investors may flock toward these potential targets.



Sources: U.S. Census Bureau, U.S. Energy Information Administration, ESRI

BloombergGadfly

Contenders include Chicago Midway International Airport, Philadelphia Gas Works Co. and Pennsylvania Turnpike — all of which have explored privatizations to the point of receiving bids. Then there's St. Louis Lambert International Airport, which last month received preliminary approval to study a privatization plan that would make it the first mainland U.S. airport to be operated by private investors. And other public works that should be taken into serious consideration for privatization include already-tolled roads and federally owned electric utilities such as Bonneville Power Administration.

Beyond traditional infrastructure, Trump has floated the idea of spinning off the U.S. air-traffic system. Other deals that could one day transpire include the possible privatization of businesses such as Amtrak, the U.S. Postal Service (a move that would replicate happenings in Japan and the U.K.) and even state lottery operators (Illinois, Indiana and New Jersey have already paved the way, with mixed success).

Regardless of the specifics, U.S. privatizations will be a political minefield. Ensuring the $200 billion in federal funding incentives are delivered in a way that appeases critics will be key if there's any hope of Trump achieving his lofty $1 trillion goal. But infrastructure does seem to be one place where both parties can come together, even if the rest of his budget is dead on arrival. Private money shouldn't be seen as taboo.

1. To be sure, there have been some notable transactions, including the privatizations of the Indiana Toll Road and Chicago Skyway, but such deals have been few and far between.

2. Under President Bill Clinton, the Alaska Power Administration was privatized. Trump has his eye on other energy utilities, and mentioned Southwestern Power Administration, Western Area Power

Administration and Bonneville Power Administration in his budget this week.

Bloomberg

By Gillian Tan

May 26, 2017 7:30 AM EDT

Gillian Tan is a Bloomberg Gadfly columnist covering deals and private equity. She previously was a reporter for the Wall Street Journal. She is a qualified chartered accountant.

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Local Governments' Hidden Reason to Oppose Tax Cuts: Bank Loans.

- **Tax cuts could trigger 'yield maintenance provisions' in loans**
- **Officials ' may not appreciate all the risks,' analyst says**

Some local governments have a hidden reason to root against President Donald Trump's tax-cutting agenda: It could make their bank loans more costly, according to Municipal Market Analytics.

Municipalities have borrowed billions from banks to skirt the expenses associated with public bond offerings. But banks often include provisions enabling them to raise the interest rates if legal or regulatory changes diminish their returns. A cut in the corporate tax rate, for example, would likely result in a lower after-tax yield on a tax-exempt loan, potentially triggering "yield maintenance" provisions, wrote analysts at MMA, a Concord, Massachusetts-based independent research firm.

"Given the current administration's focus on tax-reform and/or tax cuts, borrowers that have these yield maintenance provisions could see their debt service costs rise," MMA wrote.

Direct lending by banks has proliferated in the $3.8 trillion municipal market because states, local governments and non-profits can borrow at rates comparable to those on bonds, without the fees or disclosure requirements associated with securities sales.

Because loans aren't classified as securities, states and cities aren't immediately required to disclose them, despite the risk they can pose to bondholders and taxpayers. For example, banks can demand accelerated principal and interest if a payment is skipped or a government's cash falls below a specific target, which could push the borrower into a liquidity crisis if it can't cover the bills.

MMA estimates that some $180 billion of such loans have been made. But given the lack of disclosure, it's impossible to know how many borrowers might be subject to rate increases if federal taxes are cut, MMA wrote.

The Securities and Exchange Commission in March proposed requiring state and local governments provide information about significant bank loans within 10 days.

A borrower with a $20 million loan could pay an additional $50,000 in annual interest if the rate is increased 0.25 percentage point to compensate for the reduced after-tax return a lower corporate levy would bring, MMA said. By contrast, when municipalities issue fixed-rate debt the risk of future tax changes is shifted to bondholders. President Trump has proposed reducing corporate taxes to 15 percent from the current 35 percent.

Many municipalities that used derivatives such as interest-rate swaps in the mid-2000s to lower borrowing costs weren't aware of the risks and had to pay billions of dollars to get out of the contracts when investors dumped certain types of municipal bonds en masse during the financial crisis.

"Banks that provided interest-rate swaps to municipalities found themselves in a firestorm of negative media stories detailing how they profited on the backs of municipal borrowers, costing taxpayers billions of dollars," MMA wrote. As with interest-rate swaps, "many municipalities may not fully appreciate all the risks inherent in bank loans."

Bloomberg Markets

by Martin Z Braun

May 24, 2017, 10:30 AM PDT

Bloomberg Brief Weekly Video - 05/25

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

Watch video.

Bloomberg

May 25, 2017

Municipal Bond Sales Poised to Fall, Buttressing Sector's Gains.

- **Slate of sales set for next 30 days hits two-month low**
- **'Enticing technical backdrop' for the market, analyst says**

The pipeline of bond sales from U.S. state and local governments has dropped to its lowest in more than two months, signaling a continuation of the borrowing slowdown that's helped support a rally in the municipal market.

The volume of tax-exempt bonds that are scheduled to be sold over the next month has tumbled to about $8 billion, the least since late March, according to data compiled by Bloomberg. The decline comes as investors continue to pour money into municipal-bond mutual funds while yields, which move in the opposite direction as price, have slid to their lowest since soon after President Donald Trump's November election.

While the number of planned sales typically drops ahead of the Memorial Day weekend, borrowing by municipalities this year has pulled back from last year's record pace amid uncertainty about the direction of interest rates and Trump's policies. By May 19, $141.5 billion has been issued this year, an 11 percent drop from the same period in 2016, according to data compiled by Bloomberg.

Some analysts have predicted that the tax-exempt market will shirk over the summer as bonds mature at a faster pace than they're sold, leaving investors flush with cash to reinvest. Municipal securities have returned 3.5 percent this year, more than twice the 1.6 percent gain for Treasuries, according to Bloomberg Barclays indexes.

"The net negative supply figures are expected to expand into the summer months," wrote Jeffrey Lipton, head of municipal research at Oppenheimer & Co., in a note to investors this week. "We believe that both retail and institutional demand will prove more robust against a more enticing technical backdrop."

Bloomberg clients: We'll be doing a TOPLive Q&A on Tuesday, May 30 at noon ET, moderated by Elizabeth Campbell, in which you can ask Joe Mysak questions about the latest with Illinois and its budget impasse. You can watch it here. If you want to ask a question, please send to TOPLive@bloomberg.net.

Bloomberg

by Rebecca Spalding

May 25, 2017, 9:03 AM PDT

[Municipal Bonds Richest in a Year as Supply Dries Up in Summer.]

- **New Jersey, New York and California show net negative supply**
- **Muni sector forecast to show robust performance this summer**

State and local debt hit its richest value compared with Treasuries in about a year, as demand for the securities remains robust against shrinking supply.

The index that tracks the benchmark 10-year municipal bond yield as a percentage of U.S. Treasuries sunk to 86.9 percent this week, the lowest since June 2016, according to Bloomberg data. At the beginning of the month, the gauge hovered near 95 percent.

The rally in municipal debt comes as analysts expect supply to continue to shrink in the summer months at the same time that cash-rich investors will have a hoard to invest. Citigroup Inc. analysts predicted that the market will shrink by $39.5 billion between June and August, while investors will receive $44 billion in interest payments.

"Because of the lack of supply relative to demand, and because of the relative height of nominal yields, its going to be hard for munis to project weakness over the summer," said Matt Fabian, a partner with Municipal Market Analytics Inc., in a telephone interview. "Left to their own devices, munis will be prone to rally."

Not all states are created equal. New York, California, and New Jersey show the most extreme net negative supply numbers as of May 25, with the Empire State posting negative $5.3 billion. All but seven of the 50 states posted negative net supply figures during the same time frame.

“We’re heading into a period of even more pronounced supply shortage. Unless governments dramatically increase their borrowing for infrastructure, we’re heading into a period with a shortage of bonds,” Fabian said.

Bloomberg Markets

by Rebecca Spalding

May 26, 2017, 10:11 AM PD

[Trump’s Proposed Budget Could Bankrupt Cities and Towns.]

WASHINGTON — May 23, 2017 — This morning, the Trump Administration sent its full budget proposal to Congress. The proposal includes unprecedented cuts that would slash or eliminate crucial programs that invest in cities and create jobs, including the Community Development Block Grants (CDBG), TIGER grants for transportation projects and the HOME Investment Partnership Program. The National League of Cities (NLC) is concerned that small cities would fare the worst under the proposal, since they are less able to compensate for the cuts. Many states limit the amount of additional revenue cities may raise, leading to a real possibility of municipal bankruptcy for some small cities. In response, NLC President Matt Zone, councilmember, Cleveland, released the following statement:

> “The administration’s budget proposal would be devastating to cities and towns. No community in America would be better off with this budget, and it could bankrupt smaller cities and towns. It does nothing to create jobs in our communities, and violates the president’s core campaign promise to lift up Americans in communities across the nation.
>
> “The White House ignored more than 700 city officials who urged the administration to protect crucial programs, including Community Development Block Grants, TIGER grants and the HOME Investment Partnership Program. These vital programs allow communities to invest in public safety, economic development and infrastructure, and create private-sector jobs.
>
> “The budget proposal would have a disproportionate impact on America’s small cities and towns, whose budgets are already stretched thin. In these communities, the programs being targeted are a lifeline for maintenance and investment. For those communities, this budget would spell disaster — and, in many cases, bankruptcy.
>
> “As the leaders of America’s cities, we call on Congress to throw out this budget proposal and develop a new plan focused on building prosperity, expanding opportunity and investing in our future. Congress must reject this budget proposal or risk derailing local economies nationwide.”

The National League of Cities (NLC) is dedicated to helping city leaders build better communities. NLC is a resource and advocate for 19,000 cities, towns and villages, representing more than 218 million Americans. www.nlc.org

[Mayors Buttigieg and Dupree Testify on Wastewater and Stormwater Costs Request to Congress – Pass Integrated Planning and Affordability Legislation.]

South Bend Mayor Pete Buttigieg testified on behalf of The US Conference of Mayors and Hattiesburg Mayor Johnny Dupree testified on behalf of the National League of Cities before the House Transportation and Infrastructure Subcommittee on Water Resources and the Environment, on the high costs of Clean Water Act (CWA) mandates and the need to create additional tools to assist communities achieve their goals in a cost-effective manner.

The May 18, 2017 hearing was entitled, Building a 21st Century Infrastructure for America: Improving Water Quality through Integrated Planning. Joining the Mayors were: Todd Portune, Commissioner, Hamilton County, Ohio; on behalf of the National Association of Counties; Craig Butler, Director, Ohio Environmental Protection Agency; on behalf of the Environmental Council of the States; William Spearman, Principal, WE3 Consultants on behalf of the American Public Works Association; and Lawrence Levine, Senior Attorney, Natural Resources Defense Council.

Both Mayors talked about the costs of combined and sanitary sewer consent decrees and stormwater regulations for their cities. Mayor Buttigieg said that South Bend's consent decree will cost his city $861 million. "This is a significant burden for our residents," Buttigieg said, "with one out of every five households having to pay 10% of their household income just toward their wastewater bill and one of every ten households will pay 14%. As a result, every South Bend household spending $1300 per year for the next 15 years for a total of $19,500."

Both discussed how integrated planning and affordability legislation would help their cities achieve better results while making the costs more manageable.

The Conference of Mayors worked with Environmental Protection Agency (EPA) to create the concept of Integrated (or comprehensive) Planning to help cities solve their most pressing water and wastewater needs in a more cost-effective way. Joining the Conference of Mayors were the National League of Cities and National Association of Counties in negotiations with EPA. As a result of our efforts, EPA created memorandums on Green Infrastructure, Integrated Planning, and Financial Capability that they distributed to the EPA Regional Offices. However, the Regional Offices have not always been enthusiastic about allowing communities to implement any of these tools. That is why the three local government associations are seeking legislation that would codify Integrated Planning, define Financial Capability, and encourage the use of Green Infrastructure.

"While the Integrated Planning Framework and the Financial Capability Framework have been positive steps by EPA to address the high costs of meeting CWA regulatory requirements, there is more work to be done to ensure that these policy frameworks are useful tools for our communities across the country," said DuPree.

Mayor Buttigieg outlined the Conference's key priorities for the legislation including: Codifying EPA's Integrated Planning and Permitting Policy; Achieving Long Term Control of Stormwater Through Permits; Renewing Congressional Support for Exercising Flexibility in Existing Clean Water Law; and Eliminating Civil Penalties for local governments who develop an integrated plan and make reasonable further progress into improving their water.

The members of the House are listening and the Mayors thanked them for introducing multiple bills that would address many of our priorities. Mayor Buttigieg expressed gratitude for all the introduced bills but did say that the Conference of Mayors preferred HR 465, the Water Quality

Improvement Act of 2017, which was introduced by Representative Bob Gibbs (OH). HR 465 has several unique provisions that would better help communities by defining affordability, asking EPA to determine if their solutions are technically feasible, and allowing cities to solve their long-term wastewater and stormwater needs through permits, rather than through consent decrees.

The Senate has also taken the issue of Integrated Planning, Financial Capabilty, and Green Infrastructure with Lancaster Mayor Rick Gray testifying on April 4. Their bill, S.692 the Water Infrastructure Flexibilty Act, passed out of the Environment and Public Works Committee and is awaiting action by the entire Senate.

Please click here for a copy of Mayor Buttigieg's testimony, click here to download S.692 and click here to download H.R. 465.

The Nation's Mayors Sound Alarm on Trump FY 2018 Budget: Statement by USCM CEO & Executive Director Tom Cochran.

Washington, D.C. – U.S. Conference of Mayors (USCM) CEO and Executive Director Tom Cochran issued the following statement on the release of President Trump's FY 2018 budget proposal, A New Foundation for American Greatness:

"Mayors across the country are deeply troubled by President Trump's brazen attack on the very people he promised to protect. The unprecedented cuts to critical domestic programs would be nothing short of devastating to all our nation's cities, piercing the very soul of America.

"President Trump's proposed budget stands to drastically reduce or eliminate programs that benefit the most vulnerable of our citizens. Instead of assisting those struggling to make ends meet as he promised, the President plans to ax services designed to forge a path for working families into the middle class. In effect, President Trump pulls the rug out from under those who are already living on the edge.

"Specifically, the Community Development Block Grant (CDBG) would be eliminated, a program that OMB Director Mick Mulvaney characterized as one that does not work. Nothing could be further from truth. For the past 40 years, since its inception, this program has a proven track record of revitalizing neighborhoods and creating jobs.

In light of this, The U.S. Conference of Mayors released today bipartisan letters to Congressional leaders in both the House and Senate in strong support of the CDBG program. More than 350 mayors representing all 50 states, the District of Columbia and Puerto Rico, signed the CDBG letter and remain committed to fighting this destructive cut.

"While many of the nation's cities and metropolitan areas are strong and continue to drive the national economy forward, many have not yet rebounded from the Great Recession. We cannot and will not turn a blind eye to these communities that are hurting from federal disinvestment.

"President Trump's proposed cuts betray his campaign pledge to the American people to make the country stronger. If Congress allows these cuts to workforce training, education, housing, public safety, the arts, the EPA and other social services to prevail, the impact will be felt far and wide, severely affecting people living in cities large and small; suburban and rural.

"Further, the elimination and phase out of the National Endowment of the Arts, National Endowment of the Humanities and Institute of Museum and Library Services would destroy the cultural infrastructure of the nation.

“Throughout the campaign, President Trump vowed to make the country stronger and to keep all Americans safe. It’s ironic that the morning after the deadly terrorist attack in Manchester, his budget proposes significant cuts to key Homeland Security programs, a direct contradiction to what he repeatedly promised.

“Yesterday the Attorney General issued a memorandum defining sanctuary jurisdictions as those not in compliance with 8 U.S.C. §1373, a narrow definition. Today the Budget proposes a legislative change that would significantly broaden §1373, threatening many more jurisdictions with noncompliance for upholding the law and the Constitution.

“Since 1932, USCM has maintained that there should be a strong federal-city funding partnership to serve the millions that reside in our cities. In the name of devolution, this budget proposal, at the direction of Mulvaney, would turn billions of funds over to states, putting the future of the American people in the hands of governors and state legislators. Mayors are simply asking for the tax dollars that we send to Washington to be directly repatriated home so we can meet the needs of our local residents in a cost-effective manner.

“The nation’s mayors will be on the front line fighting against this draconian vision for America’s cities and metro areas. The U.S. Conference of Mayors stands ready to work with Congress to craft a budget that reflects the truthful needs of this country’s men, women, and children.”

America's Infrastructure: The Time to Build is Now

The case for making infrastructure a priority and the issues that may affect our ability to fix it.

This week marks the 5th annual Infrastructure Week — a clear reminder that strong, resilient infrastructure is critical to our country’s economic growth and vitality; yet we continue to fall behind due to crumbling and outdated roads, bridges, rails, airports and seaports, water pipes and the power grid. This has not gone unnoticed.

A 2016 National Infrastructure Poll, conducted by the Association of Equipment Manufacturers, found that the majority of Americans recognize the declining state of our country’s infrastructure and that it should be addressed. The Trump Administration has identified infrastructure as one of the top priorities of the new President’s agenda. To underscore the urgency surrounding U.S. infrastructure, there is also growing bipartisan support: Democratic Senator Bill Nelson, ranking member of the Senate Commerce Committee, discussed infrastructure and the role it plays in our economy, telling Vice President Mike Pence in March 2017 that the “time might be right” for a Bipartisan Infrastructure Bill. With heightened recognition across the country, our leaders and citizens, why is infrastructure still in crisis?

At SIFMA, we distinguish between **financing infrastructure** — bringing capital from investors to build projects — and **funding infrastructure**, finding ways to pay the operating and maintenance costs in the long-term, service the debt and provide a return on capital. We believe the infrastructure problem lies in the ability to identify reliable funding sources and recommend:

- Preserving the tax exemption for municipal bonds;

- Expanding Public-Private Partnerships (P3s), including the use of Private Activity Bonds (PABs) without restrictions for publicly accessible projects, promoting private equity investment in public projects, and applying design-build strategies;
- Reviving direct-pay bonds.

These approaches can help. However, as part of Congress' discussions on federal tax reform, there is concern the House of Representatives may consider options that could negatively affect the ability to fund our infrastructure, such as imposing a full or partial federal income tax on municipal bond interest or eliminating PABs, both of which have been proposed by policy-makers before.

In order to bring our infrastructure into the 21st century, we need to invest more without imposing burdens that can weigh down our economy.

I recently discussed this issue in-depth with The Bond Buyer.

For more information, listen to the podcast.

SIFMA

By Michael Decker

May 17, 2017

Fiscal Year 2018 Budget Addresses Infrastructure Initiatives.

President Trump's Fiscal Year 2018 Budget was released on Tuesday and the administration's Infrastructure Initiative Fact Sheet was released on Wednesday. The plans call for $200 billion in outlays, over the next ten years, for infrastructure investment. The $200 billion is to be leveraged, alongside non-Federal funding, to pay for $1 trillion in total infrastructure spending. The proposal also calls for corporatization of the air traffic control system, reform of the Inland Waterways Trust Fund, and a reduction in Federal grants to Amtrak. The transportation plan specifies an expansion of the Transportation Infrastructure Finance and Innovation Act (TIFIA) program, as well as lifting the cap on Private Activity Bonds for highways and liberalizing the use of tolling on Interstates. The budget calls for an elimination of the Transportation Investment Generating Economic Recovery (TIGER) Grant Program, and reduced the Department of Transportation's total budget by 13% from its 2017 level. The administration also called for the regulatory and permitting review to speed the construction of infrastructure projects. At a hearing of the Senate Finance Committee on May 25, on the 2018 budget and tax reform, Treasury Secretary Steven Mnuchin said in response to questioning, "Our preference is strongly to keep the interest deductibility of state and local bonds."

U.S. Administration's Fiscal Year 2018 Budget

Infrastructure Initiative Fact Sheet

NCPPP Lauds Pioneers of P3 Transportation Infrastructure.

The National Council for Public-Private Partnerships (NCPPP), the leading association in the field, is proud to announce its inaugural list of the Top 10 P3 Transportation Infrastructure Pioneers.

"Public-private partnerships are as much about the people driving the projects as they are about the projects themselves," said Executive Director Todd Herberghs. "It takes tenacity, creativity and will to incorporate this alternative project delivery method into the traditional financing and procurement model."

A select committee of NCPPP members identified 10 people who have embodied these characteristics while contributing meaningfully to the public or private sector sides of the field. These individuals have seen partnerships as another path forward to improving our national infrastructure network and have overseen the completion of some of the most significant transportation projects and the passage of some of the most groundbreaking P3 laws in the past three decades.

Continue reading.

NCPPP

May 17, 2017

Munis in Focus: Guided by Value as the Policy Outlook Brightens.

While we think it's too early to shout "all clear," investors now have more information about policies likely to affect the municipal bond markets this year, and relative valuations are looking more attractive than they did a few months ago.

PIMCO's 2017 Municipal Market Outlook called for greater caution this year due to uncertainty on a number of fronts: From a macro perspective, rising inflation, the potential for large fiscal expansion following the U.S. Republican election sweep, and fears of an imminent trade war painted a potentially volatile picture. Municipals underperformed other U.S. credit asset classes following the 2016 election as tax reform, near the top of the new administration's agenda, loomed over the market.

But so far this year, flows into municipal bond funds have been positive (if only marginally), and recent trends point to further potential upticks as the policy outlook turns more favorable.

Continue reading.

BARRON'S

BY DAVID HAMMER AND MATTHEW SINNI

MAY 22, 2017

Saudis' $20 Billion Wager With Blackstone Marks Record Bet on U.S. Public Works.

