With Trump's Stumbles, Muni Bonds See Record Winning Streak.

- **No price declines for longest stretch since Jan. 2009**
- **"The price appreciation is not over," says one investor**

Municipal bonds are having an unprecedented winning streak.

The price of benchmark 10-year U.S. state and local government debt has risen — or held steady — every day since March 14, marking the longest stretch without a single daily decline since the Bloomberg index begins in Jan. 2009. The rally pushed yields down by nearly half a percentage point to 2.05 percent by Wednesday, as investors retreat from post-election speculation that President Donald Trump would swiftly push through sweeping infrastructure and tax-cut plans.

The price gains have wiped out much of the losses suffered late last year, when investors wagered that Trump's fiscal plans would prod the Federal Reserve to raise interest rates more aggressively to head off inflation. The potential for lower tax rates also threatened to reduce demand for municipal bonds, which are largely held by investors seeking income that's exempt from the U.S. income tax.

Investors braced for "Trump's policies not only being implemented but also being successful," said Robert Waas, chief executive officer of RSW Investments, which has more than $2 billion under management. "What you've started to see is an unraveling of that as investors have realized it's not as easy. Now it's payback time as municipals are having their time in the sun and are outperforming Treasuries."

The state and local bonds have returned 2.5 percent this year, nearly a full percentage point more than Treasuries, according to Bloomberg Barclays indexes.

The sentiment began shifting after the Republican-led Congress failed to repeal the Affordable Care Act, said Christopher Sperry, a vice president and portfolio manager at Franklin Templeton. Republicans' inability to act on one of their long-stated priorities raised doubts that Trump's administration will be able to tackle the arguably more difficult challenge of rewriting the tax code.

"Here you have an administration with both houses of Congress, and it's certainly not going to be as easy for these reflationary fiscal policies as everybody thought," Sperry said.

The municipal sector's strong run may still have legs, according to Jeffrey Lipton, the head of municipal research at Oppenheimer & Co. "The desire for haven assets is likely to be more pronounced throughout the foreseeable future as compared to the more extended demand for risk assets that emerged following the election," he said.

Although yields have tumbled, they remain above where they were before Trump's election. RSW's Waas said there may be more upside ahead: He anticipates that the yield on 10-year Treasuries — now about 2.17 percent — will slip below 2 percent by the year's end. He estimated that municipal bond yields should be about 90 percent of Treasuries, given the tax breaks — or less than 1.8

percent.

“The price appreciation is not over,” he said. “There is more price appreciation in our future.”

Bloomberg Markets

by Rebecca Spalding and Amanda Albright

April 19, 2017, 2:00 AM PDT April 19, 2017, 7:16 AM PDT

Tower Over Nebraska Town Is a Flash Point on the Path to a 5G Future.

- **Mobilitie seeks sites for thousands of antennas and towers**
- **Fights with towns part of dash to fast 5G networks nationwide**

The people of Papillion, Nebraska like the idea of faster, more powerful wireless service in their town of 19,000 — but not if it means they have to agree to an 11-story tower looming over a church. City officials rejected that proposal and three others from Mobilitie LLC, a California company that installs the infrastructure needed for next generation 5G wireless service.

“They didn’t give us any reason why they chose a place,” said Papillion spokesman Trenton Albers. “It just seemed like they put a pin on a map somewhere.”

The Omaha suburb is among places where Mobilitie’s demands to use public land for antennas and towers have raised hackles with local officials, in disputes that seem likely to grow in number as ever more towers and antennas are erected to feed the mobile boom.

Mobilitie says some localities obstruct its work, and it wants the U.S. Federal Communications Commission to impose restrictions on how much towns and cities can charge for allowing it attach antennas to streetlight poles, or for installing towers up to 120 feet tall in downtowns and neighborhoods. Fees can range from several hundred to several thousand dollars a year, depending on size and location.

The FCC on Thursday agreed to study the issue.

Some towns say Mobilitie, which works with Sprint Corp. and others, files poorly drafted applications and falsely claims connection rights as a utility on par with electricity and phone companies. Papillion, for instance, told the FCC that Mobilitie’s applications were “completely illogical” and ignored local circumstances.

Mobilitie Chief Executive Officer Gary Jabara says the company gets good cooperation from most towns and cities, and needs help to surmount problems in mainly smaller places that unreasonably hike fees to take advantage of deep-pocketed mobile carriers.

“They’re just greedy,” Jabara said in an interview April 17. “They just put their hands out and say, ‘Hey, AT&T, Verizon, T-Mobile, we want thousands’” of dollars in fees to attach antennas to utility poles.

As for the criticism about Mobilitie claiming rights as a utility, Jabara said, “We haven’t misrepresented ourselves anywhere.”

The conflict pits communities anxious to preserve streetscapes against mobile companies eager to build 5G networks for a coming era of web-connected cars, houses and appliances. The extra-fast service will ride on frequencies that carry a lot of information but don't travel very far. Networks will use antennas numbering in the hundreds of thousands, perhaps millions. They'll be closer together, and closer to shops and homes than today's arrays atop cell towers.