Trump's infrastructure push cited by Saudis making huge commitment toward Blackstone's $40 billion goal

Saudi Arabia joined the parade of investors into U.S. public works by pledging a record investment with Blackstone BX 6.73% Group LP.

The country's Public Investment Fund agreed to commit $20 billion to Blackstone's new infrastructure fund in the latest push around the world by large investors to buy up airports, pipelines and other public projects, particularly in the U.S.

Blackstone said Saturday the kingdom's money would seed an investment fund that the New York private-equity giant hopes will reach $40 billion and have spending power of up to $100 billion once debt is added to the mix.

The commitment shows how Blackstone continues to distance itself from Wall Street rivals by raising ever larger sums from investors like sovereign-wealth funds, public pensions and rich families. With assets of $368.2 billion as of March 31, it manages nearly twice as much as its closest competitor, Apollo Global Management LLC, and each of Blackstone's four platforms—real estate, private-equity, hedge funds and credit—are among the largest investing businesses of their kind.

Saudi Arabia's planned $20 billion investment alone would be about 25% larger than the biggest infrastructure fund ever raised, a $15.8 billion pool Global Infrastructure Partners completed earlier this year, according to data from industry tracker Preqin. Global Infrastructure Partners, or GIP, is also based in New York and its chief executive, Adebayo Ogunlesi—like Blackstone Chief Executive Stephen Schwarzman —is one of the business leaders President Donald Trump has named to a presidential advisory group.

Last year, investors committed a record of about $56 billion to private infrastructure funds and fund managers collected another $29 billion during the first quarter of this year, according to Preqin. The data provider has said managers of more than 150 other private infrastructure funds are soliciting investors for another $100 billion or so.

Carlyle Group LP and BlackRock Inc. are among other big investment firms that moved recently to beef up their infrastructure investing businesses.

The Blackstone fund will have a broad mandate to find investments, according to a person familiar with the firm's plans, with the ability to invest in things such as hospitals as well as assets that are more typically considered infrastructure, such as pipelines, roads and utilities. Also, unlike most of the private funds the New York firm manages, which lock up investors' cash for 10 years or so, the infrastructure fund will have no expiration date. That structure gives the firm more time to find investments and reduces the pressure to sell them on a deadline.

Both features could help Blackstone circumvent two big issues infrastructure investors have encountered in the U.S.: limited investment opportunities outside the energy sector, and uncertainty over who will eventually buy some assets, such as roads and municipal utilities.

Saudi officials, who are seeking to diversify the kingdom's economy by investing its oil wealth, on Saturday alluded to Mr. Trump's campaign promises to steer $1 trillion into U.S. public works. The Public Investment Fund managing director, Yasir Al Rumayyan, said the pact reflects "our positive views around the ambitious infrastructure initiatives being undertaken in the United States as announced by President Trump."

Yet the flood of cash into infrastructure funds can mostly be attributed to fairly reliable returns that sometimes beat the stock market and often outperform private-equity funds that make arguably riskier investments, such as corporate buyouts, according to Preqin. Still, there have been some prominent flops, including a rash of bankrupt toll roads.

Through late last year, the median annualized return after fees from infrastructure funds launched between 2004 and 2013 has ranged from 5.7% for those that began investing in 2007 to 14.4% for funds launched in 2004, according to Preqin.

Blackstone's foray into infrastructure won't be its first as it once struggled to raise a fund in the wake of the financial crisis. The executives who led the effort left the firm and in 2011 launched their own firm, Stonepeak Infrastructure Partners.

Saturday's pact was announced in Riyadh during Mr. Trump's visit to Saudi Arabia. The president has called boosting private investment in U.S. infrastructure a priority of his presidency.

The Wall Street Journal

By Ryan Dezember

Updated May 20, 2017 4:55 p.m. ET

Write to Ryan Dezember at ryan.dezember@wsj.com

Senate Environment and Public Works Hearing on Financing Infrastructure.

On Tuesday, May 16, the Senate Environment and Public Works Committee held a hearing entitled "Leveraging Federal Funding: Innovative Solutions for Infrastructure." The hearing focused on different funding mechanisms for infrastructure projects. Witnesses discussed the advantages and disadvantages of public-private partnerships (P3s) as compared to direct federal spending from the Highway Trust Fund and various Department of Transportation Grants.

SIFMA Hearing Summary

Hearing with Secretary Chao Held by Senate Environment and Public Works Committee.

On Thursday, May 18, the Senate Environment and Public Works Committee held a hearing with Secretary of Transportation Elaine Chao. Senators asked Chao for information about the Trump administration's infrastructure goals, and provided their thoughts on funding mechanisms for infrastructure projects. Chao said that the administration would release core principles for its infrastructure program in May, with a broader legislative package due in Q3 2017.

SIFMA Hearing Summary

Supreme Court Rules Municipalities Have Standing To Sue Under The FHA, But Raises The Bar On Showing Proximate Cause.

On May 2, 2017, the United States Supreme Court held that a municipality has standing to sue for injuries under the Fair Housing Act ("FHA") for discriminatory lending. However, the Court declined to decide whether the municipality's injury was proximately caused by the alleged FHA violation.

The Proceedings in the Southern District Court of Florida and Eleventh Circuit

The City of Miami, Florida, (Miami) filed complaints in the Southern District of Florida (District Court) against two national banks (Banks) alleging violations of the FHA. Miami alleged that the Banks engaged in discriminatory lending by providing minorities with home loans containing less favorable terms than similarly situated nonminority borrowers. Miami also claimed that the Banks failed to extend fair refinancing and loan modification opportunities to minorities. Miami claimed that as result of these alleged FHA violations, minorities were unable to stay current on their mortgages, resulting in increased foreclosures in minority communities. As a result of these foreclosures, property values in the minority communities supposedly decreased, which affected the amount of property taxes Miami claimed that it could collect. Miami also alleged that the foreclosures resulted in blight within these communities, resulting in increased expenditures of municipal services, such as police and fire departments in those communities.

The District Court dismissed Miami's complaints, finding that Miami's injuries were purely economic and not discriminatory and therefore fell outside the zone of interests that the FHA was intended to protect. The District Court also held that Miami failed to show how its injuries were proximately caused by the Banks' lending practices.

Miami appealed the District Court's decision to the Eleventh Circuit which held that Miami's injuries fell within the zone of interests contemplated by the FHA and that Miami adequately alleged its injuries were proximately caused by the Banks' alleged lending practices. In finding that Miami sufficiently pled its alleged injuries were proximately caused by the Banks in order to survive a motion to dismiss, the Eleventh Circuit focused solely on whether Miami's injuries were a foreseeable result of predatory lending.

The United States Supreme Court's Majority Opinion

The Supreme Court was faced with two questions: (1) whether Miami had adequately alleged standing to bring an FHA claim and (2) whether Miami had adequately alleged that the alleged lending misconduct proximately caused Miami to lose property-tax revenue and spend more on municipal services.

The Supreme Court, in an opinion written by Justice Breyer, conducted its analysis in two parts. First: (1) in a 5-3 vote, the Court agreed with the Eleventh Circuit that Miami had standing to sue under the FHA. In an outcome joined by the entire Court, it decided that alleging "foreseeability alone" is not enough to meet the FHA's proximate cause requirement. The Supreme Court declined to apply its proximate cause formulation to Miami's allegations. Instead, the Court tasked the Eleventh Circuit with determining whether Miami's alleged injuries were proximately caused by the Banks' actions.

In reaching its conclusion, the Court determined that Miami's injuries were within the zone of interests the FHA protects. The Supreme Court focused on the definition of "aggrieved person" as defined by the FHA. Under the FHA, an "aggrieved person" has standing to bring an action. The Supreme Court, citing its previous ruling on the definition of "aggrieved persons" under the prior version of the FHA, noted that "aggrieved person" is broadly defined to include any person who claims to have been injured by a discriminatory housing practice or believes that such injury will occur. Adopting the same broad definition of aggrieved persons under the amended FHA, the Court noted that Congress failed to limit the Court's broad definition of "aggrieved persons" when it amended the FHA and, therefore, acquiesced to the Court's definition of the term. The Court further compared Miami's claims to those made by a municipality in *Gladstone Realtors v. Village of Bellwood*, 441 U.S. 91 (1979) . In *Gladstone*, the Court ruled that the village had standing to sue under the FHA based on alleged injuries due to reduced integration in the community, which resulted in lower tax revenues. The Court noted that Miami's injuries, reduced property taxes and increases in expenditures for municipal services, were sufficient injuries contemplated by the broad definition of "aggrieved persons."

In holding foreseeability alone is insufficient to show proximate cause, the Court cited the well-established common law principle that any injury must be proximately caused by the alleged conduct. The Court noted that although it may be foreseeable that a municipality might be injured by the Banks' alleged practices, the FHA requires a direct relationship between the injury and the alleged violative conduct. Applying common law principles, the Court noted that the injury suffered by Miami must occur within the "first step" of the alleged act. The Court also noted that due to the nature of the housing market and its economic and social implications, nothing in the FHA suggests that Congress intended to allow a suit for injuries merely tangentially related to an alleged violation of the FHA and doing so would result in "massive and complex damages litigation."

The Court, however, declined to dictate the boundaries of proximate cause under the FHA or to apply its ruling to the allegations of the complaints. Instead, the Court vacated the judgments below and remanded to the Eleventh Circuit for that court to apply the new proximate cause formulation.

The Concurrence and Dissent By Justice Thomas

In his Opinion, Justice Thomas stated that he would have held that (1) Miami's injuries fell outside of the FHA's zone of interests and, therefore, Miami lacked standing to bring suit; and (2) that Miami's injuries were too remote to satisfy the FHA' proximate cause requirement. However, Justice Thomas concurred with the majority's decision that foreseeability alone is insufficient to show proximate cause.

In addressing Miami's standing, Justice Thomas distinguished *Gladstone* and the other FHA cases upon which the majority opinion relied on the basis that those cases "at least arguably" involved discriminatory injuries falling within the zone of interests. Justice Thomas described the "quintessential 'aggrieved person'" as "a prospective home buyer or lessee discriminated against during the home-buying or leasing process." Justice Thomas noted that Supreme Court precedent extended "aggrieved persons" status to those who live in a segregated neighborhood, resulting from discriminatory housing practices, and that these cases illustrate the outer limits of protected interests under the FHA. He also noted that Miami's interests are purely economic, unlike those claimed in *Gladstone*, which included both economic injury and changes to the "racial composition" of the community resulting from discriminatory practices. Justice Thomas stated that the FHA was not intended to redress purely economic injuries.

In addressing Miami's lack of proximate cause, Justice Thomas wrote that the causal links between Miami's injuries and the Banks' alleged violations were "exceedingly attenuated," observing that there was a lengthy and "attenuated chain of causation" between the Banks' alleged actions and Miami's injury. Pointedly, Justice Thomas predicted the "Court of Appeals will not need to look far to discern other independent events that might well have caused the [Miami's] injuries."

Practical Impact

The Supreme Court's decision establishes a potentially expansive zone of interests for FHA claims brought by municipalities, thereby recognizing standing for plaintiffs situated similarly to Miami, assuming that they can allege the requisite proximate causation. This portion of the opinion may encourage municipalities to bring claims against mortgage lenders and servicers under the Act.

The Supreme Court's holding that foreseeability alone is insufficient to allege proximate cause raises the bar for alleging proximate cause but does not fully clarify what is required in the FHA claim context. However, Justice Thomas' delineation of the many causal links between the Banks' alleged actions and Miami's injuries shows why it will likely be difficult for Miami and other municipalities to allege proximate cause in attempting to recover lost property taxes and other purely economic damages.

Article by David N. Anthony, Amy Pritchard Williams, Andrew B. Buxbaum and David Long, Jr.

Last Updated: May 12 2017

Troutman Sanders LLP

Green Bonds: Fitch Ratings and Market Overview.

Green bonds are debt securities issued to raise capital specifically to support climate related or environmental projects.

Fitch Ratings provides credit ratings for green bonds based on the underlying credit risk in line with relevant sector criteria. For specific issues, this includes standard credit considerations used to assess credit risk including vulnerability to default and an expectation of relative recovery rates in the event of default. Fitch does not assess the environmental integrity – the "greenness" – of the bond or its stated use of proceeds.

Continue reading.

Donald Trump Signs Measure Ending Safe Harbor for State-Run Private-Sector Plans.

Legislation removing safe harbors for states to implement private-sector retirement programs was signed Wednesday by President Donald Trump, who signed a similar measure against cities and large political subdivisions on April 13.

Rep. Tim Walberg, R-Mich., chairman of the Education and the Workforce Subcommittee on Health, Employment, Labor, and Pensions, in a statement called the safe harbors "a misguided regulatory loophole that would discourage small businesses from providing retirement benefits and put the hard-earned savings of workers at risk."

Mr. Walberg chaired a subcommittee hearing Thursday on regulatory barriers to retirement saving, including what he called the "flawed fiduciary rule" from the Department of Labor that becomes effective June 9. Allowing for more electronic disclosure in retirement accounts and easing federal restrictions on open multiple employer plans, would help improve access to retirement savings programs, Mr. Walberg and several witnesses said at the hearing.

PENSIONS & INVESTMENTS

BY HAZEL BRADFORD · MAY 18, 2017 2:36 PM · UPDATED 4:08 PM

Transportation Developments In The Trump Administration's First 100 Days: Holland & Knight

In January 2017, Holland & Knight Transportation & Infrastructure lawyers and senior advisors prepared 20 posts for the 20 days leading to President Donald Trump's inauguration regarding what to expect from the Trump Administration, the first session of the 115th Congress and how business planning could be impacted for those in the industry. In this alert, we have prepared updates, if relevant, on transportation-related developments in the Trump Administration's first 100 days, including issues involving Maritime, Motor Carriers, Rail and Antitrust.

Continue reading.

Article by Linda Auerbach Allderdice, J. Michael Cavanaugh, Lawrence J. Hamilton II, David C. Kully, Michael T. Maroney, Andrew J. Steif, Eric Lee and Jameson B. Rice

Last Updated: May 9 2017

Holland & Knight

Why June Is Important For Muni Bond Investors.

While Puerto Rico continues to dominate the muni market headlines, trading in Puerto Rico bonds has totaled less than 3% of muni trading volume so far this quarter (through May 15, according to MSRB data from Bloomberg).

With the bulk of attention focused elsewhere, muni yields have generally moved lower so far this year, lifting most of the muni indices into positive territory. Bond prices rise when yields fall.

Continue reading.

ETF.COM

PATRICK LUBY

May 18, 2017

Patrick Luby is the municipals strategist with CreditSights Wealth.

Municipal Debt Crowdfunding Startup Neighborly Quadruples Capital with $25M Series A Round.

The company's latest investment comes from Emerson Collective, 8VC, Govtech Fund and others.

Neighborly, a San Francisco startup that helps cities crowdsource their bond financing, more than quadrupled its investment backing in one fell swoop.

Before May 16, the company had raised about $5.7 million in seed and grant money. Then the company announced a $25 million Series A round led by Laurene Powell Jobs' impact investing entity The Emerson Collective along with 8VC. Ron Bouganim's Govtech Fund also participated in the round.

In a blog post, the company cited President Donald Trump's push to cut massive swaths out of the federal budget as one reason cities might be looking to use Neighborly more.

"This comes at a time when the current administration is getting ready to roll out a number of spending cuts that will drastically reduce the amount of funding available to the nation's communities," the post reads.

While Trump faces a long-standing promise to spend $1 trillion on infrastructure, he has also proposed budget cuts to many federal programs that work with local government.

Neighborly has financed $25 million in debt for local government customers across the country since the beginning of the year. The company also pointed to increased borrowing rates and an increase in public works backlogs as reasons to expect a growing demand for its services.

"The current financial system is set up in a way that disadvantages and costs communities much more than needed," the blog post reads. "Every basis point in the cost of issuance and borrowing means hundreds of millions of dollars per year that go to paying interest or banker bonuses.

Since the cost of borrowing is so high, municipalities often delay important projects or even forego them entirely. Consequently, our nation's communities are unable to attend to some of the most underserved causes: Schools resort to cutting critical educational programs, communities do without recreation centers, utilities and energy infrastructure remain dilapidated."

The company's solution, as Neighborly pitches it, gives local government access to more capital, allows them to bypass antiquated technology and helps them avoid fees associated with traditional bonds.

This marks the second gov tech investment from the Emerson Collective of the week, with the organization also leading a $30 million Series C round for OpenGov. Neighborly's previous backers have included Tumml, 500 Startups and the Knight Foundation.

GOVTECH

BY NEWS STAFF / MAY 16, 2017

This Startup Wants to Modernize Public Finance.

When the city of Lawrence, Kan. wanted to borrow $650,000 to pay for a new fire truck for its local fire department, it didn't use traditional banks and bonds to borrow money. Instead it turned to Silicon Valley upstart Neighborly, a two-year old marketplace that connects cities with investors to fund civic projects like schools, parks, and bridges.

Each year, U.S. cities borrow hundreds of billions of dollars to finance civic projects. This debt is typically in the form of municipal bonds, which investors buy for the monthly interest and relative security. Neighborly is a service for marketing these municipal bonds, an estimated $3.8 trillion market.

On Tuesday, Neighborly revealed exclusively to Fortune that it has raised $25 million in additional funding co-led by Palantir co-founder Joe Lonsdale's firm, 8VC; and Emerson Collective, the philanthropic organization started by the wife of the late Apple CEO Steve Jobs, Laurene Powell Jobs. Existing investors including Ashton Kutcher's Sound Ventures, Maven Ventures, Bee Partners, and Stanford University also participated in the funding round. This investment brings the company's total funding to $35 million.

"We're modernizing access to public finance," Neighborly CEO Jase Wilson, said about his company's business.

Traditionally, cities use brokers and underwriters to find traditional institutional investors to buy bonds like large banks and financial institutions, explained Wilson. His company, a registered broker itself, has put that search online.

It's not just large banks that buy the bonds on Neighborly. It's also people who live in the cities asking for funds. For example, with a Cambridge, Mass. project, residents who live in all five zip codes in the Massachusetts town bought bonds.

It's worth noting that that for some projects, Neighborly can only round up a relatively small amount of capital. For example, in March the city of Cambridge, Mass. borrowed $58 million, of which $2 million came through Neighborly. The rest was raised from investors outside its service.

"There's so many better ways that public finance can work using technology," Lonsdale said, in an interview with *Fortune*. "The old processes are a lot more expensive, and only puts the money in the hands of people on Wall Street."

Neighborly makes money by charging a 1% commission based on the deal size. That compares with the average 2% charged by other companies for most public finance projects, said Wilson. The other benefit, Wilson says, is that city residents can participate in funding their own neighborhood's projects.

Neighborly declined to reveal its revenue.

Kutcher echoed Lonsdale's belief about Neighborly's opportunity in a statement to *Fortune*. "They are doing the right thing. They are returning the opportunity of bonds back to the people that stand to gain from them the most." He continued that he "can see a world where this is not only the best way to get things done, but the only way."

In addition to the Cambridge deal and the Kansas fire truck, Neighborly has helped find $5 million for new bike paths in Burlington, VT. Currently, Neighborly is helping finance an affordable housing project in the San Francisco Bay Area.

However, some financial tech startups that are trying to upend Wall Street have stumbled. Lending marketplace Lending Club was roiled by news last year that the former CEO violated internal lending rules and that it would lay off staff. Meanwhile, LendUp, a payday lending company, was forced to pay fines for allegedly deceptive and misleading practices, including charging incorrect fees and interest rates.

Wilson said that working with regulators and complying with all rules is extremely important to Neighborly. The company's challenge is competition from brokers and underwriters that have handled public financing for decades and have a tight grip on the market.

Neighborly also has its [fair share of critics], who don't view the bond market as a place that needs or requires change. But Wilson remains optimistic.

"We see ourselves as being more neighborly with your city's capital," said Wilson.

Fortune

by Leena Rao

May 16, 2017

Municipal Bond Market: A Tech Tipping Point Is Here.

The municipal bond market is reaching a tipping point. E-trading is going to push it over.

When I started in this business back when dinosaurs roamed the earth, all you needed to trade bonds was a phone, the Blue List and a Monroe-Trader bond calculator. For those of you already lost, the Blue List was a booklet, printed on blue paper and stapled together, with the municipal bond offerings of Wall Street dealers and, roughly, at the offering price. To determine what you wanted to bid, you punched the various bond attributes like coupon, maturity, call and so forth into your Monroe-Trader. That was about as high tech as it got.

There were no ubiquitous Bloomberg terminals on every desk. You got on the phone and haggled out a price for a bond based on very limited information. No one knew what anyone else was bidding or asking—the phrase 'price transparency' hadn't been invented. It was a truly an over-the-counter market.

Fast forward to today. Technology is radically changing the financial markets. Goldman Sachs is hiring more computer programmers than traders and BlackRock is replacing portfolio managers with computers. In the municipal bond market we're seeing some similar changes. The transition is a bit slow—this is the muni market after all—but it is coming and it's going to come a lot faster than some might realize.

Currently, there are seven electronic trading platforms currently dedicated to municipals: Tradeweb, MarketAxess, MuniAxis, Bloomberg, MuniBrokers, TheMuniCenter and ClarityBidRate. Some have been around since the inception, others are new entrants. I've either spoken with each firm in detail or used them in live trading. Having seen their interfaces and been taken step-by-step through their features, it's really remarkable how these firms have, each in their own unique way, captured, digitized and electronified the municipal bond trading process. It's akin to video poker in Las Vegas–if they just added an animated graphic of a trader to interact with, you'd swear you were dealing with a real person.

These are very powerful tools each with some very distinct benefits. If you're a municipal bond market professional who hasn't had a demonstration of these yet, you are strongly encouraged to absolutely do that.