Mobilitie has asked the FCC to limit fees municipalities can charge for attaching suitcase-sized antennas to structures such as light poles, or for accepting new towers.

The agency on Thursday asked for comments on Mobilitie's request as it advanced rules to remove barriers to wireless broadband deployment. Commissioner Michael O'Rielly, a member of the agency's Republican majority, said many localities act in good faith, "but bad actors are ruining it for everyone."

The biggest wireless providers have embraced Mobilitie's position. They say high fees threaten progress toward the new networks. They've also asked for tighter deadlines for local authorities to consider applications.

Cities including New York and San Francisco have pushed back, arguing that existing procedures are working just fine, and that local governments shouldn't be required to make municipal assets available for use by wireless carriers.

The disputes could grow as the U.S. prepares for a fifth generation of wireless technology. Proponents sketch a world of ubiquitous mobile broadband connections. "5G will instantly connect hospitals with ambulances, help manage water and energy consumption, and alert first-responders in real time," according to the CTIA wireless trade group that represents the top four U.S. carriers: AT&T Inc., Verizon Communications Inc., T-Mobile US Inc. and Sprint.

Federal regulators have signaled impatience with local authorities.

"Unreasonably high costs and excessive delays to access poles and costly and cumbersome permitting processes can make it extremely difficult to deploy infrastructure," FCC Chairman Ajit Pai said Thursday. Last year he said the agency "must aggressively use its legal authority to make sure that local governments don't stand in the way."

Kentucky Derby

Closely-held Mobilitie was founded in 2004 by Jabara, a former partner at Deloitte, where he oversaw negotiations for wireless infrastructure on behalf of major wireless carriers, according to the company's website. Mobilitie describes itself as a real estate company in filings with regulators in its home state of California.

The company also installs wireless networks for sporting venues such as stadiums and Churchill Downs, home of the Kentucky Derby. Mobilitie, based in Newport Beach, California has attracted investment from CIT Group Inc. and TD Securities USA LLC, and raised $1.1 billion in 2012 from a sale of towers and other assets to SBA Communications Corp. The company doesn't disclose its revenue or number of employees, Jabara said. It works with all four major wireless carriers, he said.

Along the way Mobilitie has attracted criticism from several communities:

- In Denison, Texas, officials said Mobilitie workers without proper authorization erected two 80-foot towers on public land, including a spot right across from the city hall; the town forced Mobilitie to take the towers down. "Very dark of night, stealthy" deployment, said city manager Jud Rex.

Mobilitie said it received authorization from a utility coordinator identified by the city.
- In Michigan and Minnesota, state utility regulators got so many inquiries and complaints about Mobilitie that each posted a notice on an official website, making clear the company didn't have automatic rights to plant poles on public land. "Certainly, like investor-owned utilities, we have rights," Jabara said.
- Mobilitie has falsely claimed it has legal rights to use public property, and has sought to bolster that impression by filing under at least 17 names that use "Utility Pole Authority," such as Alaska Utility Pole Authority or Florida Utility Pole Authority, municipalities including Los Angeles, Boston and Portland, Oregon, said in an FCC filing.

"Frankly, not everybody can pronounce our name," Jabara said. "Sometimes it's just easier to work with the cities that way."

Jabara said traditional permitting practices that include intensive review of each site pose "an impossible hurdle" in cost and time. He likened mobile connectivity to water and electricity supplies.

"We're not asking for anything different from how other essential services are treated by cities," Jabara said. "Nobody wants to force the cities to do something other than what they have done for essential services for years."

Cities that overcharge include San Jose, California, which assesses an annual fee of $7,210, or roughly 10 times the average national price of $730 per site, according to information compiled by Mobilitie.

San Jose

San Jose officials disputed that figure, saying the cost is typically $314. Fees range from $4,200 to $8,000 for a large new pole, although in most districts costs are $2,500 to $3,000 and smaller poles are used, said Martina Davis, a supervising planner for the city. "San Jose is keenly interested in expanding broadband," said Cheryl Wessling, a city spokeswoman.

CTIA, the trade group, said in a filing that some places have simply prohibited new wireless installations in rights-of-way. It asked for an end to moratoria, and said the FCC should shorten the time for decisions on applications to 60-to-90 days, compared with the current deadlines of 90-to-150 days.

No. 4 U.S. wireless carrier Sprint, too, told the FCC it supports Mobilitie's petition. The Overland Park, Kansas-based company is attaching small-cell antennas to rooftops, street lamps and utility poles to saturate areas with signal coverage. It told the FCC that it "actively partners" with Mobilitie and didn't provide details of the arrangement.

'Work Closely'

Adrienne Norton, a Sprint spokeswoman, said the company doesn't disclose deployment figures. "We work closely with every city to understand and address their unique issues," Norton said in an email. "We expect all of our business partners to do the same."

Critics say Mobilitie is simply leveraging a public resource for private gain.

"They're looking for the low-hanging fruit" in small towns with part-time code officers, said Dick Comi, a founder of the Center for Municipal Solutions that advises localities in their dealings with telecommunications service providers. "It's very disconcerting to the communities."

“If you can go out onto public land it’s much easier because you’re dealing with one entity,” said Steve Traylor, executive director of the National Association of Telecommunications Officers and Advisors, a group for local government officials that opposes Mobilitie’s request. “Now they want to say, ‘We want it really, really cheap.’ ”

Proponents of easing permit processes have said the antennas for 5G, often called small cells, are far less intrusive than cell towers –“literally the size of a pizza box,” a CTIA official told Congress in April — and can go on existing structures.

That argument doesn’t wash with Traylor. He noted that Mobilitie installs poles. “Is Mobilitie’s 120-foot tower a small cell?,” he asked. “Is a 50-foot tower? That is one big pizza box.”

Bloomberg Politics

by Todd Shields

April 20, 2017, 2:00 AM PDT April 20, 2017, 1:28 PM PDT

As the Clock Ticks, Senate Stalls on State-Run Retirement Plans.

Congress could overturn a rule that allows states to create private-sector retirement programs. But it only has a limited time to do it.

Late last month, Congress voted to overturn an Obama-era rule that cleared the way for cities to create retirement programs for private-sector workers that didn’t have one through their employer. But a similar resolution targeting the rule as it applies to states is stuck.

For the past three weeks, that resolution has lingered in uncertainty as the Senate stalls on taking an up or down vote. Many believe that signals an opportunity. “Based on the conversations we’ve had with staff and colleagues working on this,” says Cristina Martin Firvida of AARP, which supports the Obama-era regulation, “I think there are a number of senators who still have a lot of questions about the state rule.”

The rule, which was issued by the Department of Labor, reaffirmed cities’ and states’ legal right to help support private-sector savings programs for small businesses. Seven states are implementing such programs, while another dozen states and cities are considering them.

Called Secure Choice or Work-and-Save, the programs require most employers that don’t currently offer a pre-tax retirement savings program to automatically enroll employees into one. They run independently from the state, employers don’t contribute and employees can opt out at any time. The goal is to close what many feel is a retirement security gap among working Americans: Half of private-sector workers don’t have an employer-sponsored retirement plan, and only a small percentage of those 57 million people have saved enough on their own to retire.

Studies have shown that these programs don’t just help the individual but the states too. A recent analysis by Segal Consulting found that if all workers gain access to retirement plans, then states would save big on future Medicaid costs because vulnerable households would be removed from the poverty rolls by the time they retire. In the first 10 years after a retirement savings plan is introduced, 15 states would save more than $100 billion in Medicaid payments. California and New York alone would save more than $1.1 billion.

But in February, the House quickly passed two resolutions that overturned the Labor Department rule as it applied to cities and states. The Senate approved the resolution for cities a few weeks later, and it was signed by President Trump this month.

Even if the Senate overturns the state rule, it's unclear if it would impact those places that have already approved a Secure Choice program. Sarah Mysiewicz Gill, senior legislative representative for AARP, says most of these places approved their plans before the Labor Department clarified the rule last year. One such place, Oregon, is still moving ahead with its plans to launch a preliminary version in July.

Still, overturning the rule would open states to the possibility of lawsuits. The Labor Department rule exempted Secure Choice programs from the federal Employee Retirement Income Security Act, which governs private retirement plans and requires certain legal and financial protections for plan enrollees. In other words, someone could sue a state for allowing private-sector retirement programs that don't have the same fiduciary protections for enrollees that traditional, employer-sponsored plans have.

On top of that, many are worried that a rejection from Congress could have a chilling effect on the growth of such programs. That's already happened in Montana. A day after the U.S. Senate overturned the rule for cities, the state legislature reversed course and voted down a proposal to create a statewide Secure Choice program. "There was a belief that the city rule impacted the state," says Gill.

Advocates for Secure Choice say the reason the Senate hasn't voted to overturn the state rule yet is likely ideological. During the debate this year on health care, those that wanted to repeal the Affordable Care Act argued that states should have more control over their own health systems. Voting to repeal a rule that gives states more flexibility when it comes to retirement saving programs would be in direct conflict with that idea.

"I think there are a number of senators who have a somewhat cautious feeling about voting for this because it does fly in the face of states' rights," says Diane Oakley, executive director of the National Institute on Retirement Security.

Unlike most things in Congress, this uncertainty for states does have a deadline. The resolutions are subject to the Congressional Review Act, so if the Senate does not follow the House and vote to reverse the rule by mid-May, it will stand.