The overall impact of these platforms is more important than their specific features and functions. Electronic trading platforms are bringing the municipal bond market to a 'tipping point.' This is having immediate consequences and longer-term effects.

Three Drivers

There are three drivers pushing this forward. The first is basic economics. Currently, the markets are in what seems to be a sustained low-rate environment. Combine that with the fact that asset management is a mature industry oversaturated with mutual funds, ETFs and SMAs (separately managed accounts). That means every basis point counts, either to cut costs or add to profitability or preferably both, from management's point of view. E-trading offers efficiencies both in the trading process and in better price discovery in the trade itself.

Second is the trend toward index investing in the market. The MUB, which is a BlackRock-managed ETF that seeks to track the S&P National AMT-Free Municipal Bond Index, now has just a smidge over $8 billion in assets under management. In fact, if you totaled up all the muni ETFs that are managed to track an index, it's more than $25 billion. Add to that mutual funds that either are explicitly or implicitly managed to an index, the number more than quadruples.

Indexing means more standardization in the market, more categorization and ease of automation. Every portfolio manager and muni trader knows that a bond in the index trades better, is more liquid and has tighter spreads. Index bonds are a clearly established category with fairly standardized characteristics. In other words, perfectly suited for an e-trading platform. Where better to get economies of scale for index bonds?

The third driver is regulatory guidance. I covered this in some detail in the companion piece to this article, Muni-Tech And E-Trading: Opportunities And Considerations For Investors. Each is a designated alternative trading system (ATS) under SEC Rule 600(b)(23). But that just meets the legal requirement. There are market rules bringing e-trading into the fore. For example, MSRB Rule G-18 and the SEC Rule 15c3-5 discuss best execution and management controls, respectively. There are others, such as the Volker Rule 619 and a host of SEC liquidity rules for mutual funds and other pooled investment managers. Between capital requirements, best execution, liquidity and trade transparency, suddenly electronic trading platforms, which can address all of those in one fashion or another, become a lot more attractive.

Those are the big three drivers—economics, indexing and regulations—pushing e-trading forward and also pushing the market closer to a tipping point. These are not meant to be the only factors. There are also market factors such as declining new issue supply and the dramatic increase in SMA asset growth.

Detractors and Skeptics

As with anything new, there are detractors and skeptics, as there always have been during periods of great change. People fear change. Some detractors of e-trading—and fight the tide all you want, but it's here and it's growing—detractors say the muni market defies standardization and automation because it is so variegated and compartmentalized. There are retail markets and institutional markets, bank qualified markets, AMT markets, specialty state markets, high yield markets, discrete sector markets, regional markets, specialty credit-name markets. Then there are the almost mind-numbing variables and attributes differentiating each bond—coupon, maturity, call provisions, sinking funds, security features are just a few.

All that is true—for now. What indexing and e-trading are going to do are organize and standardize the market. That's a big forward looking statement. Even Nobel Prize winning Physicist Neils Bohr warned that "predictions are very difficult, particularly about the future."

But as Shakespeare noted, "What's past is prologue." This automating-organizing-standardizing transformation is exactly what happened in other markets—and not just financial markets—that suddenly found technology disruptors changing how they transacted. The muni market will be no exception.

Others point out, with some legitimacy, that none of these platforms have been through a market meltdown like we saw in 2007 -2008. Can the platforms handle it? For those of us who lived through that period, I can tell you first hand, having people on the trading desks didn't function very well either. Nothing does well in a free fall. There's the old adage that it's only when the tide goes out when you see who's wearing a bathing suit and who isn't. The first time the platforms get hit with a wave of selling, we'll find out who is and who ain't.

The Biggest Impediment

The advisor or Wall Street firm thinking about linking up an e-trading platform is caught in a conundrum. No one wants to be the one installing a platform that doesn't become the market standard. It is a big spend when a firm commits to a trading platform. Putting a new system in place takes a lot of resources—the data feeds for uploading inventory, correct pricing, the trade information capture and storage—there is a lot of middle-office work that requires integrating and testing. Staff have to be trained, from front office trading desk staff to the middle office operations and tech staff. It's great to be on the "cutting edge" so long as you don't get cut.

On the other hand, while no one wants to be the first in the pool, no one wants to be last to the party either. If you don't have it and your worthy competitor does, you better get it or risk falling behind. Call it technological peer pressure.

And Winner Is…

To mis-paraphrase Pogo, we have met the winner and it is us. E-trading means better access, liquidity and transparency for all market participants. There is more visibility to find bonds, better price discovery, and more bids on selling bonds. Where better to find offerings than on e-trading platforms where dozens—heck, hundreds—of dealers, institutions, advisors are all listing bonds? Where you can screen for bonds by specific attributes in only a few clicks?

Focusing on liquidity, if you sum up all the trading volume each platform claims, apparently more than 180% of all muni trades clear over e-trading platforms. That's a bit of chest thumping bravado; the real number is closer to 20%. They can't be faulted for a bit of braggadocio—no clear winner has emerged just yet and each wants to claim an early lead. However, the overall point is taken: e-trading improves liquidity.

Another prospective winner is the borrower. E-trading may up-end the entire underwriting process. If you're a big borrower, a high grade borrower issuing into a standardized market with transparent components, do you really need investment bankers to the degree you do now? Research has shown, again and again, that the competitive bidding process for new issues is more efficient for borrowers. Now with an algorithmized (is that even a word?) and electronified market, a forward-looking borrower with even a modicum of tech-savvy can bypass the middleman and go straight to investors in an open-auction process. Those that can, will. They have already. Look at the initial work of Neighborly. That's just one model. Others are coming.

Plus, the more e-trading gets adopted and integrated, the more borrowers in the market—and some municipalities are getting pretty sophisticated in tech—will be advised by their bankers and advisors to conform their structures to market standards set by e-trading and indexing. It is entirely possible the rating agencies will contribute to creating some conforming rules as well.

Last, but hardly least, is the data collection and artificial intelligence applications emerging from e-trading. Data is dollars and big data is big dollars. Yes, big data is everyone's shiny new toy these days. However, as we've seen, big data and statistical analysis can find patterns and relationships that we mere humans with our intrinsic biases just can't see or just don't want to. Using that information to create algorithms to trade or set risk levels or any other number of things is where artificial intelligence comes to the muni market.

One market participant made the snarky comment that this may be the first time "intelligence" and "muni market" were used in the same sentence. He can crack wise all he wants, but it's widely known that at least one top-bracket firm has been collecting retail trade data since the late 1990s. Now their muni retail trading process is fully algorithmic. Every trade in a certain band size gets bid or offered based on the data and the algorithm. No need for a retail desk. It's all done through AI.

The Tipping Point

E-trading and indexing are going to be the drivers that tip the municipal bond market from the old over-the-counter model to what other markets already are and have been—an exchange-based model. No, the municipal bond market is not changing into the New York Municipal Bond Exchange, nor will it become fully automated with everything traded by AI driven bots. The muni market is and always will be a credit risk market. At some level, there will always be a need for a banker, a salesman, a research analyst, a trader and a portfolio manager. But as large parts of the market are going to become far more exchange driven, it's just not likely to need as many of them.

Make no mistake, the tipping point is here: the traditional, over-the-counter market with liquidity by appointment-only simply cannot be maintained in the faster, tech driven investing world we are in.

Forbes

by Barnet Sherman, Contributor

May 16, 2017

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My thanks to Cathleen M. Rittereiser founder/Uncorrelated, LLC, Richard Brasser, CEO/RFactr and Meera Balakumar director/Sterling Analytics for their insights and tech-savvy guidance in the preparation of this article. They were invaluable.

Barnet Sherman is the Senior Managing Partner of The Tenbar Group, a financial services *consulting firm advising on successful strategies to manage the credit risk in municipal bond portfolios.*

[Fitch: Seventy-Four Percent of Public Finance Issuers Affirmed Under New Criteria.]

Fitch Ratings-New York-19 May 2017: Fitch has concluded its review of all credits covered by the new U.S. tax-supported criteria, resulting in 74% affirmations, 18% upgrades, and 8% downgrades, according to a new Fitch Ratings report.

“The high level of affirmation was expected. The criteria revision was focused on communicating Fitch’s opinions more clearly, providing tools that facilitate a more forward-looking approach to ratings, and clearly expressing expectations for financial performance throughout the economic cycle,” said Laura Porter, Managing Director. “Fitch’s ratings continue to be based on the judgement of a team of experienced analysts rather than model-based outcomes.”

The most common reason for upgrades was the more focused consideration of the economic base and financial resilience in the revised criteria.

About half of the downgrades were to school districts, most commonly in California and Ohio. The revised criteria highlight the significance of the state school funding and policy framework to the financial prospects and position of school districts in the state.

None of the eight state ratings changed were the result of criteria alone.

Ninety-five percent of rating changes were one or two notches, less than a full rating category.

For more information, a special report titled “US Tax-Supported Criteria Implementation Results” is available on the Fitch Ratings web site at www.fitchratings.com or by clicking on the link.

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Puerto Rico's Bankruptcy: Template For Other Troubled Cities.

“What–Me Worry?” are famous words from the fictitious Alfred E. Newman. It’s great to have a positive attitude in life. But there are times when investors need to observe and grasp the gravity of situations. That’s where we are with Puerto Rico.

Puerto Rico will soon become a legal catfight. It will be a lulu: General obligation bondholders versus sales tax revenue (Cofina) bondholders; AMBAC versus MBIA versus Assured Guaranty. This brawl won’t be a heavy weight fight. It will be a cage match because the hedge funds are vicious, wily beasts.

Even if you don’t invest in municipal bonds, as a taxpayer there are multiple lessons to be learned. First off, remember when we were taught that a state or territory cannot file for bankruptcy? Until it does. Puerto Rico, with help from Congress, filed for Title III, which is an in-court restructuring mechanism modeled after Chapter 9. No matter what you call it, it’s still bankruptcy.

I project this bankruptcy will become the template for all the cities, counties and a few states whose budgets, unfunded pension and health care liabilities are out of control. As a matter of fact, many of us in Bondland have a new word: Illi-Rico.

That’s right. Illinois, the state that is $14 billion in arrears paying its bills, two years without a budget, with under funded pensions like you wouldn’t believe. The Illinois Policy Institute estimates $203 billion total debt for state and local retirement benefits and oh—as the Institute points out, “the $203 billion includes only the unfunded liabilities of the state’s five retirement systems, which ignores bonds issued to tide over the pension funds and debt taken on to provide retired government workers with generous health insurance.” And this doesn’t include all the bonds outstanding that the poor taxpayers are responsible for.

Certainly Illinois, Alaska, Hawaii, New Jersey, Connecticut et al are not carbon copies of Puerto Rico. Yet their crushing debt and liabilities look eerily similar.

So all you conservative municipal bond investors dig into your municipal open-end, closed-end or exchange-traded funds. Study the composition of your portfolio. If it’s too laden with general obligation bonds from states and cities that will one day have to actually deal with their problems—get out. Investors had years to get out of Puerto Rico bonds. Bond fund managers did too—yet many of them held on. After all, it was your money, not theirs.

It’s true, the worst offenders must pay significantly higher interest on their new bonds but it hasn’t yet reached the frenetic levels that concern or scare investors. If they keep up their incompetent bad behavior it will. Then we’ll be staring another Puerto Rico in the face. As we learned from the recent bankruptcies like Detroit, bondholders lose to pensioners who vote. Puerto Rico will be a carbon copy.

So reassess your portfolio. Make certain the percent of good quality revenue municipal bonds far outweighs your general obligation holdings. The old rule of a GO issuer having the unlimited ability to tax its electorate no longer holds. We have learned issuers lose their ability and willingness to pay us bond investors. Just watch the Puerto Rico bond carnage to come.

Load up with airport revenue bonds from major hubs, the senior liens only. Names like Atlanta International Airport, Los Angeles, Dallas/Ft. Worth, JFK, San Francisco, Denver, Charlotte Douglas, McCarran International and Miami, to name a few. Stay away from the majority of small regionals.

Invest in issues whose revenue stream is easily understood and underfunded pensions are not a consideration.

Keep it simple, keep it safe. Stay on top of the Puerto Rico news. It will matter.

Forbes

by Marilyn Cohen, Contributor

MAY 22, 2017 @ 01:23 PM

Marilyn Cohen is founder and CEO of Envision Capital Management, a Los Angeles fixed-income money manager.

Fitch: US States Taking on Transportation Funding Gap

Fitch Ratings-New York-16 May 2017: States will continue to increase transportation taxes and fees and seek alternative financing mechanisms to meet infrastructure challenges as federal investment remains uncertain, Fitch Ratings says. However, hurdles to realizing the full benefit of such measures include political risk, lower gas consumption, and resistance to creating and raising tolls.

Federal grants play an important role in building and maintaining highways and other transportation projects. However, federal policy inertia on transportation (and infrastructure in general) has been augmented by recent uncertainty about the current administration's funding plans.

States are likely to increase their direct investments in transportation projects by leveraging recent revenue increases. Six states (CA, MT, IN, TN, SC, WY) have raised gas taxes and fees to fund transportation projects in 2017. Six others are considering bills that would increase gas taxes to raise transportation revenues (CO, WV, MN, OR, WI, ME). Most states are only catching up as gas tax revenues have grown more slowly than inflation for decades, according to the U.S. Census Bureau Annual Survey of State Government Tax Collections. Most recently, South Carolina's House voted last week to override the governor's veto of a bill that includes a gas tax hike and some fee increases. This is the first increase in gas taxes in the state in 26 years. The state's inflation-adjusted gas tax revenues have risen by just 4.1% since 2000.

Higher gas taxes and fees could face risk from higher fuel efficiency. The Corporate Average Fuel Economy (CAFE) standards are set to raise the national fleetwide average mpg to 54.5 in 2025 from 35.5 in 2016. The current administration has called for a midterm review of the standards. However, regardless of how the regulations evolve technological advances will likely raise average MPG over the next several years.

Some states are also discussing adding tolls or raising existing tolls to meet capital demands. For example, last month Indiana approved funding to direct $1.2 billion to state roads by 2024 from higher gas taxes and fees. The bill also requires the state to apply to the federal government for a waiver to toll currently un-tolled interstates within. Fitch expects to see other states take similar approaches as tolling the interstates is a viable option.

Tolling and other user fees could be a viable and meaningful component of highway funding if they are carefully implemented. Tolls can be adjusted with inflation with minimal adverse economic or political implications, provided the system is well operated and maintained. For example, the "firstmover disadvantage" can be limited by implementation across the system as raising tolls on one highway near an untolled road can hurt toll revenues.

In addition, PPP-enabling legislation is rising and could be another financing alternative in certain situations. In 2016 three states (KY, TN and NH) enacted PPP legislation, according to the National Conference of State Legislatures. PPPs used in the right circumstances allow governments to effectively transfer many project risks to the private sector and provide certainty in forecast costs, though they aren't a panacea for all funding shortfalls. In addition, issues of public perception, including a perceived loss of public control and a lack of understanding of potential long-term benefits, can make implementation of PPPs challenging.

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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.

[The Week in Public Finance: Recalculating Pension Debt, Hartford Discusses the 'B' Word and Prudent Rainy Day Policies.]

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

GOVERNING.COM

BY LIZ FARMER | MAY 19, 2017

[How Historic Would a $1 trillion Infrastructure Program Be?]

"We're going to rebuild our infrastructure, which will become, by the way, second to none. And we will put millions of our people to work as we rebuild it." From the very first night of his election win, President Trump was clear about his intention to usher in a new era in American infrastructure. Since assuming office, the president and his cabinet continue to use the figure of $1 trillion over ten years to demonstrate the scale of their vision.

By any measure, one trillion dollars is a lot of money. Given the well-documented maintenance and modernization backlogs in a range of infrastructure sectors, federal attention is welcome. Infrastructure spending has the added benefit of helping to support millions of good-paying jobs.

Continue reading.

The Brookings Institute

by Adie Tomer, Joseph Kane, and Robert Puentes

Friday, May 12, 2017

SIFMA: All Bonds Used for Publicly Accessible Infrastructure Should be Treated as GOs.

WASHINGTON – Preserving the tax exemption for municipal bonds, treating private activity bonds more like governmental bonds without restrictions for publicly accessible projects, and reviving direct pay bonds are some of the infrastructure funding recommendations that the Securities Industry and Financial Markets Association has made to administration officials and members of Congress.

The group also has recommended using tax credits as incentives for equity investors, promoting design-build strategies for public projects, and making infrastructure assets and liabilities more transparent in state and local government financial statements, Michael Decker, SIFMA managing director and co-head of the municipal securities division, said in a recent podcast with The Bond Buyer.

The recommendations were developed by a SIFMA task force led by Chris Hamel, head of U.S. municipal finance at RBC Capital Markets, and Suzanne Shank, CEO and chair of Siebert Cisneros Shank & Co.

"At the top of our list is preserving the tax exemption," said Decker. "Tax exemption for municipal bonds is the single most important tool that public sector infrastructure developers have. Bonds have financed 75% of the infrastructure in this country and there is a real threat, a real risk that in the context of tax reform or through some other legislative vehicle on Capitol Hill Congress could curtail or eliminate the tax exemption. [That] would drive up the cost of infrastructure finance and we'd end up with less, not more, new project investment."

A second recommendation is to expand the use of tax-exempt private activity bonds for public-private partnerships. Most P3s involve layers of capital, Decker said. One approach might be to have some equity as a base-level of investment, then some debt financing, and then perhaps some capital from the public sector partner. But under current tax law, tax-exempt PABs can only be used for certain specified categories of projects and are typically subject to volume cap limitations and private use restrictions. In addition, the interest from PABs is subject to the alternative minimum tax.

“Under our proposal, bonds issued for infrastructure, regardless of whether it is a purely public project or a P3, would be treated as governmental tax-exempt bonds without volume restrictions, no AMT, no private use restrictions, as long as the project being financed falls under the definition of publicly accessible infrastructure,” Decker said.

SIFMA wants to revive direct-pay bonds structured similarly to Build America Bonds, which were issued as taxable bonds in 2009 and 2010, where issuers receive subsidy payments from the Treasury Department in lieu of investors receiving tax-free interest. These bonds broaden the universe to corporate investors for munis.

The group suggested tax credits or some other type of incentives to attract equity investors in P3s. “If you look at the story of equity investment in other sectors like renewable energy or low-income housing, tax credit programs in those areas have been very successful in driving capital to those sectors and we think the same could be true for infrastructure,” Decker said.

SIFMA also wants to promote the use of a design-build approach for public projects, where one entity – a design-build team – works under a single contract with the project owner to provide design and construction services.

“That’s a successful procurement strategy in the public-private arena and we think that there are some efficiencies to be gained by using a design-build approach in the public sector development area,” Decker said.

SIFMA also would like some accounting issues addressed so that the full cost and value of developing infrastructure is shown on a state or local government’s annual financial statement to demonstrate the value of infrastructure to the community as well as any accumulated maintenance or expenses the government may be carrying.

“It would help identify, just from a transparency perspective, the true cost of the asset,” Decker said. “From a management perspective, it might help identify the assets or areas of investment at the state or local level that the government might not view as a priority where they might be interested in re-deploying capital that’s invested in one area into new infrastructure.”

It is somewhat ironic that infrastructure advocates are pushing for eased restrictions for the use of PABs in infrastructure or more restrictions for tax-exempt bonds. A few years ago and still today, critics decry the use of tax-exempt PABs to finance professional sports stadiums. Former House Ways and Means Committee chairman Rep. Dave Camp, R-Mich., proposed a tax plan that would have halted issuance of PABs. Former President Obama proposed capping the value of tax exemption for munis.

“Our message on this to policymakers is, ‘You’re digging a hole for yourselves. Why curtail or eliminate an existing successful tool that’s already resulted in trillions of dollars of infrastructure investment when you’re trying to promote infrastructure, not constrain it,’” Decker said.

“I think the current administration thinks infrastructure is, at least in part, part of a broader industrial or economic policy,” Decker said. ”You’re heard the president talk about reviving the manufacturing sector, returning American jobs to this country, getting companies to invest here rather than abroad. So if they’re trying to promote industrial development in a particular area, one way to do that is to ensure there’s infrastructure with sufficient capacity to support the economic development that will arise.”

Asked about critics who complain that the president only seems to be interested in big, shiny, costly

P3 projects that may take years to develop, Decker said, “There are needs at so many levels.”

“We do need help with big transformational kind of cutting-edge infrastructure projects,” he said, pointing to proposals to further develop LaGuardia Airport as an example. “Then there’s street light repairs or replacing an on-ramp to a freeway, projects that are much smaller in scope that have a much more local impact,” he said, adding, “I would urge the administration to think about providing funding or enhancing funding for all levels of infrastructure development.”

Asked about projects that don’t have revenue streams, Decker said, “in terms of P3s there’s an emerging model that provides at least one approach to those kinds of projects and that is availability payments.”

“The way this works is, for a project that’s non-revenue generating, the state or local government would solicit bids from private sector developers under a standard kind of P3 arrangement – finance, build, own, operate, maintain – the full range of turnkey service that P3 infrastructure operators provide,” Decker said. “But rather than the developer being paid from revenues derived from the project, the developer is paid directly by the governmental partner-sponsor in the project through availability payments.”

The payments would depend on the project continuing to meet operational specifications that were decided at the time the P3 agreement was reached, he said.

“So that means the private developer is responsible for ensuring that the project is operating at capacity and that, in terms of maintenance and repairs, it’s in sound condition,” he continued. “The developer doesn’t get paid unless the project is performing to spec.”

“It’s an interesting approach,” Decker said. “It could potentially reduce the cost to the state or local government, but there are other elements in play too. For example … it allows that local government to lay off some risk of maintaining and operating the project at capacity. It also gives the local government leverage over the developer and avoids the risk that the government might defer operation and maintenance costs in a tight budget situation.”