GOVERNING.COM

BY LIZ FARMER | APRIL 19, 2017

SIFMA: US Quarterly Highlights, First Quarter 2017

About the Report

A quarterly snapshot containing statistics and graphs on the U.S. capital markets, including issuance, trading volume and outstanding data broken down by asset class.

Summary

Long-term securities issuance totaled $1.85 trillion in 1Q’17, a 15.5 percent increase from $1.60 trillion in 4Q’16 and an 11.3 percent increase year-over-year. Treasury, corporate, agency and equity securities experienced increases q-o-q in the first quarter, while municipal, mortgage-related, and asset-backed securities experienced declines.

[View the Report.]

[Local Leaders Sound Alarm on Plan to Eliminate CDBG in FY ’18 Budget.]

Washington, D.C. – In the middle of Community Development Week (April 17-22), mayors and local leaders across the country today lifted their voices in support of the many accomplishments of the Community Development Block Grant (CDBG) program and its ability to positively impact residents and transform communities.

On a national [press conference call] today with reporters, officials vowed to fight Administration plans to eliminate the CDBG program in next year’s federal budget explaining that the program, which is celebrating 40 years, has been effective and has enjoyed a bipartisan legacy.

Newton (MA) Setti Warren, who Chairs the Conference’s Community Development and Housing Committee said on today’s call, “Simply put, this proposal to eliminate CDBG funds would make our cities and communities less safe, less healthy and more expensive to live in. Mayors across the country are dismayed and extremely concerned to see these steep cuts proposed at HUD. The CDBG program provides so many with vital resources; and in this age of economic inequality, this program helps to build a foundation of economic opportunity. … At a time when cities are continuing to struggle to make ends meet, these funds are critical and cutting them would be a disaster. … It is our ask that the Administration reconsider this proposal and we urge Secretary Carson and his staff work with us and visit our communities to see the positive effects of that CDBG funds are making across the country.”

As the most flexible stream of federal dollars allocated directly to local governments that can be 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, which rely on the funding to enhance the lives of residents, namely low and moderate income people, in a wide variety of ways, many innovative – including housing investments, public infrastructure improvements, enhanced public safety services, employment training, as well as services for seniors, youth and the disabled.

Conference Second Vice President Columbia (SC) Mayor Steve Benjamin said, “The President’s proposal is really the elimination of time-tested and effective government grant programs. Mayors are simply asking for the tax dollars that we send to Washington to be repatriated home so we can give working families an opportunity to live the American dream in the city of their choice. The President’s proposal is unacceptable and would hamstring local development when our cities and citizens can least afford it. We are appealing to the Congress to reject this proposal as wrong-headed and harmful to America’s communities.”

Benjamin also discussed local actions in Columbia to support the CDBG program and explained that mayors across the country are showing their support for the CDBG in a variety of ways including local events, proclamations and social media using the hashtag #Fight4CDBG.

Piscataway (NJ) Mayor Brian Wahler, who serves on the Conference's Advisory Board, stressed the economic impact of CDBG funds on communities. "Most people do not realize that CDBG funds allow cities and towns to raise revenue for infrastructure. We can actually prime local economies for growth by leveraging these public dollars to raise private funding by using the CDBG as down payments on much larger projects. This program has experienced very few hiccups over the years, and is probably one of the easiest ways to make major infrastructure upgrades and create jobs. Targeting this program for elimination simply doesn't make sense."

Tarrant County (TX) Commissioner Roy Charles Books who serves as First Vice President of The National Association of Counties explained that CDBG funds are just as critical to counties across the United States as they are to cities, said, "This block grant encourages partnerships between the federal and local government, non-profits and private industry to focus on community revitalization, infrastructure rehabilitation, affordable housing, and public services. Through CDBG, we are expanding local investment and economic development efforts in our community."

"CDBG continues to be one of the most powerful tools we have in the community development toolbox. I have long championed this program and I will continue to do so. We are asking Congress to ensure funding at current levels that are essential to our counties, neighborhoods and communities all over the United States," he continued.

National Community Development Association President Shreveport (LA) C.D. Director Bonnie Moore, explained the origins of Community Development Week, "We are now celebrating 43 years of the Community Block Grant program. This program has had significant impact on community revitalization and renewal efforts throughout many low-income communities and without it we would be have very limited resources to help our poorest and most vulnerable residents. Over 300 jurisdictions are participating in Community Development Week to educate both community and our Congressional members on the many benefits of the CDBG program."

USCM CEO & Executive Director Tom Cochran noted that the Conference has launched a fierce fight to protect this program from being eliminated. "We are encouraging mayors to sign onto a bipartisan letter to Congress in support of the CDBG and are also seeking mayoral responses for a USCM survey on the varied uses of CDBG funds," said Cochran.

"We intend to show why CDBG funds are vital to so many urban, suburban and rural communities.

Because of the program's effectiveness, this campaign has garnered support among small businesses and non-profit organizations in communities across the country. We are in this effort to win it."

The United States Conference of Mayors

April 19, 2017

Is It Time to Adopt a Less-Is-More Approach to Community Development Block Grants?

Trump wants to eliminate the program. But advocates argue it just needs to be reformed.

Local officials describe the 43-year-old federal Community Development Block Grant (CDBG) program as "the heart, lungs and backbone of cities and counties." It provides municipalities all around the country with money for projects that help the economy and lower-income residents.

Over the years, however, CDBG funding has sharply declined and the number of places taking from the shrinking pot has risen. The result, critics say, is a weakened program that makes little impact and sometimes aids wealthier communities that don't need the help. President Obama tried to shrink and redesign the program. Now President Trump wants to eliminate it altogether.

Continue reading.

GOVERNING.COM

BY J.B. WOGAN | APRIL 18, 2017

Millennials' Investment Strategy Could Be a Boon for Government.

Their drive to make a meaningful impact could provide the public sector a new pool of investors.

Forty-five years ago, two novice Washington Post reporters unraveled the biggest political scandal in a generation. As depicted in the thriller All the President's Men, a shadowy informant known only as Deep Throat — 30 years later revealed to be longtime civil servant Mark Felt — kept the young Bob Woodward and Carl Bernstein in the game by instructing them to "follow the money."

Today, Deep Throat might instead say, "Follow the millennials." That's because JP Morgan estimates Americans ages 25 to 35 will invest a trillion dollars over the next five years. In the coming three decades baby boomers will turn over $30 trillion in assets to their millennial children and grandchildren, according to an Accenture-CNBC study. And that's just in the U.S.

Even more noteworthy is just how differently millennials think about investing. A survey by Standard Life Investments showed that 65 percent of millennials care more about social and environmental issues than they care about investment returns. That's compared to less than half of 35- to 44-yea--olds and less than one-third of those over 45. Given these trends, it should be no surprise that today every 1 in 5 dollars under professional management is allocated based on the principles of socially responsible investing, according to the Forum for Sustainable and Responsible Investment. "Doing well while doing good" is quickly becoming a mainstream investment strategy.

State and local finance managers have good reason to worry about this trend. Municipal bonds don't offer enticing returns compared to stocks and other investments. But perhaps more pertinent, sewers, roads and tunnels don't have the same exotic appeal as microloans to Indonesian coffee farmers. And Congress is talking openly about ending municipal bonds' cherished federal tax exemption. That last change would make infrastructure projects even more difficult to finance.

But some of the early signs show that "impact investing" is a wave that states and localities can in fact surf. Consider this example. Seattle Northwest Asset Management (SNWAM), a national leader in impact investing, maintains a "gender equity portfolio" product that's popular with its retail clients. Many impact investors want their money to support organizations that offer equal pay for equal work, family-friendly work environments and other policies designed to promote greater gender equity.

One of the bonds issued under the portfolio is from the Oregon Housing and Community Services

Department (OHCS). In Oregon, 40 percent of single mothers live below the poverty level. It follows then that investments in affordable housing and other OHCS programs deliver outsized benefits to women. The investment is made more attractive by the fact that the OHCS director and a majority of its governing body are female. Most for-profit entities can't come close to that kind of impact on gender equity, and most nonprofits that do aren't open for investment.

That's just one of the many opportunities SNWAM and other advisers offer their impact investor clients. New portfolios that cover concerns like climate change, environmental conservation, public education and so on are chock-full of other opportunities to invest in states and localities.

Social impact investing's movement from the fringe to the mainstream has a lot to do with the growth of "impact ratings" as well. Traditional credit rating agencies like Moody's, S&P and Fitch just tell investors the likelihood they'll get their money back, and their ratings are based on a government's financial health, tax base and economic outlook. But impact credit rating agencies tell investors whether an investment is consistent with their social impact objectives. HIP Investor Ratings of San Francisco is one of the largest of these agencies. Its ratings criteria focus on "health, wealth, earth, equality and trust." Many social impact portfolios won't include a government's bonds without a four- or five-star HIP rating. Going forward, this means measurables like public school graduation rates, minority unemployment trends and Environmental Protection Agency water quality scores, among others, might be just as important as tax collections and reserve funds.

Fortunately, most states and localities are good impact investments. If they tell their story correctly, they'll have access to a new and robust pool of potential investors. And perhaps more important, they'll help enlighten a new generation to the essential, often unnoticed high-impact work they perform every day.

GOVERNING.COM

BY JUSTIN MARLOWE | APRIL 2017

The Week in Public Finance: Ballmer's Data Trove, Grading Pension Health and a New Muni Bond Threat.

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

GOVERNING.COM

BY LIZ FARMER | APRIL 21, 2017

Bipartisan Support Grows for Carbon Capture Utilizing PABs.