Asked if he can crystal ball the timing for an infrastructure plan and the interplay between it and tax reform or even health care, Decker said: “They’re somewhat related in terms of process. Congress’ time is somewhat limited.

[Members] can only take on so many very large legislature issues in a given year because they’re so time consuming.”

“In the discussions we’ve had with key members of the administration, infrastructure continues to be at the top of their list,” he said. “I think the administration wants to be able to point to some legislative wins going into the 2018 congressional election. But I can’t tell you in terms of timing how all of this is going to play out.”

Asked about the prospects for infrastructure being wrapped into tax reform, Decker said, “It depends on what the infrastructure proposal looks like.”

He noted that virtually all of SIFMA’s recommendations deal with changes to the federal tax code and said, “I think it’s most efficient to deal with tax proposals in a single legislative vehicle, but that may not be how it ends up.”

The Bond Buyer

By Lynn Hume

Published May 15 2017, 6:22pm EDT

Pick-Up In Municipal Bond Market Hinges On Government Support.

Two years after the Securities and Exchange Board of India (SEBI) cleared a new set of rules for issuing municipal bonds, India may finally see some activity in this segment with a couple of cities now ready to hit the market. Don't expect a booming municipal bond market yet, though, as the pick-up in municipal bonds is still linked to government support.

Both Pune and Ahmedabad are ready to go to market, Varsha Purandare, managing director and chief executive officer of SBI Capital Markets, told BloombergQuint, while adding that some regulatory clarifications are awaited. The cities have approached SEBI, asking the regulator to allow them to file their prospectus based on financials that have been audited by an external statutory auditor rather than wait for audited financials from the Comptroller and Auditor General (CAG).

While Pune and Ahmedabad are at an advanced stage of preparedness, a number of other municipal corporations are also hoping to raise money through bond issues as a way to fund their smart city projects.

> In the past, most municipal corporations have depended on state or central government grants for infrastructure development. However, there is now a perceptible feeling that the government wants municipal corporations to have ownership of projects being undertaken. In particular, for smart city projects, municipal corporations have to bring in 40-50 percent of investment upfront.
> **Varsha Purandare, MD & CEO, SBI Capital Markets**

To be able to meet this funding requirement, a number of municipal corporations will need to try and tap the markets, Purandare added.

The first step to this is to get rated. A total of 94 municipal corporations have been rated so far, Subodh Rai, senior director at rating agency Crisil, told BloombergQuint in a phone conversation. The rating profile, however, differs widely.

According to data provided by Crisil, of these 94 rated municipal corporations, only 10 are rated AA or above. About 14 are rated in the A category, while the rest are rated BBB or below.
The AA rated firms can access the market directly but the A and BBB rated firms may need some structured mechanism, said Rai. He added that A rated firms can look at securitising future cash flows or a structure where property taxes are put in an escrow account which is set aside for interest payments.

For municipal corporations rated BBB or below, accessing the market would be tougher and some sort of pooling mechanism or partial guarantee may be required, said Rai.

Subsidised Borrowing Cost

Given the rating profile of municipal corporations, the true market borrowing cost for most of them (in the BBB category) would be close to 10 percent, said Purandare of SBI Caps. However, borrowing at that interest rate may not be a viable way to fund infrastructure development, she added.

That's where government support will need to come in.

While the government has rejected a demand for tax-free status for these bonds, the urban development ministry has set aside Rs 400 crore to provide interest subsidy for these bonds, the Economic Times reported on May 15.

Both Rai and Purandare said that such a subsidy would make it more viable to fund city infrastructure development through bonds. The difference between tax-free and taxed bonds is almost 2 percentage points, Rai pointed out, while adding that the interest subsidy may help in bridging that gap. The subsidy will help bring down the cost of funds to near 7 percent, which is affordable, said Purandare.

Is There Investor Appetite?

The story of municipal bonds in India has been one of numerous stops and starts. The earliest such bond dates back to 1998 when Ahmedabad raised Rs 100 crore. Others like Hyderabad, Nasik and Visakhapatnam have also tested the market with small issues.

Municipal corporations coming to the market now will also likely start with smaller issues in the 5-7 year tenure bucket, said Purandare, adding that once the market becomes more comfortable with the product, demand may pick up leading to a decline in interest rates. This would allow for larger-sized issues to come to market.

According to Rai, the key issue for investors remains the quality of financials reported by the municipal corporations. Delayed reporting of financials and lack of transparency may concern investors, he said. At present, municipal corporations do not report quarterly or half yearly financials. The issues that come to market in fiscal 2018 will be based on fiscal 2016 financials.

On the flip side, volatility in municipal finances is typically low and expected loss would be low for this category of issuers which may attract investors, said Rai.

BloombergQuint

BY Ira Dugal

May 18, 2017, 10:31 pm

Infrastructure Week: Should Cities Be at the Center of Infrastructure Discourse?

Local government leaders discussed the current administration's trend toward financing infrastructure projects through public-private partnerships and eliminating tax-exempt municipal bonds.

As Infrastructure Week, held May 15-19 in Washington, D.C., began to wind down, local government leaders remained hopeful that the pressure for a renewed interest in rebuilding America's roads, bridges and the rest of the system would persist.

The initiative — a national week of education and advocacy that brought together American businesses, workers, elected leaders and everyday citizens around one message: It's time to build — sponsored several events held in conjunction with local and state government groups that represent shared interests in the federal government. The National League of Cities (NLC) hosted a panel discussing infrastructure financing, successful projects and tools local governments need to maintain and develop infrastructure nationwide.

While the idea of investing resources in infrastructure garner widespread bipartisan support, recent revelations that the Trump administration and Congress' tax reform may scrap the tax-exempt status of municipal bonds has been met with resistance.

"You can't be for infrastructure, if not for tax-exempt municipal bonds," said Oklahoma City Mayor Mick Cornett, who also serves as president of the U.S. Conference of Mayors.

Speaking passionately about the necessity of tax-exempt bonds, all members of the panel expressed their disapproval over the idea of cutting the provision. "The need has never been greater for infrastructure investment," said Cleveland Council Member and NCL President Matt Zone.

In a [joint statement] released in late April by the National Governors Association, National Association of Counties, NLC, U.S. Conference of Mayors, International City/County Management Association, National Conference of State Legislatures and the Council of State Governments, the organizations urged Congress to preserve the tax-free municipal bonds.

"Tax-exempt municipal bonds were part of the original tax code in 1913 and have long served to meet critical needs in our communities," reads the statement. "These essential components of the tax code support vital investments in infrastructure, public safety and education, encourage economic growth and provide states and local governments with the flexibility to deliver essential services to our residents."

The panel also pushed back on the idea that private investment could help fill the void if local governments would have to spend part of the funding on taxes. The current administration has given several indications that rather than finance most projects through direct federal financing, municipalities are encouraged to utilize a public-private partnership model wherever possible.

While testifying in front of the Senate Environment and Public Works Committee, U.S. Secretary of Transportation Elaine Chao mentioned that the administration is hoping to release by the end of the month a set of principles for the oft-talked-about infrastructure package. The list is heavily anticipated by state and local leaders across the country.

"The proposal will likely include $200 billion in direct federal funds, which will be used to leverage $1 trillion in infrastructure investment over the next 10 years," Chao told senators. She also acknowledged that "not every project … is a candidate for private investment."

Zone still had concerns over the possible reliance on P3s. "Over last two decades, about 93 percent of projects that have been funded would not have been eligible for P3 partnership," he said, adding that focusing on public-private partnerships as a uniform strategy "doesn't really work."

In order for P3s to work, Cornett explained, the conditions have to be just right. The best environment for successful partnerships takes are highly dense cities with extremely busy areas. Private partners are not interested in building rural roads, which are needed in Oklahoma, he explained.

There is also a danger that relying on private partners could leave behind traditionally underserved populations. As local leaders, Zone said, we have “an ethical and moral obligation to make sure that we look out for every citizen we represent.” All projects should be looked at with an “equity lens” to make sure the most vulnerable and marginalized populations are provided for.

Although there is a lot of focus on what’s happening at the federal level, it is important to keep in mind the role local and state governments play in not only financing transportation projects, but also operating expenses. More than 75 percent of all public roads and 50 percent of bridges are owned by local governments, which also operate 93.7 percent of all public transit agencies.

“Real action is happening outside of Washington in cities, states and metropolitan areas across the country,” said Eno Center for Transportation President and CEO Robert Puentes, who moderated the panel.

FUTURESTRUCTURE

BY RYAN MCCAULEY / MAY 19, 2017

Kotok: High-Quality 4% Long-Term Munis Are a ‘Gift’ to Investors.

David Kotok of Cumberland Advisors is finding high-quality, long-term munis with attractive yields.

David Kotok of Cumberland Advisors wrote an interesting essay Friday titled “Obstruction of Justice and Markets.” It’s mostly about market reaction to all the uncertainty in Washington.

But there is a nugget near the end where he lays out his investment strategy in this environment that is of particular interest to muni investors. He writes:

> The 4%, high credit quality, tax-free bond is a gift to an investor in any higher tax bracket, whether at its present or future level.

It seems Kotok is talking about buying a muni with a 4% coupon — which would be about a 7% tax-equivalent yield for an investor in the highest tax bracket — a gift indeed.

Truth is, those bonds are hard to find and he isn’t saying which ones he has located. The yield for a 10-year A-rated Muni averages 2.5%, points out Thomas Byrne of Wealth Strategies & Management. Go out 30-years gets you to 3.5%, although he doesn’t recommend buying longer than 15-year bonds.

But there are higher coupon bonds out there. Byrne writes:

> It makes sense to look for higher coupon bonds, relatively speaking, as they provide some cushion versus rising rates, particularly callable bonds.

Munis have risen as turmoil in Washington has led investors to seek safety in high quality bonds. The iShares S&P National AMT-Free Municipal Bond Fund (MUB) rose to $110 in May from trading between $108 and $109 for about the three months prior. Friday at 10:30 a.m., it was at $110.10.

Barron's

By Amey Stone

May 19, 2017 10:57 a.m. ET

Forget Trump. Muni Bond Rally About to Be Driven by Cash Tsunami.

- **Over the summer, supply of cash is projected to outpace sales**
- **'We are bullish on munis' through summer: Citigroup analyst**

Municipal bonds got a lift this week as turmoil surrounding President Donald Trump's administration sparked a flight to safe assets. An even bigger boost will come this summer as investors will receive a flood of cash that will outstrip the sale of new securities, strategists said.

The state and local government debt market will shrink by $39.5 billion over June, July and August as bonds mature faster than they're issued. At the same time, investors will receive $44 billion of interest payments, according to Citigroup Inc. — resulting in nearly $84 billion available to be reinvested.

"At least over the next three, four months, we are bullish on munis," said Vikram Rai, head of municipal strategy for Citigroup.

Yields on benchmark 10-year municipal bonds tumbled this week to the lowest since November after reports that Trump disclosed highly-sensitive intelligence to the Russians and suggested then-FBI Director James Comey drop an investigation of former national security adviser Michael Flynn. The revelations caused stock prices to drop on Wednesday on speculation that Trump's economic policies will be derailed.

While some investors speculated that the developments dampened the prospects that Trump's tax cuts will advance in Congress, some bond strategists said that reaction is premature.

"People were too aggressive in their time-line of President Trump's agenda," said Mikhail Foux, head of municipal strategy at Barclays Plc.

Investors that want to put cash to work will find the most value on the long-end of the muni curve, where the difference between 10- and 30-year yields are close to 12-month highs, said Foux. By contrast, 5-year municipals are more expensive compared with Treasuries than they have been since the end of August 2016.

Investors have shifted heavily into shorter-maturity debt because of concerns about whether the tax break given to bondholders will be rolled back and the prospect of corporate tax cuts, which could cause banks and property and casualty insurers to stop buying long-duration debt, he said.

Those concerns may be overblown. Trump's push to slash corporate and individual income-tax rates won't have a dramatic impact on the market. Cutting the top-rate to 35 percent from 39.6 percent would be too small to sap demand, analysts said, while eliminating the Alternative Minimum Tax and state and local tax deduction could actually strengthen demand for tax-exempt securities.

Cutting corporate taxes to 15 percent would markedly crimp demand from insurance companies and banks, but it's more likely the corporate tax cut will be in the 20 to 25 percent range, said Foux.

In the long run, though, changes to the tax code won't be the main driver of municipal returns, said Lyle Fitterer, who oversees $40 billion as head of tax-exempt debt for Wells Capital Management. What's more important is supply-demand trends, the absolute level of rates and the difference between short and long term yields — which is driven by forecasts about the trajectory of the economy.

"Right now, supply is down, foreign demand is up, U.S. demand is strong because rates have been rallying, so people are more comfortable in fixed income again, so you've seen the market outperform," he said.

Bloomberg Markets

by Martin Z Braun

May 19, 2017, 2:00 AM PDT

Bloomberg Brief Weekly Video - 05/18

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

Watch video.

Bloomberg

Trump Budget Said to Include $200 Billion for Infrastructure.

- **Budget first step in Trump's $1 trillion infrastructure plan**
- **Federal funds aim to spark state, local and private investment**

President Donald Trump will propose spending $200 billion in federal funds over 10 years to spur investment in the nation's infrastructure, a senior Office of Management and Budget official said.

The administration's aim for the funds, which will be part of the budget proposal Trump plans to release on May 23, is to provide incentives for at least $800 billion of infrastructure investment by the private sector and state and local governments, said the official, who spoke on condition of anonymity because the plans were not yet public.

Administration officials are examining the use of federal grants and loans as well as other vehicles to spur the investment, much as the existing Transportation Infrastructure Finance and Innovation Act loan program leverages federal funding for state and local spending, the official said.

One option likely to be part of the plan is asset recycling, in which the federal government offers an incentive to encourage a state or municipality to lease a public asset to the private sector in return for an upfront payment that can be used for other projects that lack funding, according to the official.

Most U.S. infrastructure is owned and controlled by states, localities and private entities. Trump's plan, the official said, will be designed to encourage them to secure their own funding and financing rather than relying on the federal government.

Trump promised throughout the campaign and since taking office to invest $1 trillion over 10 years to upgrade roads, bridges, airports and other assets. The $200 billion in the budget being released next week would be mostly spent between years two through six in the 10-year budget window, the official said, adding that it would be offset to avoid adding to the deficit. The official didn't specify how.

The administration also has convened a task force of 16 federal agencies to identify rules, regulations and statues that could be changed to streamline the environmental review and permitting process to accelerate projects.

U.S. Transportation Secretary Elaine Chao has said the administration is providing principles for its infrastructure plan this month, with a complete legislative package expected by the third quarter.

Officials are using a broad definition of infrastructure that includes veterans' hospitals, energy and broadband, Chao said during testimony on Wednesday at the Senate Environment and Public Works Committee. Administration officials also have said the plan will encourage public-private partnerships as a way to tap the estimated trillions of dollars in available private capital worldwide.

Democrats and even some Republicans have said such deals don't work in rural areas that can't support tolls or a revenue stream needed to secure private investment, and Chao said during her Senate testimony that the administration is committed to meeting both rural and urban infrastructure needs.

Chao has said Trump's plan could involve consideration for "special projects" that are not candidates for private investment and need to be funded directly, though the plan probably won't include a list of specific projects, she said.

Bloomberg

by Mark Niquette

May 18, 2017, 6:00 PM PDT

Mayors See Infrastructure Investment As Key To Future As U.S. Metros Lead Nation's Job Growth, But Many Still Lag Behind.

Washington, D.C. — While the nation's metropolitan areas are economically strong with more than 300 metros experiencing job growth in 2016 and accounting for 95% of all the U.S. job gains last year, growth continues to remain uneven, with nearly one-third of metro cities (121) still not having recovered their lost jobs from the Great Recession, according to a report released today by the U.S. Conference of Mayors.

These metros are predominantly older Midwestern communities suffering from the loss of heavy manufacturing jobs and an aging population and infrastructure.

The report further forecasts that by the end of the decade (2020) nearly one in four U.S. metros (88) will have employment levels below their 2008 levels, representing a decade of lost jobs. For some metros, the loss of jobs has been even more prolonged, with 23 cities having fewer jobs today than in 1990. A large number of metros (140 or nearly 37%) for the same period experienced annual job growth of less than 1%.

Issued during Infrastructure Week in Washington, D.C., the mayors' report also points to infrastructure spending as an economic tool that holds the promise of generating job growth across these metros. Such investment, if funneled directly to metro regions, can create jobs faster, relieve congestion, decrease costs to businesses and increase productivity—all of which further accelerates growth. The entire report and its key findings can be found here.

"Some of the oldest infrastructure is in the Rust Belt metros, which our data show have lagged the national recovery and expansion. And while infrastructure investment is not a cure-all, it can provide cities a "shot in the arm" to help jumpstart their local economies," said U.S. Conference of Mayors President Oklahoma City Mayor Mick Cornett.

But increased infrastructure spending is also needed in high growth areas. The report's findings project that over the next 30 years, the U.S. metro population will grow by 66.7 million people, almost all of the nation's total population growth. By 2047, 72 metros will have population exceeding 1 million, compared to only 53 in 2016. In addition, five metros will have over 10 million people by 2047 – whereas only 2 currently meet that benchmark. And as the metro areas grow, so will traffic congestion.

U.S. metros are already the most congested areas in the country. In fact, from 2013 to 2014, 95 of the nation's largest 100 metros saw increased traffic congestion, up from 61 from 2012 to 2013. The price tag associated with this congestion, which is the value of wasted time and fuel, is estimated at $160 billion in 2014 for U.S. urban areas, or $960 per commuter.

Mayors maintain that infrastructure investment in roads, rails, bridges and other forms of transportation will help relieve the bottlenecks impeding economic expansion, noting for example, the 4.8 billion hours of travel delay Americans experienced in 2014.

"Infrastructure dollars should also be directed where the potential returns are greatest. Clearly, population and economic projections indicate that growth in the United States in the coming years will largely be in cities and their metropolitan areas," said Louisville, KY Mayor Greg Fischer, Chair of the Conference's Council on Metro Economies which produced the report. "If we ignore these trends without preparing for future growth, we will face unnecessary challenges to human, environmental, and economic health."

Mayors consistently tout the strength of U.S. Metros that contribute 91% of the production of goods and services that make up the nation's total gross domestic product (GDP). In fact, since January 2009, 315 metros, 83% of all metros, gained jobs. And twelve of those metros, led by Provo at 29% and Austin at 27%, exceeded a 20% growth rate over the 2009-2016 period.

"We need the Administration and Congress to fulfill their pledge to put real dollars directly into the nation's metro cities, which are the engines of our national economy and have the best track record in delivering infrastructure on time and on budget," said U.S. Conference of Mayors CEO and Executive Director Tom Cochran. "As we look toward the release of the federal budget, mayors are hopeful, as the President promised, that an infusion of federal infrastructure dollars to our cities and metro areas is forthcoming. Anything less will be wholly insufficient to meet the infrastructure needs of the country."

Wells Fargo Suffers Slump in Muni Bond Underwriting.

CHICAGO/SAN FRANCISCO — Wells Fargo & Co is paying a price in the U.S. municipal bond market for the bogus customer accounts scandal that hit the bank last year and led to bans by some cities and states, an analysis of Thomson Reuters data shows.

So far in 2017, Wells Fargo is in sixth place among senior underwriters of municipal bonds with 85 deals totaling nearly $8.13 billion, according to the data. During the same period in 2016, the bank ranked fourth with 134 issues totaling $12.74 billion.

In September, Wells Fargo agreed to pay a $190 million settlement over its staff opening as many as 2 million accounts without customers' knowledge.

California, along with Massachusetts, Chicago, and Ohio, suspended Wells Fargo last fall from pricing their negotiated bond sales due to the scandal.

Municipal issuers typically sell their debt either by hiring underwriters to price their bonds or by setting a date and time for underwriters to bid on the debt, and then choose the lowest bid.

Wells Fargo's ranking for negotiated deals slid to eighth place between Jan. 1 and May 17 from fourth place during the same period in 2016. The bank was the bookrunning underwriter on 45 deals totaling $5.2 billion so far this year, compared to 79 deals totaling $9.25 billion in 2016.

The bank's ranking drop for winning competitively bid issues was not as steep, falling to fifth place with 40 deals totaling $2.92 billion so far this year from third place with 55 deals totaling $3.48 billion last year.

"Public Finance is an important business for Wells Fargo with many opportunities for growth," Philip Smith, head of government and institutional banking at Wells Fargo, said in a statement to Reuters.

"We are continuing to invest in the business. Despite current political challenges affecting league tables, our strong relationships and diversified municipal business model have us growing (revenue) 15 percent year over year," Smith said.

CALIFORNIA DEAL

California sanctioned Wells Fargo over the accounts scandal last year. In April, however, it beat out eight other banks to win a $635 million competitive deal in the state with a 2.811 percent interest rate, according to the California Treasurer's Office.

"We had no choice," said California State Treasurer spokesman Marc Lifsher. California law requires the state to award competitive sales of general obligation bonds to the bidder with the lowest interest cost, Lifsher said.

He added that the state plans to review the sanctions this fall, but as of Monday, the bank was "still in our dog house."

"We're continuing to pressure them to show us that they've cleaned up their act," Lifsher said.

By REUTERS

MAY 19, 2017, 4:54 P.M. E.D.T.

(Reporting By Karen Pierog in Chicago and Robin Respaut in San Francisco; Editing by Daniel Bases and Tom Brown)

SIFMA US Research Quarterly, First Quarter 2017

About the Report

A quarterly report containing brief commentary and statistics on the U.S. capital markets, including but not limited to: municipal debt, U.S. Treasury and agency debt, short-term funding and money market debt, mortgage-related, asset-backed and CDO debt; corporate bonds, equity and other, derivatives, and the primary loan market.