Bipartisan support is growing on Capitol Hill and beyond to accelerate carbon capture deployment on power plants and industrial sources like steel and cement plants. The first week of April saw bipartisan bills in both the Senate and House to help unleash private capital to scale up more carbon capture projects to promote energy independence and reduce emissions.Government Shutdown Continues Into Weekend

The Carbon Capture Improvement Act, introduced by Senators Rob Portman (R-OH) and Michael Bennet (D-CO), would authorize states to use private activity bonds to help finance carbon capture equipment. A companion bill was introduced in the House by Representatives Carlos Curbelo (R-FL) and Marc Veasey (D-TX).

Private activity bonds are widely used to develop U.S. infrastructure, such as airports and water and sewer projects. The bonds reduce the costs of financing because interest payments to bondholders are exempt from federal tax and the bonds typically have longer repayment terms than bank debt. The legislation would promote higher rates of carbon capture by requiring projects to capture and inject at least 65 percent of carbon dioxide (CO_2) to be eligible for 100 percent financing, with lesser capture amounts eligible for financing on a pro-rated basis.

Support for these bills comes from lawmakers from both parties representing different regions of the country who all share a common interest in increasing the production of domestic energy resources and reducing carbon emissions.

This broad consensus is reflected in the makeup of a coalition convened by the Center for Climate and Energy Solutions and the Great Plains Institute. The National Enhanced Oil Recovery Initiative (NEORI) brings together coal, oil and gas, electric power, ethanol, chemical and energy technology companies, labor unions, and national environmental organizations dedicated to expanding deployment of carbon capture as an energy, economic, and environmental solution.

Coalition members share a common goal of improved financing policies to accelerate carbon capture deployment. These policies include providing access to private activity bonds and strengthening and extending the Section 45Q tax credit for carbon dioxide sequestration.

Section 45Q incentivizes capturing CO_2 from power and industrial sources for use in enhanced oil recovery (CO_2-EOR), a decades-old process that produces domestic oil from existing fields, while safely and permanently storing billions of tons of CO_2. Together, these incentives could help create conditions like those that enabled wind and solar energy to speed deployment, grow U.S. energy sector jobs, cut energy costs, and reduce emissions.

The Western Governors Association and governors from both parties in Arkansas, Montana, and Wyoming have publicly called for federal incentives for carbon capture technology. This growing support comes on top of fresh examples of successful carbon capture deployment in the U.S.

- In January, NRG began operating the first U.S. retrofit of a coal-fired power plant and the largest of its kind in the world. The Petra Nova project, which came in on time and under budget, will capture 90 percent of the CO_2 from a 240 MW slipstream from the existing WA Parish plant near Houston, Texas. The approximately 1.6 million tons of CO_2 it will capture annually is used for carbon dioxide enhanced oil recovery at an existing oil field nearby and stored underground.
- In April, the Archer Daniels Midland ethanol plant in Decatur, Illinois, became the world's first commercial-scale biofuels facility with carbon capture technology. The Illinois Industrial Carbon Capture and Storage project will capture and store more than 1 million tons of CO_2 in Mount Simon Sandstone.

Over a dozen commercial-scale carbon capture, use and storage projects are operating in the U.S., including at natural gas processing facilities, fertilizer plants, and ethanol plants. But many more are needed. Looking ahead, there is a significant opportunity in 2017 for policymakers to build on the growing momentum and bipartisan interest in supporting carbon capture technology as a key strategy to increase American energy independence and reduce carbon emissions.

BREAKING ENERGY

By FATIMA MARIA AHMAD – SOLUTIONS FELLOW, CENTER FOR CLIMATE AND ENERGY SOLUTIONS (C2ES)

on April 18, 2017 at 1:50 AM

Funding of Infrastructure: Framing the Issues.

Report prepared by CSG Research Managing Partner, George Friedlander.

Executive summary:

A lot has been written about what a new Federal infrastructure plan might look like, and “might” is the key word, because there is such uncertainty as to what the Administration or Congress will agree on once actual policymaking begins. In this first of many anticipated discussions of the topic, we provide a set of “guidelines” as to policy issues that lawmakers need to consider when developing any plan to increase infrastructure investment. To start off, there continues to be vat confusion between the process of “financing” a given infrastructure activity, and the process of “funding.” Availability of investible monies for a project—financing—is vast. What state and local governments need is additional access to funding: support for payment for a project, or a means to reduce the amount paid annually on debt issued to pay for the project.

Continue reading.

Infrastructure Funding Confusion Muddies Debate: Friedlander

DALLAS - The effort to determine how to pay for the restoration of America’s crumbling roads and bridges is being hindered by the failure of policymakers to distinguish between the funding and the financing of infrastructure projects, according to veteran municipal market strategist George Friedlander.

“Access to financing is clearly not the problem, while access to funding is a severe and — if anything — accelerating problem that even a $1 trillion federal program over 10 years is unlikely to ameliorate,” Friedlander wrote in a paper presented Monday at a closed-door infrastructure roundtable sponsored by the Municipal Securities Rulemaking Board.