Summary

Total Issuance Increases in 3Q'16 Quarter-Over-Quarter and Year-over-Year

Long-term securities issuance totaled $1.90 trillion in 1Q'17, a 18.7 percent increase from $1.60 trillion in 4Q'16 and a 13.1 percent increase year-over-year (y-o-y) from $1.68 trillion. Issuance increased quarter-over-quarter (q-o-q) across all asset classes but municipal, mortgage-related and asset-backed securities; y-o-y, growth was positive in all asset classes except municipal debt.

Long-term public municipal issuance volume including private placements for 1Q'17 was $90.5 billion, down 13.7 percent from $104.9 billion in 4Q'16 and down 9.4 percent from 1Q'16.

The U.S. Treasury issued $654.1 billion in coupons, FRNs and TIPS in 1Q'17, up 44.8 percent from $451.6 billion in the prior quarter and 13.1 percent above $578.2 billion issued in 1Q'16.

Issuance of mortgage-related securities, including agency and non-agency passthroughs and collateralized mortgage obligations, totaled $406.5 billion in the first quarter, a 27.3 percent decline from 4Q'16 ($558.9 billion) but a 12.3 percent increase y-o-y ($361.9 billion).

Corporate bond issuance totaled $468.7 billion in 1Q'17, up 79.0 percent from $261.8 billion issued in 4Q'16 and up 17.9 percent from 1Q'16's issuance of $397.4 billion. Of all 1Q'17 corporate bond issuance, investment grade issuance was $381.0 billion (81.3 per-cent of total) while high yield issuance was $87.7 billion (18.7 percent).

Long-term federal agency debt issuance was $151.2 billion in the first quarter, a 49.1 per-cent increase from $101.4 billion in 4Q'16 and a 2.5 percent increase from $147.4 billion issued in 1Q'16.

Asset-backed securities issuance totaled $75.8 billion in the first quarter, a decline of 3.5 percent q-o-q but an 37.5 percent increase y-o-y.

Equity underwriting increased by 23.4 percent to $57.7 billion in the first quarter from $46.8 billion in 4Q'16 and up 29.4 percent from $44.6 billion issued in 1Q'16. Of the total, "true" initial public accounted for $10.7 billion, up 144.8 percent from $4.4 billion in 4Q'16 and up tenfold from $1.2 billion in 1Q'16.

View the Report.

GFOA: Infrastructure Week

GFOA is participating in Infrastructure Week in Washington DC and will be continuing the focus during the Annual Conference.

More

CUSIP Requests Pull Back in April Signaling Possible Slowdown in Corporate and Muni Bond Issuance Volume.

NEW YORK, NY, MAY 10, 2017 – CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for April 2017. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity, found a slowdown in the pre-trade market for corporate and municipal bonds in April. This reduced demand for new CUSIP IDs for corporate and municipal bonds is suggestive of a possible slowdown in new security issuance volume over the coming weeks.

Read Report.

Bloomberg Brief Weekly Video - 05/11

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

Watch video.

Bloomberg

May 11, 2017

New P3s May Finally Bridge the Digital Divide.

Many municipalities are forming public-private partnerships to bring high-speed Internet to long-neglected places. Their approaches, however, vary widely.

Andrew Dean remembers counting down to "Ting Day." That was the day in December 2014 when Dean's Maryland software business was getting hooked up to the kind of high-speed Internet that most Americans only dream about. Ting, the company that would replace Comcast as the office's Internet service provider, offered a new fiber-optic connection that promised to be incredibly fast: a gigabit per second. That's about 26 times faster than the average U.S. Internet connection. Gigabit fiber is so fast that users can download a full-length, high-definition movie file in two minutes and can watch five video streams at the same time. A user can upload a file to the cloud faster than she can save it to a thumb drive attached to her computer. For Dean and his co-workers, Ting Day couldn’t come soon enough.

At first blush, Dean’s software company might not seem like the kind of business that would attract such a coveted asset. Open Professional Group, where Dean is the president, employs 19 people and is located in Westminster, Md., a quaint town of about 18,000 people half an hour north of Baltimore. The area was largely rural and blue-collar when Dean grew up there, but these days it’s better known as a bedroom community for commuters to Baltimore or Washington, D.C. In other words, it doesn’t have the kinds of institutions, like a major university or a big corporate headquarters, that would require fiber-optic networks.

But the city of Westminster has struck a deal with Ting that, it hopes, will result in a citywide network of fiber-optic connections to every home and business. Under the terms of their public-private partnership, the city is laying all the fiber itself, which Ting is then paying to lease for customers, whom it is responsible for signing up and serving. The more fiber the city installs, the more customers Ting can reach. The more customers Ting signs up, the more the company pays the city. Eventually, other service providers will be allowed to compete with Ting on the network as well. “We may not be curing cancer,” Dean says, “but the technology provides us with a tool that allows us to do what we do faster, to do what we do better and to be able to do more of it. That means I get to hire more people and we get to grow.”

Right now, the Westminster project is perhaps the nation’s most closely watched public-private partnership trying to deliver high-speed Internet access. Many other local governments are also looking to public-private partnerships for broadband to spur development in places where the private company won’t provide it on their own. The approaches vary widely, and many are still in their early stages. But if they’re successful, these P3s could finally crack the code of how to bring next-generation Internet to people in rural communities and other long-neglected places on the wrong side of the digital divide.

Ever since browsing the Web has required more than a modem and a dial-up connection, vast swaths of the United States have struggled to get the state-of-the-art infrastructure they need to keep up with new technology. While utilities in many big cities offered higher speeds, small towns and rural areas were left behind. The phone and cable companies were reluctant to upgrade existing lines in those areas because they typically can’t turn a profit. The low-density development, low subscriber rates and long distances between customers mean higher upfront installation costs.

As a result, some cities decided to build out their own fiber-optic systems. More than 400 municipalities, mostly ones that already owned their own electric utilities, started offering broadband services. Lots of those efforts were successful, but the most prominent was Chattanooga, Tenn. It became the first city to offer a gigabit Internet connection in 2010, despite legal challenges from Comcast and AT&T. The lightning-fast service helped revive its fortunes, spurred the creation of an “innovation district” downtown and attracted companies like Amazon, OpenTable and Volkswagen to open or expand operations there. Meanwhile, the Obama administration tried to spur the building of “middle mile” networks in its 2009 stimulus package, with the hope that building high-speed networks that connect schools, government buildings and other major institutions would make it easier for private providers to extend those networks to homes and businesses.

But the real game-changer turned out to be Google. The tech giant made a big splash in 2010 when it announced it would provide one city with gigabit fiber service to homes and businesses. It was a bold goal, because it depended on installing a whole new layer of infrastructure on the city grid. For Internet access, most of America still depends on electric signals that travel down copper wires laid decades ago by telephone and cable companies. But Google wanted to build its Internet network with fiber-optic cables, which use laser flashes that race through thin glass wires to convey information at nearly the speed of light. The wires can carry virtually unlimited information, and they can be upgraded as technology improves. Enthusiasts say that makes fiber-optic networks “future proof.”

Google was by no means the first carrier to use fiber-optic networks, which already make up the backbone of the Internet and are used by many big institutions. For example, some Verizon home customers have fiber-to-the-home through the company’s Fios (fiber-optic service) product, but Verizon largely stopped expanding the areas where it offered Fios in 2010.

Still, the Google competition made it seem possible for almost anywhere in the country to make the jump to high speeds. Even better, customers would initially only have to pay $120 a month for Internet and TV service, about the same rates most customers pay for connections a fraction of the speed. Roughly 1,100 cities entered Google’s competition. Many took drastic steps to stand out from the crowd. Topeka, Kan., renamed itself “Google” for a month. The Duluth, Minn., mayor jumped into Lake Superior in February wearing only shorts and a T-shirt. University of Missouri fans waved Google signs during a nationally televised basketball game. In the end, Google chose Kansas City, Kan.

Google Fiber, which is now officially called Alphabet Access, has since expanded across the state line to Kansas City, Mo. It has also added another eight cities and plans to build networks in two more. But last year, the company put all other expansion plans on hold. It hired a new CEO and laid off hundreds of workers, leading some watchers to speculate that Google might be getting out of the fiber business altogether.

Still, nearly everyone agrees that the introduction of Google Fiber was a turning point. It made local officials all around the country think seriously about the benefits of installing super-fast Internet connections in their cities. Municipal leaders quickly realized that broadband could be the backbone for smart cities and connected vehicles, the foundation for advanced telemedicine, or the means for schoolchildren to explore the world far beyond their classrooms. In competing for Google, cities realized they wanted a fiber-optic network, regardless of whether Google provided it. “People got all excited about Google Fiber, which was very useful, because it opened people’s eyes to the country’s need for world-class, cheap data. But Google Fiber was never going to reach every city in America, because it’s not in their company’s interest to build basic infrastructure,” says Susan Crawford, a Harvard University law professor who specializes in Internet and communications law. “It is in the interest of every local government to ensure economic growth and social justice for its citizens. And the only way to do that is for the city or the local government to take matters into its own hands.”

While cities’ appetite for gig fiber grew, they were confronted with a conundrum. On the one hand, building and running a city-owned network is extremely difficult. Those cities that don’t already operate a utility, like a local power company, often don’t have employees with the technological expertise to run an Internet service, says Jim Baller, president of the Coalition for Local Internet Choice. City employees, Baller says, often are “not on a day-by-day basis versed in the industry changes in technology, finance and services that you provide in the communications world.” Another limitation: Thanks in part to intense efforts from telecom lobbyists and lawyers, at least 19 states have laws that restrict or prohibit cities from offering municipal broadband services.

On the other hand, as the experiences with cable and phone companies showed, cities had learned they couldn’t rely solely on the private sector to provide high-speed connections. And even if private companies brought gigabit speeds to every big city in the country, they’d never be a viable solution for getting faster Internet to the small towns and rural communities that need upgrades the most. That’s why so many cities have turned to public-private partnerships, using a mix of public resources and private know-how to achieve what neither sector could do on its own.

So far, the approaches vary markedly. “We are in such early stages of innovation that every project is developing its own model,” says Joanne Hovis, the president of CTC Technology and Energy, a consulting firm that has helped states and cities, including Westminster, develop public-private partnerships for broadband. “I think many of them will become models and be replicated by other communities. But there is not yet a standard way of doing this, as there is in, for example, P3s for toll roads, where there’s 20 years of experience and lots of data.”

At one end of the spectrum are the cities in Mississippi that lured fiber networks built by C Spire, a regional wireless carrier based in the state. C Spire started offering fiber to communities because it was inspired by the example of Google Fiber. It even initially modeled its selection process after Google’s by hosting a competition among cities. Like Google, it stressed the importance of streamlining the regulatory process in cities it chose, so it could build its networks with minimum hassle. “We found pretty quickly that was the easy part,” says Jared Baumann, a manager who led C Spire’s efforts to develop franchise agreements with cities and towns for the fiber networks. “It was far more important to have the city and volunteers within the cities really taking this to the next level.”

The mayor of Ridgeland, for example, organized a “Tour de Fiber,” with dozens of cyclists riding through neighborhoods to encourage residents to sign up for C Spire’s service. The mayor of Quitman, a town of fewer than 2,300 people, went door to door to encourage residents to get the fiber connection. In the town of Clinton, a group of two dozen residents “made it their goal in life” for several years to promote the new service, Baumann says. “In many ways, the mayors of our towns, and their staff members and their volunteers, were more of a sales force for us than our own sales force was. That was key,” he says. “Mayors were knocking on doors just like campaign season, saying this is only coming to town or your area if you sign up.”

Other states have used more traditional P3 approaches. Kentucky is installing 3,000 miles of fiber-optic lines through a public-private partnership. The new network will link every county in the state to faster Internet connections, although it will be up to local Internet providers to link end users to the new “middle mile” network. Macquarie, an Australian bank, will build and operate the network for 30 years. It will recoup its costs by selling access to universities and state government over the course of the deal, but Kentucky will own the network when the deal is over.

In Minnesota, local governments in two counties are using an old model to deliver new technology. Seventeen townships and 10 cities have formed a co-op to build fiber and wireless Internet connections over a 700-square-mile area, much as rural areas used co-ops to bring electricity to farms during the Great Depression. The co-op RS Fiber got its initial funding when the 10 cities issued bonds for half the cost of the first phase of its project. The co-op built wireless towers to cover farms in the area while it constructs a fiber network in the towns. With the money the co-op generates from providing service in town, it will then start building fiber to the farms. A local Internet provider runs the day-to-day services.

But it’s the public-private partnership between Ting and Westminster that experts are watching most closely these days.

The effort to bring higher-quality Internet access to the Maryland city started more than a decade ago, and the city considered all options, even the idea of installing and offering broadband on its own. Ultimately, it decided to partner with a private provider. Westminster had a few advantages that helped make it more attractive. For one, the city had enough cash on hand to fund a small pilot project. And Westminster found that businesses in town were very excited about getting the service. More than 90 percent of companies signed up when it became available to them. One of the things that distinguishes Westminster’s approach is that the city is building and keeping control over the physical fiber network. The strategy, says Councilman Robert Wack, who has worked extensively on the issue, is "perfect for municipalities. We are in the long time-horizon business," he says. "We build water treatment plants that have a useful life of 40 years. We dump millions of dollars into pavement and nobody bats an eye because everybody understands how important good roads are for economic development. Why would building fiber be any different? We're basically building a road for data."

For Ting, selecting cities to work with comes down to both objective measures, like demographic data, and subjective judgments, like how easy a city is to work with. One thing that stood out about Westminster, says Monica Webb, the company's director of government relations, was that the town was not just eager for service but also willing to do most of the hard work of financing and then installing the fiber all the way up to buildings.

But Webb cautions that there are not enough private companies like Ting to partner with all the cities that want high-speed Internet. After the Westminster deal went through, Ting received more than 2,000 requests from residents or public officials to come to other communities. Currently, Ting serves just five cities, with a few more in the works. "Sometimes, the best thing cities can do is to do it themselves," she says. "There needs to be a plan B."

Wack says communities like his don't have a choice. They have to find a way to build better data connections. "This is the barebones, basic infrastructure of the 21st-century economy," he says. "Communities that have this infrastructure will thrive, and those that don't will wither and die. It's just that stark."

GOVERNING.COM

BY DANIEL C. VOCK | MAY 2017

[Without More Census Funding, Disadvantaged Communities Risk Being Overlooked Most.]

Many predict severe, long-term consequences for the 2020 count and all the programs that rely on it.

Several events in recent months have hinted that the 2020 Census could be in serious trouble.

The latest funding proposals fall far short of what many contend is needed to prepare for the decennial count. In February, the Government Accountability Office added the program to its "high risk" list. And just last week, Director John Thompson surprised Census observers when he announced that he would resign at the end of next month.

Former agency officials and Census advocates are worried that inadequate preparation could potentially spell significant problems for the accuracy of the count. Given that congressional redistricting and funding for hundreds of federal programs all rely on the decennial Census, the reliability of the numbers carry far-reaching consequences.

[Continue reading.]

GOVERNING.COM

BY MIKE MACIAG | MAY 15, 2017

Why Few Cities Will Take the Supreme Court Up on Their Right to Sue Banks.

Last week's ruling leaves open a key legal question that could make cities unlikely to file suit.

After losing billions in property tax revenue during the foreclosure crisis, local governments notched a win last week when the U.S. Supreme Court affirmed the city of Miami's right to sue big banks under the Fair Housing Act.

But don't expect a flood of lawsuits to follow any time soon. The ruling leaves open a key legal question about the burden of proof cities must present to show they were financially harmed.

In the 5-3 ruling, the court sided with Miami, agreeing that the 1968 act, which prohibits racial discrimination in the lease, sale and financing of property, applied to cities as well as people. But the ruling didn't agree that Miami had provided enough direct evidence linking discriminatory lending practices by Wells Fargo and Bank of America to the financial harms incurred by the city. It also stopped short of saying what a city must do to prove economic harm and remanded the case back to the lower court to answer that question.

"So what it leaves open right now is, can cities who brought this kind of case establish the kind of proximate cause the court has flagged in this decision?" says Joe Rich, a fair housing expert for the Lawyers' Committee for Civil Rights Under Law.

Proximate cause is essentially an event that sets in motion a sequence of events that result in a foreseeable effect, such as an injury, which would not otherwise have occurred. Last week's ruling said Miami would have to prove the banks' practices had a "direct" effect on its finances.

In its complaint, Miami had alleged that Wells Fargo and Bank of America intentionally targeted African-American and Latino neighborhoods for predatory practices by lending to them on worse terms than non-minority borrowers. The banks also failed to extend fair refinancing and loan modifications to those borrowers, the city said, which resulted in a high rate of defaults.

The conduct, according to Miami's complaint, led to a disproportionate number of foreclosures and vacancies in majority-minority neighborhoods. By late 2013, when the suit was filed, Miami had the highest foreclosure rate among the 20 largest metro areas in the country. According to the complaint, loans in majority-minority neighborhoods were nearly six times as likely to result in foreclosure as loans in majority white neighborhoods.

The ensuing crisis not only cut the city's property tax revenue, it strained Miamis' limited resources by creating an increased demand for public safety services in those neighborhoods. An amicus brief filed by the Miami Fraternal Order of the Police (FOP) listed dozens of horrors that played out in these semi-abandoned neighborhoods. Foreclosed homes were used to hide dead bodies and to advertise child sex trafficking, for instance. In one heartbreaking case, a toddler drowned in the swimming pool of his neighbor's vacant house. The FOP even alleged that untended pools in foreclosed homes became breeding grounds for swarms of mosquitos and "created the epicenter for America's first Zika outbreak."

It will be up to the federal appeals court in Atlanta to decide if Miami has shown proximate cause.

But the ambiguity of the High Court's ruling, plus the three-year statute of limitations on fair housing lawsuits, makes it unlikely that a slew of localities will use the decision as a license to start suing big banks. There are, however, a number of open cases in places like Los Angeles; Oakland, Calif.; and Providence, R.I., that benefit from the ruling.

Civil rights advocates say the decision is an important win in terms of enforcing the Fair Housing Act. Individuals have been successful at bringing cases against lenders following the foreclosure crisis. But governments have struggled: No case has gone to trial and there has just been one major settlement — a $175 million payment by Wells Fargo to several cities and borrowers across the country.

Ajmel Quereshi, senior counsel for the NAACP Legal Defense and Educational Fund, hopes the ruling will "act as a future deterrent to banks that are thinking about these practices in the future."

GOVERNING.COM

BY LIZ FARMER | MAY 11, 2017

The Week in Public Finance: Revenue Relief in 2018, Good GDP News and the Debt-Shy.

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

GOVERNING.COM

BY LIZ FARMER | MAY 12, 2017

S&P: Poised To Strengthen In Fiscal 2018, U.S. State Budget Conditions Remain Under Longer Term Pressure.

Continued slow revenue growth against a backdrop of rising expenditures in a range of less discretionary areas is exerting fiscal pressure across the U.S. state sector. According to S&P Global Ratings' survey of state fiscal conditions, 43 states have projected operating deficits for either fiscal 2017 or 2018 in recent months.

Continue reading.

Amid Divestment Protests, More Cities Explore Public Banks.

Philadelphia City Council Member Cindy Bass was already thinking about how to cut the city's ties with Wells Fargo when bank CEO John Stumpf testified last September before the U.S. Senate. Questioning Stumpf about the bank's fraudulent accounts scandal, Senator Elizabeth Warren said, "So you haven't resigned, you haven't returned a single nickel of your personal earnings, you haven't fired a single senior executive. Instead, your definition of accountable is to push the blame to your low-level employees who don't have the money for a fancy PR firm to defend themselves."

Search the U.S. Department of Justice website for “Wells Fargo” and “settlement” and you’ll get a litany of results: a $25 billion settlement for foreclosure abuse (a record), $1.2 billion for improper mortgage lending practices, and $184.3 million in compensation for steering black and Latino borrowers into predatory subprime mortgages. The 2016 hearing was the moment when the wheels fell off the stagecoach.

Continue reading.

NEXT CITY

BY OSCAR PERRY ABELLO | MAY 10, 2017

Why the Road to Trump's $1 Trillion Infrastructure Investment is Marked with Potholes.

- The $1 trillion that President Trump wants to invest in U.S. infrastructure by way of public-private partnerships may not be a slam-dunk for investors.
- Amid a patchwork of decaying U.S. roads, bridges, schools and water systems, an increasing share of municipal debt is being devoted to shoring up these structures.
- Yet experts warn that, for a variety of reasons, most infrastructure projects lack the revenue stream and return on equity needed to attract private investors.

For a variety of reasons, the mixed track record of rebuilding projects suggests that the $1 trillion that President Donald Trump wants to invest in U.S. infrastructure by way of public-private partnerships may not be a slam-dunk for investors.

As several PPPs have demonstrated recently — such as the Chicago Skyway’s $2.83 billion sale in 2015 and Westinghouse Electric’s high-profile bankruptcy declaration in March — infrastructure funding can swing from success story to cautionary tale.

Amid a patchwork of decaying U.S. roads, bridges, schools and water systems, an increasing share of municipal debt is being devoted to shoring up these structures. According to data from investment management firm PIMCO, about 58 percent of the outstanding tax-exempt municipal debt in the Barclays Muni IG Index is issued for infrastructure purposes.

Yet experts warn that, for a variety of reasons, most infrastructure projects lack the revenue stream and return on equity needed to attract private investors.

“We see a lot of need for infrastructure investment, but the areas where [it’s needed] are not necessarily aligned with what public-private partnerships may target, or with what the state and local governments might be willing to turn over to a private operator,” David Hammer, executive vice president and head of municipal bond portfolio management at PIMCO, told CNBC in a recent interview.