The availability of investable capital for a project — the financing — is vast but what state and local governments need is help with paying for a project or reducing the cost of the debt issued for the project, wrote Friedlander, a managing partner at Court Street Group Research. He joined the group in late 2015 after some 40 years with Citigroup. He currently serves as chairman of the Municipal Bonds for America Coalition’s technical advisory committee.

“Sources of capital, no matter how vast, simply do not provide funding,” he wrote in the paper. “They provide financing.”

Recent statements by Transportation Secretary Elaine Chao that the main cause of delays in infrastructure projects is overbearing regulations rather than a lack of private capital is “scary wrong," wrote Friedlander.

"It confuses the availability of investable funds — financing — with the availability of resources to pay for a project or to repay debt issued to finance a project — funding," he pointed out.

The first step toward renewal should be to reinforce and support those programs that have been effective in funding infrastructure, such as the Highway Trust Fund, he wrote.

"To be sure, more spending is needed, and in some cases, achieving this goal will require significant additional federal financial support," he wrote. "However, that support needs to be incremental over successful existing structures, not a replacement for them."

Any new strategy to boost spending in President Donald Trump's infrastructure program would not have the sort of project sorting and selection mechanism provided by the taxexempt bond market, Friedlander noted.

The $137 billion of federal tax credits in the Trump infrastructure plan are unlikely to stimulate $1 trillion of private investments in revenue-producing projects as proposed, he wrote.

The revenues needed to repay private investors in a P3 project are the same ones that would be used to pay bond debt service and operating expenses, he noted.

"There are vast numbers of projects that are simply not supportable by user fees," Friedlander wrote.

"The efficiency of the tax-exemption as a way of disbursing financial support for projects remains vastly greater than certain critics would suggest."

Alternative financing mechanisms such as public-private partnerships and bank loans have their place but smaller issuers are at a distinct disadvantage to larger municipalities in accessing these, he wrote in the paper.

"While there may be ways to strengthen and sharpen the operations of the municipal market through the incorporation of alternative sources of financing, the simple fact is there is no viable substitute to municipal bonds," he wrote.

A new program similar to the Obama administration's stimulus-era Build America Bonds would be a useful taxable complement to tax-exempt bonds in funding infrastructure, according to Friedlander.

"More than $150 billion of BABs were issued and the taxable nature of the bonds opened-up the market to nontraditional investors, such as pension funds and insurance companies as well as foreign investors," he noted.

If the Trump administration and Congress are serious about increased spending on infrastructure, they must figure out how to make state and local governments more enthusiastic about participating in the funding, Friedlander wrote.

New-money issuance by states and local governments, when adjusted for inflation, has virtually collapsed, he noted.

"On a net basis, state and local governments haven't borrowed a nickel since the beginning of 2010, while borrowing in other non-financial sectors of the U.S. economy has continued to pile up," Friedlander wrote.

The need to cover rapidly growing pension liabilities will quickly diminish the capacity of many states and cities to fund infrastructure, according to Friedlander.

Trump said in an address on Tuesday in Kenosha, Wis., that an infrastructure bill would be ready soon that could be linked to tax reform efforts but provided no details.

"Infrastructure. Big infrastructure bill," Trump said. "Probably use it with something else that's a little bit harder to get approved in order to get that approved. But infrastructure is coming, and it's coming fast."

Congressional Democrats will be reluctant to go along with any tax reform measures until Trump releases his income tax returns, warned Senate Minority Leader Charles Schumer, D-N.Y.

"Everyone is going to jump to conclusions that he is benefiting and maybe that's the reason he is doing it," Schumer said.

The Transportation Department said Tuesday it would create a new infrastructure advisory post to oversee implementation of Trump's priorities. Secretary Chao is expected to name James Ray, a principal at KPMG, as senior adviser on infrastructure.

The Bond Buyer

By Jim Watts

Published April 19 2017, 2:48pm EDT

Nine Practices of Successful Public/Private Partnerships.

Public/private partnerships (PPPs) — collaborations between the public and private sectors—are increasingly important vehicles to facilitate high-quality development and redevelopment and creation of public facilities and infrastructure.

Though PPPs are not new, they are being used more widely in a variety of new contexts and are evolving to take more extensive and complicated forms of shared risk and responsibility. These changes will accelerate if the federal government moves forward with broad public investment to modernize infrastructure through the use of tax credits to engage the private sector.

There is a very good chance that the projects that will make a developer most proud in the future will involve a greater public role. Thus, it is timely to reexamine public/private partnerships and their particular challenges.

Key Activities Using PPPs

A number of key types of development activity increasingly use PPPs.

Redevelopment. Redevelopment has long been a public/private enterprise, with public sector engagement primarily involving land acquisition and gap financing. But much has changed since the 1950s and 1960s, when urban renewal programs focused directly on blight removal. Today, redevelopment encompasses such projects as transit-oriented development on underused publicly owned real property (such as surface parking lots surrounding mass transit infrastructure) and mixed-use development of railroad properties and former industrial land, military bases, and decommissioned airports, as well as other infill opportunities.