In view of past experiences, “it’s unlikely that you’d see state and local governments use public-private partnerships to address water and sewer needs,” for example, Hammer added.

That’s true even for cash-strapped cities like Detroit, whose water and sewer system is one of its more valuable assets — making officials reluctant to fully privatize the system, he added.

To be certain, there's still a healthy appetite for public-private investment for massive projects such as New York's $4 billion overhaul of a major terminal at LaGuardia Airport. Meanwhile, a more than $1 billion revamp of John F. Kennedy International's Terminal 8 was considered a success for private investors.

However, Westinghouse's cost overruns for its nuclear power plants show how hard it's become for private entities to ensure an appropriate rate of return when the political or regulatory winds shift against them. Given the long timetable required to birth such projects, roadblocks can be hard to predict.

"These are often generational projects. The idea is that the requirements surrounding those projects, for the safety of all of us, will change as our knowledge base changes," said Nick Venditti, a portfolio manager at Thornburg Investment Management.

With the exception of toll roads and some airports — where forecasting traffic patterns and revenue streams can be easier — Venditti doesn't see the public-private partnership model in municipalities as sustainable over the long term, largely because of how hard it is to project an attractive revenue stream for most infrastructure projects.

George Friedlander, a veteran muni analyst with Court Street Group Research, said that while PPPs don't have a strong track record as a viable financing method, technology may alter the landscape. "Technology drives the case for getting the whole package designed and having a private entity involved earlier in the game than has been the case historically," he said.

'Default rates relatively low'

Meanwhile, a potential wildcard could be the Federal Reserve, which is expected to raise borrowing costs through rate hikes, and tax reform that may dim the benefits of muni bonds, many of which are tax exempt.

PIMCO's Hammer thinks the risks are fairly low given that the asset class historically outperforms other fixed-income asset classes when the Fed hikes rates. He also argued they're less risky than corporate debt.

Lower-rated investment grade munis "actually default less frequently than [higher-rated] corporate bonds despite all the headlines of the last five years, with Puerto Rico, Detroit, [and] Jefferson County, Alabama, all going through bankruptcies," Hammer said, citing data from Moody's Investors Service.

"The cumulative bankruptcy percentage hasn't gone up for the asset class, so we still see default rates as relatively low," he added.

Friedlander noted that rating agencies have made it clear that more states have weakened in credit quality recently, due largely to public pension pressures and slower tax revenue growth. However, the number of actual defaults on rated municipal debt remains low, and he doesn't expect that to change.

David Bogoslaw, special to CNBC.com

Saturday, 13 May 2017 | 9:00 AM ET

Los Angeles School District Is Top U.S. Municipal Bond Sales Next Week.

NEW YORK (Reuters) – The Los Angeles Unified School District, California's largest school district, plans to sell nearly $1.1 billion of general obligation refunding bonds in the biggest U.S. municipal bond offering next week.

The debt, backed by county property taxes, will refund 2007 bonds that have July 1 call dates. Through lead underwriter Morgan Stanley, the district will hold a one-day retail order period on Monday, with institutional pricing on Tuesday, according to a presentation for prospective bondholders.

The second biggest school district in the United States, Los Angeles had 625,434 students enrolled in kindergarten through 12th grade in fiscal 2017 and $10 billion of general obligation bonds outstanding.

It is in the midst of a $25.6 billion to upgrade buildings and construct new schools.

Altogether, issuers plan to offer an estimated $9.4 billion of U.S. municipal bond and note sales next week as investors have maintained a steady interest in the muni market.

Investors have put money into muni funds for the last five weeks straight. Funds had $605 million of inflows for the week that ended May 10, the second-biggest week of inflows since January, according to Lipper, a Thomson Reuters unit.

Other issuers coming to market next week with big deals include the Dormitory Authority of New York, for New York University taxable bonds, and the District of Columbia.

Reuters

By Hilary Russ

May 12, 2017, at 5:41 p.m.

(Reporting by Hilary Russ; Editing by Leslie Adler)

Commentary: Advances in Advance Refunding.

An advance refunding is a complex transaction. There are several moving parts, and it is easy to lose track of where the value is. Two recent papers on this topic are Don't Waste a Free Lunch: Managing the Advance Refunding Option in the Journal of Applied Corporate Finance, and Advance Refundings of Municipal Bonds, forthcoming in the Journal of Finance.

As some may recall, the authors of the latter paper made the stunning assertion in their 2013 draft (still posted on the SSRN website) that advance refunding always destroys value. In other words, this widely used transaction can never be optimal. If true, the practitioner community has been universally wasteful. In a Bond Buyer commentary (Advance Refunding: A Misguided View from the Ivory Tower, Sept. 10, 2013), I pointed out the faulty logic of this claim — the authors relied on general economic principles, without understanding the actual mechanics of the transaction.

Fast forward to 2017. After seeing that the paper was accepted by the Journal of Finance, I wondered how the authors handled the flaw of their central claim in 2013. It turns out they made a complete U-turn; the central claim has vanished. In fact, they inserted a counterexample showing that advance refunding can be optimal. Better late than never! However, without the (flawed) original claim, it is unclear that what remains is particularly new or insightful. The paper also displays a lack of familiarity with the muni market in its failure to recognize the dominance of 5% non-call 10 bonds, which are tailor-made for advance refunding. A discussion of what went wrong in 2013 would have been a service to the academic community.

In the “Free Lunch” article Lori Raineri and I examine the value of the advanced refunding option (ARO). To begin with, the ARO is free to issuers — for well-known reasons, investors actually prefer advance-refundable bonds. Quantifying its value is challenging, due to the imperfect correlation between the issuer’s funding cost and Treasury rates; the former determines the refunding rate, and the latter the escrow yield. At the historically low Treasury rates prevailing today, the value of the ARO of a new 20-year 5% NC-10 bond is roughly 1% of face amount. The figure below puts this in perspective – the value of the call option is roughly 5% of face value, with the total optionality being 6%. The option values increase with higher coupons, as expected. But let’s keep in mind that although higher coupons provide more option value (as a percent of par), they also reduce the size of the issue.

The key point of our paper is that an ARO should not be wasted by advance refunding near the call date. The “free lunch”‘ to consider here is the ARO of the replacement issue. Advance refunding is permitted only once in a funding’s lifecycle. Thus the replacement of an advance refunded issue is ineligible for advance refunding, but if an issue is called (current refunded), the ARO remains alive.

The efficiency of refunding is quantified by the percentage of the option value captured by transacting. The figure below shows the effect of including the ARO of the replacement issue. As the darker blue line indicates, it is considerably lower than when the ARO is ignored, signaling that advance refunding close to the call date wastes a free lunch. A preferable alternative is to construct a hedge which locks in savings, while retaining the ARO.

Issuers and their advisors can use these findings to make better advance refunding decisions. Specifically, recognize that you lose advance refunding option of the replacement issue when you pull the trigger close to the call date. And instead of obsessing over negative arbitrage, use refunding efficiency as your signal to transact.

The Bond Buyer

By Andrew Kalotay

May 09 2017, 10:27am EDT

Munis: Downgrades Rise a Percentage of Rating Actions in Q1.

Fitch bumped up its negative rating watch listings, but didn't issue any positive rating watches in Q1.

While the first quarter was the 12th consecutive quarter where upgrades outpaced downgrades, it outpaced them by a smaller percentage than last quarter, according to a new report from Fitch Ratings.

In the fourth quarter of 2016, downgrades were just 25% of all rating actions. In the first quarter of this year, downgrades were 40% (37 of 151 ratings actions).

Jessalynn Moro of Fitch's U.S. Public Finance group also notes that the downgrades were bigger in terms of dollar value this quarter — mostly due to the downgrade of Illinois.

> While upgrades outpaced downgrades, we saw a higher par value on the downgrades this quarter due to the Illinois downgrade of nearly $30 billion. This one downgrade accounted for 68 percent of all downgrades this quarter.

Fitch downgraded Illinois from triple-B-plus to triple B in February. That's the second lowest investment grade rating.

Fitch also notes in its report that there was a pretty big bump in "rating watch negative" listings — to 28 from 20. The average for the last four quarters is 21.75. No securities were listed as "rating watch positive."

Positive rating outlooks (a longer-term measure than a ratings "watch") decreased to 86 from 91 in 4Q16, and negative rating outlooks decreased to 109 from 118.

Barron's

By Amey Stone

Updated May 8, 2017 12:07 p.m. ET

Municipal Bonds Attractive Again as Trump Euphoria Wanes: Pimco

Policy stumbles can be bullish for munis

Municipal bonds are starting to draw investor interest as investors take in President Donald Trump's early pro-growth-agenda stumbles, said David Hammer and Matthew Sinni, credit strategists at bond giant Pimco.

"While we think it's too early to shout 'all clear,' investors now have more information about policies likely to affect the municipal bond markets this year, and relative valuations are looking more attractive than they did a few months ago," they said in a note.

After Trump's election, munis were pummeled by fears that his agenda of large fiscal stimulus measures, including tax cuts, could pare demand for municipal securities. The prospect of tax changes could dull the attraction of those securities, which depend on investors looking to benefit from the income-tax exemption munis offer.

However, a failure to repeal and replace Obamacare, along with a lack of specifics on Trump's tax plans, have cast doubt on the president's ability to easily implement his policies. Trump's troubles, which comes despite Republican control of the Senate and House, has contributed to a bullish environment—at least for the moment—for muni bonds, the Pimco strategists said.

"Slower-than-expected policy progress and a Republican majority that lacks a unified vision for health care or tax reform make it more likely that an eventual fiscal boost won't occur until 2018 (and may be smaller than initially expected)," they said.

"The upshot is a tax reform backdrop for municipals that, while not without risk, has modestly improved since the beginning of the year and (if realized) would not fundamentally alter the long-term valuation paradigm for tax-efficient investors," they said.

Also, the relative value of munis versus Treasurys is also compelling, they said. The municipal/Treasury yield ratio, a measure comparing Treasury TMUBMUSD10Y, -0.27% and municipal bond yields, is at 92%. Any number above the historical average of 80% is considered a sign municipal bonds are oversold and cheap compared with Treasurys.

Hammer and Sinni point out that high-yield municipals NHMAX, +0.00% for example, appear more attractive than high-yield corporate bonds HYG, +0.05% In 2017, the spread between high-yield municipal bonds and Treasurys surpassed that of high-yield credit, mainly because of a scramble for income against a backdrop of meager interest rates, with the 10-year Treasury benchmark offering a yield of 2.32%.

Funds focusing on municipal debt have notched a five-week streak of net inflows, according to data from EPFR Global.

Falling inflation expectations from lower energy prices also has helped spur appetite because lower consumer prices help to mitigate the corrosive effect of inflation on a bond's fixed payments. Signs of slack in hiring, which suggest that wages are holding lower, can also contribute to weaker inflation expectations.

So-called break-even levels for Treasury inflation-protected securities, that is, the bond market's estimation of expected inflation, have fallen. The five-year break-even rate, or average expectations over a five-year period, fell as low as 1.65% on April 18 from the two-year peak of 1.97% on Jan. 27, a week after Donald Trump had entered the White House, data from the Federal Reserve Bank of St. Louis shows.

To be sure, others argue different employment indicators could show an economy at full employment and that energy prices have only a fleeting impact on inflation. The jobless rate continues to stay at 4.5%, matching prefinancial crisis levels, and the Bureau of Labor Statistics reported wages had grown 0.8% in March.

MarketWatch

By Sunny Oh

May 3, 2017 5:35 p.m. ET

Senate Nixes Obama-Era Retirement Rule.

The Senate nixed an Obama-era regulation Wednesday that made it easier for states to create retirement plans for some workers.

Senators voted 50-49 on the House-passed resolution, rolling back a rule meant to encourage states to create retirement plans for private-sector workers who do not have access to an employer-based retirement plan.

GOP Sens. Bob Corker (Tenn.) and Todd Young (Ind.) voted against repealing the rule. Sen. Dick Durbin (D-Ill.), who had outpatient surgery this week, missed the vote, which allowed the Senate to avoid a tie and pass the measure.

The Obama-era rule, implemented in October 2016, would exempt the state-created plans from the Employee Retirement Income Security Act, or ERISA, a law that outlines rules for workplace savings.

Congress eliminated a similar regulation last month that targeted a state's "political subdivisions" such as cities and counties.

Republicans argue the Labor Department rules are another example of executive overreach under the Obama administration and are overly burdensome for businesses.

"States … are already using this authority to impose new mandates on both large and small employers, including start-up businesses. Some of the mandates apply regardless of the size of the businesses," said Sen. Orrin Hatch (R-Utah), the chairman of the Finance Committee.

Majority Leader Mitch McConnell (R-Ky.) added that the Obama rule would give "government-run retirement plans with a competitive advantage over private sector workplace plans, while providing fewer basic consumer protections to the workers who would be forced to contribute to them."

But Democrats and outside groups urged their GOP counterparts to buck the resolution, warning that the state-started plans could help prevent a "retirement crisis" for low-income workers.

Senate Minority Leader Charles Schumer (D-N.Y.) and House Minority Leader Nancy Pelosi (D-Calif.) issued a joint statement asking President Trump to veto the resolution and keep the Obama-era rule in place.

"We strongly urge the President to veto the bill if it is passed by the Senate today, which would show he really did mean it when he said he understood the plight of the American worker. If President Trump vetoes this misguided bill, Democrats in Congress will stand by him and ensure the veto is sustained," they said.

The AARP also sent a letter to senators this week urging them to keep the Obama-era rule, noting that tens of millions of Americans don't have access to a workplace savings account.
"AARP urges the Senate to allow state flexibility to support more private retirement savings opportunities, and to vote no on H.J. Res. 66," the group wrote.

Finance officials with roughly two dozen states also sent a letter earlier this week warning that without access to a savings account, workers could retire in poverty.

"States are pursuing a multitude of solutions to address this growing retirement savings crisis," they wrote. "We insist that states be allowed to maintain their constitutional rights to implement such legislation.”

GOP lawmakers are using the Congressional Review Act to undo regulations implemented late in former President Barack Obama’s tenure by a simple majority.

THE HILL

BY JORDAIN CARNEY – 05/03/17 06:25 PM EDT

Senate Votes to Repeal Labor Department Rule on State-Run Retirement Plans.

The U.S. Senate voted narrowly on Wednesday to repeal an exemption from strict federal protections that former President Barack Obama’s Labor Department had given to state-sponsored retirement savings plans for lower-income workers.

The exemption, championed by states such as California but opposed by the mutual fund industry, had freed the state-run plans from the strict compliance requirements of the Employee Retirement Income Security Act, or ERISA.

Private-sector workers whose employers do not offer 401(k) or other retirement benefits, and who often have low incomes, are automatically enrolled in plans being launched in some states, such as Illinois. States say the exemption would have let employers pass workers’ money into plans without footing ERISA compliance costs.

It stoked fights in Washington, however, over the reach of federal regulation, states’ rights and income inequality.

The Republican-led Senate passed the resolution repealing the exemption by a vote of 50-49. The House of Representatives, also controlled by Republicans, previously approved the measure, which President Donald Trump is expected to sign into law.

It was the 14th Obama-era rule killed by Congress under the once-obscure Congressional Review Act, which allows lawmakers to repeal newly minted regulations and forbids agencies from enacting similar rules in the future.

In mid-April, Trump signed a nearly identical resolution affecting city-run retirement plans, which are in the design stages. But the resolution for state-run plans was stuck in limbo for weeks, as Republicans struggled to gather votes and major lobby groups representing retirees and business interests turned up the heat on lawmakers.

Senator Dick Durbin, an Illinois Democrat, missed Wednesday’s vote because of minor heart surgery, helping the Senate avoid a tie.

Republican Senator Todd Young of Indiana broke party ranks to oppose the resolution, saying Americans were in a “real and ongoing crisis” to save enough money for retirement.

“While state-based retirement plans are not my first choice, if implemented carefully, they could help close the retirement savings gap,” he said in a statement to Reuters.

The California plan’s primary champion, Democratic state Senator Kevin de Leon, expressed outrage at the vote, saying taxpayers would ultimately foot the bills of people who retire without adequate savings.

“Wall Street investment firms fear their profits will take a hit … even though the investment industry has historically ignored middle- and lower-income workers at medium- and small-sized businesses,” he said in a statement.

The mutual fund, insurance and securities industries said the exemption would have denied some workers protections that are guaranteed for others.

“Denying ERISA protections to workers who are automatically enrolled would limit their legal remedies to fight against high fees or mismanagement of the plans,” said Paul Schott Stevens, president of the Investment Company Institute, a trade group representing funds holding $19.3 trillion in assets and that are often used to save for retirement.

Reuters

Wed May 3, 2017 | 8:24pm EDT

By Lisa Lambert and Sarah N. Lynch | WASHINGTON

(Reporting by Lisa Lambert and Sarah N. Lynch; Editing by Peter Cooney)

Senate Repeals Safe Harbors for State IRA Initiatives.

The Senate narrowly approved a resolution Wednesday to rescind federal safe harbors for states to set up private-sector retirement programs for small businesses.

The vote was 50 to 49, largely along party lines. It mirrors a resolution passed by the House on Feb. 15.

A similar resolution that rescinded safe harbors for cities and other large political subdivisions was passed by both chambers and signed on April 13 by President Donald Trump, who is expected to sign the state version shortly.

Senate Finance Committee Chairman Orrin Hatch, R-Utah, urged Senate colleagues on the floor to support the resolution against such programs, which he said would impose conflicting and burdensome mandates on private-sector businesses of all sizes and eliminate long-standing federal protections for retirement workers. “The regulation also encourages states to bar private workers’ access to their retirement accounts and it would let states invest private workers’ retirement assets, ignoring provisions in federal pension law that require prudent pension investment practices and that ban kickbacks and self-dealing,” Mr. Hatch said during floor debate.

Sen. Chris Murphy, D-Conn., whose state is implementing one such program, chastised his Senate colleagues for not letting states find innovative ways to increase retirement savings. “This is a crisis and if we’re not going to deal with it and the industry is not going to deal with it, let states deal with it,” he said.

Sen. Ron Wyden, D-Ore., whose state is launching a pilot phase of its OregonSaves program in July, said state initiatives "are commonsense steps to address a national crisis," and criticized his colleagues for not offering alternatives.

"This legislation puts special interests before working people. It's that simple," Mr. Wyden said on the Senate floor.

Illinois Treasurer Michael Frerichs, whose state is working to have its auto-enrollment, payroll-deducted retirement savings account program ready for enrollment by the end of the year, said in an interview that the vote "just seems very hypocritical. It will take away a protection that we fought very hard for to protect Illinois employers, and it is anti-states' rights." With legislation already passed to create the program, "we intend to move forward," Mr. Frerichs said.

California Treasurer John Chiang echoed that sentiment, saying in a statement that after consulting with legal and legislative experts, "while Congress has dealt Californians a setback, it is not enough to push us off our moral and legal high ground."

Joshua Gotbaum, chairman of the Maryland Small Business Retirement Savings Program and Trust, said that the state "has been assured by its lawyers that this program is legal and is going to proceed to help provide retirement savings for one million Marylanders."

PENSIONS & INVESTMENTS

BY HAZEL BRADFORD | MAY 3, 2017 6:23 PM | UPDATED 3:42 PM

— Contact Hazel Bradford at hbradford@pionline.com | @Bradford_PI

SIFMA Statement on Senate Passage of CRA Resolution on State Retirement Plans.

Washington, DC, May 3, 2017 – SIFMA today issued the following statement from Lisa Bleier, SIFMA managing director and associate general counsel on Senate passage of on H.J. Res. 66 to override the Department of Labor's (DOL) regulation relating to savings arrangements established by states for non-governmental employees.

"We commend the Senate for passing the resolution to permanently protect private-sector retirement savers from losing access to important retirement savings options and safeguards. The DOL's regulation could leave workers saving for retirement without important protections including survivors benefits, spousal benefits, children's benefits and inter-state portability. Under this guidance, states could have created plans that restrict options and limit plan customizability while prohibiting an employer match, which is crucial to maximizing retirement savings.

"While we agree that more must be done to encourage Americans to save for retirement, exempting state plans from providing important protections for workers is not the solution. This resolution ensures that retirement savers have the same high-level protections and options available to workers under private plans. We urge the President to sign this resolution without delay."

How Wall Street ‘Innovations’ Cost Taxpayers Millions.

What do the City of Chicago and Jefferson County, Alabama, have in common with Riverside, California, and a school district north of San Diego? These local governments have lost millions of dollars by using creative municipal finance. And if citizens around the country aren’t vigilant and outspoken, their city, county or school district may become the next victim of an unnecessarily complex bond deal.

Perhaps the worst victim of municipal financial “innovation” was Jefferson County, Alabama, which filed for bankruptcy after its financing arrangements known as interest rate swaps blew up. With an interest rate swap, a borrower can issue variable rate bonds while still paying a fixed rate of interest — a transformation achieved through an arrangement with a bank. After suffering a series of rating downgrades, the City of Chicago paid $270 million to close out swaps and convert its variable rate debt to fixed.

Why bother with such complicated deals in the first place? Bankers who promoted interest rate swaps argued that municipal issuers would have lower interest costs overall by borrowing at variable rates. But fees banks collected for arranging the swaps offset these savings. Also, because bankers are more knowledgeable about swaps than politicians and government finance staffers, the terms and conditions of these deals often protected banks at the expense of borrowers.

Here’s another example of how innovative finance benefitted the financiers more than taxpayers. One product sold as a way of lowering interest costs was called the Auction Rate Security (ARS). This instrument allows cities to meet long-term financing needs in the money market. Every four weeks the bonds are rolled over to the money market participant willing to receive the lowest interest rate over the next four weeks. Since short-term interest rates are usually lower than long-term rates, the city saves money.

This seemed like a brilliant idea — until it stopped working. Money market funds don’t want credit risk because they have to be ready to redeem shareholder funds at any time. Thus, they invest only in AAA-rated securities. Most U.S. local governments aren’t rated AAA. The way they could get into the auction rate market was to buy a municipal bond insurance policy from a specialized, “monoline” insurer like Ambac or FGIC.

These insurers were rated AAA, but, by early 2008, investors realized that they were no longer safe because the companies had also insured toxic mortgage-backed securities. Demand for ARS dried up and many auctions had no bidders. But the banks that created ARS and ran the auctions had protected themselves: When auctions failed, they were entitled to receive a penalty rate from the city of as much as 20 percent. To avoid paying this usurious rate month after month, many cities refinanced their ARS with traditional municipal bonds — paying additional origination costs to financial intermediaries in the process. Riverside, a city east of Los Angeles, lost over $12 million when the ARS market collapsed.

Ultimately, Ambac and FGIC went bankrupt, despite their AAA ratings. Every municipal bond insurer failed or suffered large credit rating downgrades during the financial crisis. In retrospect, we can see that the whole municipal bond insurance industry arose from misaligned credit ratings. The cities had less credit risk than the insurers, yet they had lower ratings. Some observers — most notably Bill Ackman — realized that monoline insurers were overrated well before 2008, so this rating agency error cannot be dismissed as a case of 20/20 hindsight.

The municipal bond insurance industry started in the 1970s and peaked shortly before the financial crisis, when more than half of all new municipal bonds carried insurance. In 2007, government bond issuers paid more than $1.5 billion in bond insurance premiums — for an insurance product that often proved worthless.

By 2010, only a handful of new bonds were being insured, but then the industry began to recover. Two insurers have achieved AA ratings from S&P and AA+ ratings from Kroll, an industry upstart. In 2015, over 6 percent of new municipal bonds were once again being insured.

For a new Mercatus Research paper, Dr. Kenneth Kriz and I calculated "All-in Total Interest Costs" for general obligation bonds issued by California school districts rated AA and below (All-in TIC is the municipal bond market equivalent of Annual Percentage Rate, considering both upfront origination costs and periodic interest expenses). About half the sample was insured. After adjusting for ratings, deal size, market interest rates and other factors, we found that districts purchasing insurance did not achieve statistically significant cost savings. The insurance premiums paid by the school districts offset the benefits of lower interest rates, so buying insurance was not worthwhile.

Since there is no record of a California school district defaulting on general obligation bonds, I question whether there is any default risk that needs to be insured against. Debt service payments for the bonds are generated from a separate, dedicated property tax levy. If a district gets into financial trouble, it cannot use bond tax revenues to balance its books.

Dr. Kriz and I found one factor that greatly influenced APRs paid by these districts: whether they used Capital Appreciation Bonds (CABs). CABs are zero coupon instruments, meaning there are no annual interest payments, just a balloon payment at maturity. But because these bonds accrue interest on interest, they are more expensive over the long term.

School districts and other borrowers use CABs to lower financing expenses in the years after a bond deal launches, at the cost of much higher payments years in the future. This is not merely a way to kick the can down the road, but a way to maximize the size of bond issuances.

California state law limits the amount of debt service a school district can incur as a percentage of assessed property values. When districts and their financial advisors structure bond issues, they assume that property values will rise rapidly over the life of the deal. Thus, by backloading more debt service toward the end of the bond's life, they can maximize the amount of money they borrow — violating the spirit but not the letter of debt service limits. In the process, they effectively mortgage the homes of future residents. Poway Unified School District, north of San Diego, is perhaps the worst victim of CABs: A few years ago, the district issued $179 million of bonds carrying lifetime debt service payments of $1.27 billion.

When it comes to municipal borrowing, the KISS (Keep It Simple Stupid) principle should normally apply. Plain vanilla structures made up of uninsured, fixed rate, current interest (as opposed to zero coupon) bonds have proven themselves across decades of municipal finance. They are readily understood, have relatively low upfront costs and generally do not produce nasty surprises. As citizens and taxpayers, we should be asking our city council members and school board trustees tough questions whenever they depart from this time-tested model. If they can't provide convincing answers, it may be time to elect someone else.

The Fiscal Times

By Marc Joffe

May 1, 2017

U.S. Muni Bond Sales Next Week Total $9.6 bln Led by Hawaii.

May 5 The state of Hawaii is among the top deals scheduled to hit the U.S. municipal bond market next week, when an estimated $9.6 billion of new bonds and notes are expected to sell, according to preliminary Thomson Reuters data.

Hawaii, which recently received an improved outlook from Fitch Ratings, plans to sell $856 million of general obligation bonds to fund various public improvement projects for schools, community colleges, universities, libraries and parks.

Fitch in April revised its Hawaii rating outlook to positive from stable, citing improvements to the state's long-term liabilities, strong financial flexibility as the state implements pension and other post-employment benefits reforms, and a resilient economy.

Other top deals scheduled to sell next week on the municipal market are $915 million of hospital revenue bonds from Ohio's Cuyahoga County for the Metrohealth System, and $838 million of limited tax schoolhouse and refunding bonds from Texas's Houston Independent School District.

Next week's expected total sales of $9.58 billion compares to the weekly average of $6.7 billion thus far in 2017. Next week's deals are made up of $7.9 billion from the negotiated calendar and $1.7 billion from the competitive calendar, according to preliminary Thomson Reuters data.

Reuters

By Robin Respaut

May 5, 2017 | 12:25pm EDT

(Reporting by Robin Respaut; Editing by James Dalgleish)

Puerto Rico's Bankruptcy a 'Dramatic Reshaping' of Muni Risk.

Municipal Market Analytics' Matt Fabian expects the muni market's default rate to roughly double thanks to Puerto Rico's bankruptcy.

The muni market hasn't posted much reaction to Puerto Rico's mammoth bankruptcy filing this week. The iShares S&P National AMT-Free Municipal Bond Fund (MUB) stayed right around $109, roughly where it has been for the past three months.

But that doesn't mean muni investors should be shrugging off the largest bankruptcy filing in U.S. history.

Municipal Market Analytics' Matt Fabian puts it in pretty start terms in his Default Trends report Friday. Here's his summary of his report:

> Assuming all remaining Puerto Rico bonds end up in payment default, as now appears likely, the municipal market's total for bonds in default will have roughly doubled to $74B, with Puerto Rico issuers accounting for 85% of that total. This would also roughly

double the municipal market's current default rate from 1.02% to 1.93% (versus 0.30% excluding Puerto Rico bonds). This is a dramatic reshaping of the industry's overall risk profile and will doubtless drive at least somewhat more conservative investor behavior in the future, in particular as regards large distressed governments like IL, NJ, CT, KY, and Chicagoland credits.

Barron's

By Amey Stone

May 5, 2017 4:49 p.m. ET

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6 Things Investors Should Know About Municipal Bond Insurance: Schwab

Key Points

- Owning an insured municipal bond can help ensure timely interest and principal payments in the rare instance that the issuer defaults.
- The "cost" of municipal bond insurance usually comes in the form of a lower yield.
  If you're considering investing in insured munis, we believe the underlying rating—and not the insured rating—should fit your risk tolerance.

What's the case for investing in insured municipal bonds? This isn't a question many investors have had to ask in recent years.

The financial crisis in 2008 cut down most of the market's insurers, so the chances of finding a newly issued insured muni have been pretty low in recent years. However, that may be changing now that the industry is showing signs of life again.

To be sure, the share of newly issued munis covered by insurance is still small—only around 6%, according to Bloomberg—but that's up from just 3% in 2013. Before the crisis, nearly half of all newly issued munis were insured.

So although the market is still a far cry from its pre-crisis days, it is growing again. Here are six things to consider before investing:

Continue reading.

Schwab

By Cooper J. Howard

May 4, 2017

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6 Questions Bond Investors Should Be Asking Right Now.

As interest rates rise, finding the right fixed-income strategy is crucial

The Federal Reserve is raising interest rates, and there are several questions that savers and bond investors would like answered.

For example, to be blunt: *Is my savings account going to pay any worthwhile interest at some point?!* (The answer: probably not soon. But there are alternatives.)

If this all sounds familiar, it should: Many bond-market strategists had expected bond yields would be a lot higher by this point in the economic recovery, perhaps even making a savings account desirable. But a climb in rates seems to be getting closer.

With inflation ticking higher, the Fed now anticipates lifting short-term rates more rapidly. Officials also are discussing winding down the Fed’s huge bond portfolio, accumulated during the recession to damp yields. Such a move would eliminate a major source of demand for government bonds, whose prices fall as yields rise.

And meanwhile, Washington lawmakers are talking about tax cuts and infrastructure spending that could stoke growth and lift inflation.

Amid such developments, “you need to be really careful about how you invest the fixed-income part of your portfolio,” says Terri Spath, chief investment officer at Sierra Investment Management in Santa Monica, Calif.

She and others say there are some smarter ways to play this: Avoid putting any cash that might be needed soon into bonds. Keep additional funds around to invest later, at potentially higher rates. Dial back on rate-sensitive holdings, and further limit risk by owning a range of U.S. and foreign bonds.

Here are six questions for savers and those who own bonds or are considering buying them:

1. What risks do rising rates pose for bonds now?

One threat is to short-maturity bond funds and exchange-traded funds, which some investors may think are immune to rate risk. These commonly have average maturities of around two years and aim to generate 1% to 2% in annualized yield.

After raising rates twice since last fall, Fed officials expect to boost rates another five or six times by the end of 2018, lifting the Federal Reserve’s rate target to around 2.25%-2.5% from about 1% now.

Bond yields move the opposite way as prices. Although short-term funds are less affected by yield changes than those that own longer maturities, many have a rate sensitivity of around two. If yields rose by one percentage point, that would result in a 2% decline in principal value—more than an investor would get back in interest paid by such a fund.

“If you are an investor who really can’t stomach any losses, you should be in a money-market fund” where principal value would remain steady, says Emory Zink, analyst at fund-trackers Morningstar Inc.

2. Where can investors get reasonable returns on cash?

Although short-term rates are rising, banks—not the market—decide what rate of interest they will pay on savings. The national average rate today is just 0.08%, and banks will raise rates slowly since doing so will boost their profitability.

Some money-market funds yield closer to 1%. Their yields will rise gradually, though lagging behind the Fed's rate increases.

For the best combination of yield and safety, investors might consider putting money into a high-yielding, federally insured bank savings account, says Bankrate.com chief financial analyst Greg McBride. Such accounts are offered by virtual institutions that are courting depositors. Two such banks, Goldman Sachs Group Inc.'s GS Bank and the CIT Bank unit of CIT Group, are advertising rates above 1%.

3. Which bonds offer some protection against rising rates?

One way to diversify against U.S. rate risk is with bonds issued in other countries whose rate cycles aren't in sync with that in the U.S. Raman Srivastava, managing director for global fixed income at Standish Mellon Asset Management Co., cites emerging-markets bonds as among "the more compelling opportunities" after investors fled such bonds several years ago. Yields can top 5%, offering a bigger offset to the impact of rising yields.

Moving lower on the U.S. credit ladder is another solution. High-yield bonds (or junk bonds) issued by companies with weaker credit ratings can yield more than 6%.

But be cautious about loading up on such securities to the exclusion of higher-quality bonds. While higher-yielding bonds are less vulnerable to rising yields, they are very sensitive to worries about defaults and can be volatile, notes Scott Kimball, portfolio manager of BMO TCH Core Plus Bond Fund (BATCX). In 2015, he says, some high-yield bonds issued by energy companies plunged in price during the oil-market swoon.

4. How can investors lock in better income as rates rise?

Traditionally investors did that by building a ladder of bonds having sequential maturities. As the nearest matured, the proceeds were reinvested in a new bond due to mature several years later, when the investor hoped to reinvest at an even higher yield.

Alternatively, an investor could build a ladder with defined-maturity bond ETFs, says David Berman, chief executive of Baltimore-based wealth manager Berman McAleer. Unlike conventional bond ETFs, which periodically buy new bonds to replace maturing ones, defined-maturity ETFs own bonds with closely bunched maturities. After all the bonds mature, the ETF repays principal and interest.

Mr. Berman uses Guggenheim BulletShares ETFs, which are available in either investment-grade or high-yield corporate versions. BlackRock's iShares unit offers defined-maturity ETFs that own taxable corporate bonds or tax-exempt municipal bonds.

5. What are the alternatives to fixed-rate bond funds?

Floating-rate funds—sometimes called senior-loan or bank-loan funds—can be a good defensive play when rates are rising.

Such funds own loans made by banks to companies with lower credit ratings and yield 4% or more. The rates on the loans periodically adjust up or down, based on changes in a benchmark index such as the London interbank offered rate, or Libor, so a fund's yield moves higher as rates rise.

One concern is that surging demand for such funds is enabling companies now to get much more lenient borrowing terms, says Frank Ossino, who oversees Virtus Senior Floating Rate Fund (PSFRX) at Newfleet Asset Management, in Hartford, Conn. Mr. Ossino cautions that another downturn eventually could spark defaults on lower-grade loans, denting a fund's returns. Funds that yield more than peers may own a larger percentage of such loans, he says.

Among senior loan funds that Morningstar rates highly are Eaton Vance Floating-Rate (EVBLX), Lord Abbett Floating Rate (LFRAX) and Fidelity Floating Rate High Income (FFRHX).

6. Are mutual funds or ETFs better at this point in the cycle?

Active managers can reposition a portfolio to trim rate risk, moving to bonds that are less rate-sensitive. But ETFs may be a good choice because they charge much lower management fees—a benefit at times when bond returns are slim by historic standards.

Still, people who plan to buy an ETF need to understand what they are getting, says Josh Jalinski, an adviser in Toms River, N.J. ETFs that focus on certain narrower sectors, such as iShares 20+ Year Treasury Bond ETF (TLT), can be volatile, posing more risk of mistiming a purchase or sale, he says.

Some ETFs hedge against rising rates. They include WisdomTree Barclays Interest Rate Hedged U.S. Aggregate Bond Fund (AGZD), which yields about 2%, and Deutsche X-trackers Investment Grade Bond Interest Rate Hedged ETF (IGIH), which recently yielded about 3¼%.

Hedged funds outperform when rates rise, but may underperform when rates are falling, says Todd Rosenbluth, director of ETF and mutual-fund research at CFRA, a New York-based provider of investment research. "By hedging, you protect against something, but also you can miss something," he says.

The Wall Street Journal

By Michael A. Pollock

May 7, 2017 10:15 p.m. ET

Mr. Pollock is a writer in Ridgewood, N.J. He can be reached at reports@wsj.com.

Fund Investors Are Betting Big on Infrastructure.

The payoff might be years away, and there are risks, but proponents see the trend on their side

Emboldened by President Donald Trump's campaign promise of a $1 trillion infrastructure-spending package, investors have plowed more than $460 million into related U.S. mutual funds and exchange-traded funds so far this year, according to data from Morningstar Inc.

At the end of the first quarter, the amount sitting in such funds stood at $16.1 billion, up 12% from a year earlier, though the euphoria has eased as the market begins to digest just how much stands in the way of an infrastructure package—from shifting priorities in the White House to opposition in Congress.

Still, those who focus on infrastructure investing say things are looking up, even if it takes a few years for Washington to deliver a big spending package.

Blackstone buys in

The Fixing America's Surface Transportation (FAST) Act, passed by Congress and signed into law by President Barack Obama at the end of 2015, sets up the next five years of spending for federal transportation projects. Meanwhile, voters approved some $200 billion of infrastructure-related ballot initiatives during November's election, Mr. Welo says, adding that such projects are as close to a slam dunk as a government-backed project can get.

So while Washington negotiates its spending plans, investors can position themselves to take advantage of these FAST Act-funded efforts, as well as those at the state and local level, the pros say.

Indeed, last month private-equity firm Blackstone Group BX -0.64% LP announced that it was preparing to launch a unit that would invest in toll roads, bridges and other infrastructure projects.

The U.S. isn't the only country getting ready to write fat checks. Sectors associated with infrastructure have seen valuations creep up globally as governments seek to expand airports, bridges and road in response to growing populations. Many infrastructure ETFs are constructed with this global view in mind, says Brandon Rakszawski, a New York-based product manager at Van Eck Global who oversees the firm's hard-assets ETF product lines.

"Most infrastructure ETFs are global in nature, so investors need to realize that if they are choosing that option for their portfolios, they may only be getting 40% or so U.S.-specific names," Mr. Rakszawski says. Taking a global approach can help diversify a portfolio, he says.

Beyond geography, the key to succeeding in this sector is knowing what it means to you, says Mr. Rakszawski.

"It is important for investors to decide what they see as infrastructure—is it energy, transportation, utilities, or some combination of those?" he asks. "Once they decide, they can start to target more specific exposures and products that are going to give them what they want."

As investors weigh specific subsectors, they need to be mindful of risk.

If you invest in engineering and construction companies, for example, "you need to factor in a certain amount of commodities risk," because many of the companies also are heavily tied to volatile oil-and-gas or mining-related capital spending, says Andrew J. Wittmann, a Milwaukee-based senior analyst at Robert W. Baird & Co, which manages $171 billion in assets.

Another red flag is turnover within mutual funds and ETFs.

Infrastructure projects are large and slow-moving. Once contracts are awarded for projects, it's relatively easy to forecast what the next three to five years will look like. Tayfun Icten, a Chicago-based analyst with Morningstar, says a high level of turnover within a fund could signal a manager or strategy that isn't operating with conviction.

"Investors in infrastructure mutual funds need to be clear about what types of opportunities they are getting access to," Mr. Icten says.

Trillion watch

So, what of Mr. Trump's trillion? Fidelity's Mr. Welo expects to see a more-nuanced approach emerge from Congress. That could mean several billion dollars in project financing annually over the next 10 years, plus changes in tax policy, he says.

"The gas tax could be a key policy area to watch both at the state and federal level as policy makers start looking at ways to pay for these projects."

Municipal-bond investors may also see a rise in new issuance, as the asset class has historically been the go-to place for project financing. State and local governments have been using low interest rates to refinance existing debt, but issuance isn't keeping up with maintenance needs or expansion plans.

John Miller, co-head of fixed income and head of the municipal-bond investing team at Nuveen Asset Management in Chicago, says the muni market is showing signs of recovery and default risk is lower.

"Investors who have been skewed toward short duration and high quality can benefit from considering longer durations or slightly lower credit quality in this environment," he says.

The Wall Street Journal

By Bailey McCann

May 7, 2017 10:09 p.m. ET

Ms. McCann is a writer in New York. She can be reached at reports@wsj.com.

Fitch: WIFIA Could Provide Long Overdue Boost to Water Infrastructure Projects.

Fitch Ratings-New York-04 May 2017: Water and sewer utilities throughout the country are faced with aging infrastructure and a rather large price tag to rectify it, which could pave the way for substantially more investment in the space, according to Fitch Ratings in a new report.

The California drought, the Flint, Michigan toxic water crisis and cases of elevated lead levels in drinking water across the nation have shed light on the effects of persistent underfunding of capex, delayed system upkeep and shortages of quality water. As such, the EPA estimates roughly $655 billion in capital over the next 20 years is needed for water and wastewater infrastructure. Answering this challenge is the Water Infrastructure Finance and Innovation Act (WIFIA). Modeled after the successful Transportation Infrastructure Finance and Innovation Act of 1998, WIFIA's overarching goal is to precipitate steady investment in water infrastructure development.

"WIFIA-funded projects can potentially reduce the magnitude of increased costs to end users and temper the need to obtain rate increases related to capital," said Director Stacey Mawson. "WIFIA can also spur partnerships between the public and private sectors, creating a forum for eliciting innovative proposals and problem solving." As such, Fitch's approach to rating WIFIA-funded projects will incorporate perspectives from both its Global Infrastructure and U.S. Public Finance Water and Sewer criteria.

More infrastructure spending brought on by WIFIA means loans will be available at more appealing terms than the financial market, which can help support an investment grade rating on a project that would otherwise be non-investment grade. WIFIA has the potential to fund larger projects for which State Revolving Fund (SRF) loans are hard to procure and smaller municipal utilities that may not have market access. That said, 'WIFIA's success will in part depend on timely vetting and executing transactions to leverage the public and private commitment to move projects forward,' said Senior Director Yvette Dennis.

Fitch: U.S. Munis & Transportation Solid Under New U.S. Interest Rate Outlook.

Fitch Ratings-New York-04 May 2017: Higher interest rates in the coming years should not exert much downward pressure for U.S. public finance and transportation infrastructure, according to Fitch Ratings in a new report.

Fitch's Economics team expects interest rates to move higher over the next three to four years by approximately 150-300 basis points. This new scenario also calls for real potential U.S. GDP growth and inflation to remain at roughly 2% per year. The U.S. economy's expected resilience to withstand higher rates represents a significant buffer against negative credit implications. According to Senior Director James Batterman, this outlook should by and large extend into public finance and transportation.

"A growing economy with stable employment implies that retail sales volumes as well as taxes on earned income should not be adversely affected," said Batterman. "The same growth assumption implies that property values and property tax revenues also may not be greatly impacted."

The same limited ripple effect should hold true for infrastructure. "Revenues and volumes for airports, seaports and toll roads tend to be a function of the general level of economic activity as well as factors specific to the issuer," said Batterman.

Higher interest rates do increase the hurdle rate for new investments and the cost of financing. As such, Fitch sees this as more of an analytical consideration for issuers carrying higher leverage that need to take on new debt. Nevertheless, most issuers would likely be able to absorb any extra costs stemming from higher interest rates. Further, higher rates imply greater investment returns on cash holdings.

Downside risk is not out of the realm, however. The most likely culprit would be any increase in interest rates that is too rapid to be absorbed by the market, which would stall the housing market and have much broader implications generally.

Fitch's 'Higher U.S. Interest Rate Scenario' for municipalities and transportation infrastructure is available at 'www.fitchratings.com'.

GASB Implementation Guidance Update No. 2017-1 - Now Available

Implementation Guide 2017-1

HSE Municipal Market Update - April 28, 2017

Read the Update.

KPM Financial Weekly Rate Update - May 1, 2017

Read the Update.

Munis: Downgrades Rise a Percentage of Rating Actions in Q1.

Fitch bumped up its negative rating watch listings, but didn't issue any positive rating watches in Q1.

While the first quarter was the 12th consecutive quarter where upgrades outpaced downgrades, it outpaced them by a smaller percentage than last quarter, according to a new report from Fitch Ratings.

In the fourth quarter of 2016, downgrades were just 25% of all rating actions. In the first quarter of this year, downgrades were 40% (37 of 151 ratings actions).

Jessalynn Moro of Fitch's U.S. Public Finance group also notes that the downgrades were bigger in terms of dollar value this quarter — mostly due to the downgrade of Illinois.

While upgrades outpaced downgrades, we saw a higher par value on the downgrades this quarter due to the Illinois downgrade of nearly $30 billion. This one downgrade accounted for 68 percent of all downgrades this quarter.
Fitch downgraded Illinois from triple-B-plus to triple B in February. That's the second lowest investment grade rating.

Fitch also notes in its report that there was a pretty big bump in "rating watch negative" listings — to 28 from 20. The average for the last four quarters is 21.75. No securities were listed as "rating watch positive."

Positive rating outlooks (a longer-term measure than a ratings "watch") decreased to 86 from 91 in 4Q16, and negative rating outlooks decreased to 109 from 118.

Barron's

By Amey Stone

Updated May 8, 2017 12:07 p.m. ET

Don't Shrug Off Puerto Rico Risks.

Now that the commonwealth has filed for court protection, investors in other municipal

bonds could start to feel the pain.

When Puerto Rico filed for court protection from creditors—the commonwealth's own bankruptcy-like process created as part of the financial-rescue law passed last year—the market reaction wasn't what you might have expected.

Some of Puerto Rico's municipal bonds actually rose in value, and the broader muni market shrugged. Moody's saw the filing as positive, in that it will simplify the process of negotiating separately with creditors. S&P Global Ratings saw no impact, partly because it already rates many of the bonds D for default, or close to that level.

It's true that in some ways, not much has changed. Puerto Rico still owes a staggering $74 billion in debt that it can't pay and needs to restructure. "People see Puerto Rico as a one-off, although it is a big one-off," says Mark Taylor, head of municipal research at Alpine Funds. Detroit's 2013 bankruptcy, the second largest, was just $18 billion in size.

But this isn't the end of the story. A judge will decide how Puerto Rico's many creditors will be treated. As the first bankruptcy under the new law, it could be precedent-setting and may eventually affect broader muni prices.

A key question is whether the general-obligation bonds, backed by Puerto Rico's government, or the Cofina bonds, backed by sales taxes, will get preference in a restructuring. Already, investors have been betting that GO bonds will get preference over Cofinas, causing a downdraft in Cofina pricing. If Cofina's dedicated sales-tax revenue stream isn't validated, it could hurt similar bonds with their own revenue streams.

"If that lockbox system [of dedicated sales tax revenue] doesn't really hold water," says Taylor, "it could make investors more jaded" about this class of bonds.

John Miller, who heads municipal-bond investing at Nuveen Asset Management, believes any signs of favoritism based on earlier negotiations are irrelevant now that a judge will be calling the shots. But he thinks both types of bonds are due for more downside. The long-term financial plan certified by Puerto Rico's financial-control board allows for debt repayment of only 24 cents on the dollar over the next 10 years. Puerto Rico's GO and Cofina bonds trade between 58 and 65 cents on the dollar.

IF PUERTO RICO BONDHOLDERS suffer big losses, says Taylor, it could spill over into the rest of the muni market. He's surprised how well prices have held up. "There is a lot of potentially unwarranted optimism in there," he adds.

It's too soon to know how it will shake out. Jim Murphy, a muni portfolio manager at T. Rowe Price, isn't sure the accounting backing the control board's projections is solid. "All these parties are about to fight over the pie, but we don't even know how big the pie is," he says.

Another question Puerto Rico's bankruptcy is raising: Does it open the door for states to file for bankruptcy? Murphy's view: "It cracks the door a little bit."

That would clearly be a negative for state munis. But, cautions Richard Daskin of RSD Advisors, "the situation is developing and there are a lot of moving parts." He still likes insured Puerto Rico paper—since the insurance companies backing those bonds should be able to continue to pay—but warns that uninsured bonds are more like leveraged stocks than bonds. "They go in your risk bucket," he says.

Taylor thinks it will take two to three years to work through all these issues. The next key decision is for U.S. Supreme Court Chief Justice John Roberts to pick the district court judge who will preside over the case. When that selection is made, investors will try to handicap whether creditors or Puerto Rican citizens are likely to get preferential treatment.

“The judge is going to have a lot of sway because there is no precedent,” says Daskin. And muni investors could be looking at a lot of red ink.

BARRON’S

By AMEY STONE

May 6, 2017

[MSRB: First Quarter Municipal Trading Volume Tops Same Period a Year Ago.]

The Municipal Securities Rulemaking Board (MSRB) today released municipal market statistics for the first quarter of 2017 that showed a significant increase in both the number of trades and the par amount traded compared to the first quarter of 2016. The number of municipal securities trades rose 16.2% to 2.63 million trades in the first quarter of 2017 compared to 2.27 million trades during the same period in 2016. That increase puts quarterly trading volume at its highest level since the third quarter of 2013, when 2.93 million trades occurred. The first quarter of 2017 also saw a significant increase in par amount of municipal securities traded compared to the first quarter of 2016, jumping 19% to $765.5 billion, compared to $643.3 billion traded during the same period a year ago.

[Infrastructure Advocates Disappointed in Trump's Tax Plan.]

DALLAS - Transportation advocates, once hopeful about Trump’s promises to go big on infrastructure, are disappointed his tax plan contains no proposals to fund fixes to the nation’s crumbling roads and bridges and instead floats a onetime tax on the repatriated overseas earnings of companies as a way to pay for cutting the corporate tax rate.

Repatriation of overseas corporate earnings through a lower income tax rate had been considered as a potential source for the $200 billion of new direct federal funding that White House officials had said would be part of the president’s $1 trillion, 10year infrastructure plan.

But the one-page outline of the tax plan distributed Wednesday night simply promised a “onetime tax on trillions of dollars held overseas” with no mention of infrastructure, indicating that the repatriated revenue could instead help reduce the government’s financial hit from tax cuts in the proposal.

It will be more difficult to find more money for infrastructure investments without the link to corporate tax repatriation, said Carl Davis, research director at the Institute of Taxation and Economic Policy.

“This makes it harder,” Davis said, “Tax cuts have been prioritized over infrastructure funding.”

Transportation proponents have become accustomed to being disappointed by the level of infrastructure investment coming from the federal government, he said.

“I doubt that most advocates are shocked that infrastructure has been deprioritized yet again,” Davis said. “It’s telling that states as varied as California, Indiana, Montana, Tennessee, and Utah have passed increases in their fuel tax rates this year. State lawmakers are taking action even when Congress won’t.”

If President Trump had included infrastructure funding in his plan, it would likely have required paring back the tax cuts, Davis noted.

The proposed tax cuts would significantly reduce federal revenues, further imperiling new transportation funding, he said.

“Federal lawmakers are clearly prioritizing tax cuts at the moment, and that goal is fundamentally inconsistent with investing more in our nation’s infrastructure, or in any other public priority,” Davis said.

The tax proposal is too vague to get much direction from it, said Marc Goldwein, senior policy director at the Committee for a Responsible Federal Budget.

“It’s the same tradeoff as it’s always been,” he said. “If the administration uses $200 billion for tax reform, they can’t use it for infrastructure. My main concern with the single-page, double-spaced tax proposal with bullet points is that it would add $5 trillion to the national debt, and without revenue for infrastructure you’d make the revenue hole even deeper by losing all the economic gains that could be provided.”

Meanwhile, the American Public Transportation Association said President Trump’s budget blueprint for fiscal 2018 jeopardizes $38 billion in planned transit projects and could result in economic loses totaling $90 billion.

The ‘skinny’ budget plan released in March would cut off funding next year for a transit grant program that had been expected to help build 53 projects in 23 states, APTA added.

Trump’s 64page budget blueprint for fiscal 2018 would halt grants from the $2.3 billion per year capital improvement grant program except for those projects already covered by a completed and signed full funding agreement with the Federal Transit Administration.

The budget proposal also would wipe out the $500 million expected in fiscal 2018 for the Transportation Investment Generating Economic Recovery (TIGER) grant program.

The president’s $1 trillion infrastructure plan should include $200 billion for public transportation infrastructure, said Richard White, the acting president of APTA.

It would take nearly $90 billion just to get transit systems into a state of good repair, White said.

“This additional investment is the key to addressing the nation’s aging public transportation infrastructure,” he said

The Bond Buyer

By Jim Watts
Published April 27 2017, 3:30pm EDT

The Week in Public Finance: Trump's Tax Plan, the Tampon Tax and Calling Out the SEC.

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

GOVERNING.COM

BY LIZ FARMER | APRIL 28, 2017

Think Public Pensions Can’t Be Cut? Think Again.

It’s happened several times in just the last few years. With so many systems severely underfunded, it’s likely that more government employees will to be blindsided.

As John M. Richardson, a pioneer in the study of system dynamics, once put it, “When it comes to the future, there are three types of people: those who let it happen, those who make it happen, and those who wonder what happened.”

That’s as good a way as any to describe what has befallen so many of our state and local government pensions systems, now facing a collective funding shortfall of $5 trillion: legislative bodies that let it happen by creating unsustainable pensions, policymakers who perpetuated the problem by not fully funding their plans, and retirees who have been blindsided, wondering what happened, when their pensions have been slashed.

Consider, for example, the nearly 200 retirees of California’s now-defunct East San Gabriel Valley Human Services Consortium, an employment and job-training agency known as LA Works, who just had their pensions cut by as much as 63 percent. Who’s to blame? Policy leaders who set up the risky pension structure; city governments that didn’t keep up with pension payments; and the California Public Employees’ Retirement System (CalPERS), which did not alert the workers that their employers had fallen behind on their pension payments until this January, just two months before slashing their pensions. It’s hardly surprising that the affected employees are questioning how, after paying into the pension fund for 25-plus years, this could have come to pass.

What’s happening with LA Works’ retirees isn’t a unique situation. CalPERS, whose pension debt stands at $170 billion, just last year drastically cut pension benefits for retirees who worked for the city of Loyalton. Many other cities, and several states, are struggling to keep their heads above water in the face of runaway pension costs.

Think it can’t happen to your city? Think again. Detroit, Mich., and Central Falls, R.I., are polar opposites in many ways, but they have one thing in common: Both slashed their retirees’ pensions when the cities filed for bankruptcy.

Detroit’s was the largest municipal bankruptcy in the nation’s history. After the city filed for bankruptcy protection in 2013, thousands of retirees saw their pensions cut by 4.5 percent, their cost-of-living allowances eliminated and their health-care benefits reduced. Just this past October, after much legal back-and-forth, a federal appeals court rejected the retirees’ challenge to reinstate their full pensions.

Central Falls cut pensions for its 133 retirees by as much as 55 percent when the city filed for bankruptcy in 2011 (although the state later eased the pain by reducing the cuts to 25 percent for the first five years). At the time of its bankruptcy, Central Fall's pension plan was a staggering $80 million in debt. Retirees who had saved for their entire careers and assumed their pensions were secure suddenly found themselves forced back into the workforce to make ends meet.

The only truly secure guarantee that a public employee has is a fully funded pension system. But that's a guarantee that's likely to become rarer as cities face mounting fiscal strains. Of the nation's 89,000 local governments, some 11,000 have defaulted on bonds at some point in our history. As pension costs continue to escalate, it's nearly certain that the number of defaults will rise. How lucky do you feel? Will your city run out of money?

All public-sector retirees deserve safe and secure futures, not to be reduced to poverty when their pension plans fail them. Retirement benefits should be sustainable and predictable for current and future public employees. To live up to this expectation, governments need to fully fund their plans.

Today's pension crisis may be due to policy decisions made years ago, but it's incumbent upon current policymakers to turn the tide and make their systems sustainable. Public employees and retirees didn't create this mess, and they shouldn't be left wondering what happened when the money runs out.

GOVERNING.COM

BY CHUCK REED | APRIL 26, 2017

Minibonds: Miles & Stockbridge

The City of Cambridge, Massachusetts recently sold $2,000,000 of community-sourced minibonds (the "Community Bonds") to finance various capital projects, including school building renovations and street and sidewalk improvements. The Community Bonds are referred to as "minibonds" because (a) they were marketed only to residents of the City of Cambridge, (b) minimum denominations were lowered to $1,000 from the customary $5,000 and (c) individual orders were capped at $20,000. The hope of such a sale is to engage residents and to make residents partners in infrastructure investments in the community. Such a sale required an additional publicity campaign in order to engage resident, including "Invest in Cambridge" pamphlets, bus signage and a sign in front of Cambridge City Hall. There were also additional administrative burdens and costs associated with such a sale.

To meet the larger infrastructure needs of the City of Cambridge, the City also sold (on the same day) $56,500,000 of general obligation bonds (the "GO Bonds") for purposes of sewer and stormwater projects, energy efficiency and street repair. Unlike the Community Bonds, the GO Bonds were sold to more traditional bond investors at a public sale.

Minibonds are not a completely new concept and in fact the same structure was employed many years ago to finance original infrastructure in many communities in this country. In more recent times, Denver, Colorado has used this concept to provide its residents the opportunity to invest in the community in which they live. Minibond sales are planned later this year in Burlington, Vermont, Austin, Texas and Lawrence, Kansas.

Minibonds might be what the new generation of public finance which investors desire.

Last Updated: April 26 2017

Article by Francina J. Brinker

Miles & Stockbridge

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

The Yield Curve – What It Is and Why It Matters: Squire Patton Boggs

For those of you new to bonds and not generally familiar with financial terms, you may hear the term “yield curve” thrown around and be wondering what it means and why it matters. The yield curve is a chart showing the yield of debt instruments (such as U.S. treasuries or notes) on the y-axis and the maturity (on the x-axis). So why does it matter? It can be a crystal ball into the future of interest rates.

Continue reading.

The Public Finance Tax Blog

By Alexios Hadji on May 1, 2017

Squire Patton Boggs

Bloomberg Brief Weekly Video - 04/27

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

Watch video.

Bloomberg

April 27, 2017

Fitch: Growth Solid for US Transportation as Trade & Fiscal Shifts Loom.

Fitch Ratings-New York-26 April 2017: Healthy growth is in the cards for all major U.S. transportation segments despite longer-term questions brought on by shifting economic, trade and fiscal policies, according to Fitch Ratings in its latest U.S. Transportation Trends special report.

International hub airports are set to lead overall airport passenger traffic growth after passenger enplanements rose 3.5% for calendar-year 2016. ‘Growth in passenger enplanements, however, is and will continue to soften as carriers scale back on service additions,’ said Senior Director Seth

Lehman. Fitch is projecting 2.5%-3% overall growth for 2017.

Growth among ports throughout the country will likely mirror that of the GDP. Much of the upward movement came from West Coast ports in the second half of last year (1.8% growth year-over-year), while East Coast ports rebounded with 3.4% growth in the second half, but only grew 0.4% overall for the year as compared with 2015. ‘Shifting trade agreements or renegotiated tariffs may affect import/export volumes, though the full effects of these changes will likely extend beyond 2017,’ said Director Emma Griffith.

As for toll roads, Southeast and Southwest facilities should continue to lead in traffic performance similar to 2016 thanks to moderate economic and population growth. ‘Toll road revenues are positioned to grow faster than traffic as many authorities implement policies of inflationary toll increases,’ said Director Tanya Langman.

Also highlighted in the report is a new metric that Fitch has introduced called ‘Peak Recovery’, which supplements Fitch’s peak-to-trough metric and shows how each credit performed in 2016 relative to their pre-recession peak volume. Fitch’s latest ‘U.S. Transportation Trends’ report is available at ‘www.fitchratings.com’ or by clicking on the above link.

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Westinghouse Meltdown Short-Circuits Some Muni Bonds.

Westinghouse filed for Chapter 11 bankruptcy on March 29. While the company doesn’t have tax-exempt debt, its filing damaged two large public utilities with municipal bonds outstanding. The utilities’ customers will pay higher rates for costly or incomplete projects, which not only causes ratepayer resistance but can make power costs uncompetitive and hurt financial operations.

The two utilities are the Municipal Electricity of Georgia (MEAG) and the South Carolina Public Service Authority, also known as “Santee Cooper”. Each borrower relied on Westinghouse to build four nuclear reactors – two for each utility – on time and within budget. As often happens with nuclear projects, there've been construction delays and cost overruns. But the Westinghouse bankruptcy raises the question of whether the facilities will be built at all.

So what happens now? MEAG and Santee Cooper are left with unfinished facilities that cost a lot of money, aren't producing any power, and may not ever be completed.

There are at least three possible ways for them to proceed:

1. Hope that Westinghouse emerges from bankruptcy in a position to complete the projects,
2. Find another contractor if Westinghouse can't come through, or
3. Abandon the plants and all the money they've spent so far to build them.

With option one, the utilities have to hope that Westinghouse will be able to finish within its latest budget and timeline. Let's just say that its past performance with these projects doesn't exactly inspire confidence.

Along the second road, there aren't a lot of companies around anymore who build nuclear plants. And if you're one of them, you have to ask yourself whether you want to get involved in a situation as difficult as this. It's also worth noting that the type of reactor involved, Westinghouse's AP1000, hasn't yet been put into service anywhere in the world.

Finally the third route might pose the most risk. In that scenario, you're asking your customers to pay higher rates for a white elephant. When that happens, ratepayer resistance and lawsuits can follow, draining your balance sheet.

But even if some way is found to complete the plants, ratepayers won't be happy that they're paying for what they'll perceive as your mismanagement and mistakes.

On April 28 MEAG, Santee Cooper, and their partners in building the plants are expected to report updated cost and calendar estimates for project completion. The figures they disclose may well determine which of the three options above they will pursue. Each utility has about $8 billion in long-term debt, and bondholders will be paying close attention to their decisions.

The best-case scenario for bondholders at this point is that both MEAG and Santee Cooper will raise rates in amounts that are sufficient to maintain their existing credit strength.

Forbes

By Greg Clark

APR 26, 2017 @ 11:24 AM

Greg Clark is Debtwire's Head of Municipal Research. Greg's career has included positions at a rating agency, broker-dealer, and hedge fund as well as bond insurers and commercial banks. Greg is also a past chair of the National Federation of Municipal Analysts and of the Municipal Analysts Group of New York. He can be reached at greg.clark@debtwire.com.

U.S. Municipal Bond Sales to Total $7.5 bln Next Week.

The sale of bonds and notes next week by U.S. states, cities, schools and other issuers will total $7.5 billion, including a chunk of debt out of Wisconsin, according to Thomson Reuters estimates on Friday. The Regents of the University of California will sell the week's biggest issue – $1.134 billion of taxable and tax-exempt AA-rated general revenue bonds. Lead underwriter Jefferies has planned a retail presale period for Wednesday ahead of formal pricing on Thursday. Wisconsin has a $403 million general fund annual appropriation refunding bond issue pricing through Wells Fargo Securities on Tuesday. The taxable bonds will carry serial maturities in 2018 through 2033, according to the preliminary official statement. In a separate issue also slated to price Tuesday through J.P. Morgan, Wisconsin will sell $285 million of transportation revenue bonds. The debt has serial maturities from 2020 through 2037. Milwaukee, the state's biggest city, has scheduled three competitive debt sales for Thursday – $132.2 million of general obligation promissory notes, $120 million of revenue anticipation notes and $18.2 million of taxable GO promissory notes. U.S. municipal bond fund flows were positive for a third-straight week with net inflows of $144.5 million for the week ended April 26, according to Lipper, a unit of Thomson Reuters. That was down from $290.2 million in the previous week.

Reuters

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(Reporting By Karen Pierog; Editing by Bernard Orr)

GFOA Municipal Bond Resource Center.

The municipal bond tax exemption has a long history of success, having been maintained through two world wars and the Great Depression, as well as the recent Great Recession, and it continues to finance the majority of our nation's infrastructure needs for state and local governments of all. Members of the Public Finance Network continue have emphasized that tax-exempt municipal bonds have been used to finance over $3 trillion in critical infrastructure including the construction of schools, hospitals, airports, affordable housing, water and sewer facilities, public power utilities, roads and public transit.

In 2015 alone, nearly 12,000 tax-exempt bonds were issued to finance more than $362 billion in infrastructure investments. Through the tax-exemption, the federal government continues to provide critical support for the federal, state and local partnership that develops and maintains essential infrastructure, which it cannot practically replicate by other means.

State and Local Fiscal Facts

Municipal securities are predominantly issued by state and local governments for governmental infrastructure and capital needs purposes, such as the construction or improvement of schools, streets, highways, hospitals, bridges, water and sewer systems, ports, airports and other public works. . Between 2007 and 2016, states, counties, and other local governments invested $3.8 trillion in infrastructure through tax-exempt municipal bonds.

Other facts on municipal bonds:

- The volume of municipal bonds hit $445 billion in 2016
- Over the last 10 years, state and local governments have invested $3.8 trillion in infrastructure through tax-exempt municipal bonds.

- Debt service is typically only about 5 percent of the general fund budgets of state and municipal governments
- Municipal securities are considered to be second only to Treasuries in risk level as an investment instrument.

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