The early urban renewal programs were followed in the late 1970s by Urban Development Action Grants (UDAGs), which still maintained a strong federal role in urban redevelopment but required developers and localities to have a meeting of the minds on the project to be built.

Over time, the direct federal role in redevelopment has diminished, being replaced by incentives such as tax increment financing; tax abatement/payments in lieu of taxes (PILOT); historic, low-income, and New Markets tax credits; and various forms of community improvement district mechanisms. Municipal bond financing is a frequent companion to these programs. Such financing requires detailed underwriting of feasibility to determine if the new development will be able to pay for itself with the aid of such mechanisms.

Infrastructure development. Beyond the traditional requirements of off-site improvements such as traffic mitigation, infrastructure development has largely become the responsibility of the developer as a prerequisite for obtaining entitlements for projects.

The obligations, often involving extension of public infrastructure systems such as those handling water and wastewater, may require the developer to advance funds and use recapture agreements to recover its investment, adding a layer of public/private engagement to the process. Privately owned water systems are common, and developer financing with public approval of systems adds new complexity.

Again, public/private vehicles such as community improvement districts may replace or backstop the role of homeowners associations, adding a new layer of public sector involvement and approvals.

Public and community facilities. Public and community facilities have become more complex and now are more likely to involve public, private, and not-for-profit entities in their development and financing. Where once public bodies may have used a design-build/sale-leaseback arrangement to tap private expertise and financing for a public facility, these arrangements have evolved to include private responsibility for operations and maintenance in exchange for an “availability payment” from the public entity.

Community centers, charter schools, training centers, museums, libraries, health centers, and theaters, among others, now may be developed by not-for-profit entities using New Markets Tax Credits layered with areawide tax increment financing funds, or similar funding mechanisms. They may also use tax-exempt bonds as part of the financing.

Major transit and transportation facilities. Increasingly development of transit and transportation facilities has relied on mixed private/public financing derived from fares and tolls supplemented by tax increment financing, special assessments, or community improvement districts, as well as developer exactions or general public revenues. This helps the government entity capture some of the value created by the facility to help pay for its development.

This value capture process results in very complex financing structures. Numerous cities—including Chicago, Denver, Los Angeles, Oklahoma City, and Seattle—have passed new taxes or created tax increment districts to support transit, using the funds to secure a local match for federal transit grants or to supplement revenue from fare boxes and tolls, or both. These are the kinds of facilities that could benefit from the type of infrastructure tax credit advocated by the new administration because fares and value capture could provide the balance of funds needed for the project.

Increased Complexity

Such next-generation, more complex PPP projects share a number of elements, including the following:

They require deep engagement with government authorities—including local, state, and federal governments and special entities—that goes well beyond the traditional seeking of entitlements for support of real estate development.

They involve financial complexity—and rules and regulations—different from and greater than the rules affecting many traditional real estate projects.

They are often discretionary—with approval based on such factors as financial gaps, the need for public facilities, limited availability of credits, and competitive allocation rather than on the assistance one is entitled to once certain rules are met.

They are deeply tied to the public agenda and to public needs as reflected in agency plans, priorities, or defined facilities. The focus on public benefits introduces a different political and risk-allocation dynamic to the transaction.

Different Practices

As a result of all these elements, many more stakeholders and participants of all kinds are involved in conceiving and approving such projects, and a specialized skill set and unique vision are required in order for them to be executed successfully. Engaging in these types of projects calls for different practices than might be typical for traditional private development. These include the following:

Creating a shared vision and public purpose. In a traditional development, the public's view may be expressed through zoning requirements, and the developer defines the project within market and regulatory constraints. But if a combination of public and private funding is involved, there must be a deeper engagement between the public and private sectors and a reconciliation of their purposes and agendas.

Inevitably, this requires deep engagement, not only with local appointed and elected officials, but also with stakeholders that may include myriad other public agencies, not-for-profit organizations, local philanthropists, major companies and institutions such as universities and hospitals, and the public at large. The processes to arrive at a shared vision require more time and expense and, often, a more deft political touch.

Assembling the development team. The development team for PPP projects will have more members and require special expertise serving both the private parties and the public sector. This may range from greater skill in facilitating public dialogue to the highly specific skills of municipal advisers, redevelopment counsel, bond counsel, and the like. Developers new to the public/private arena often underestimate the importance of specialized expertise to achieving a successful transaction.

Engaging in proactive predevelopment. The predevelopment process is intrinsically more complex and entails more time, cost, and risk for a project that can only be accomplished as a PPP. In PPPs, land acquisition, demolition, and often cleanup can present unique challenges when compared with a typical development transaction and, thus, can be more costly and time-consuming. These risks are often difficult for the private sector to bear—and the public sector may not be certain of the outcome should it proceed without a developer.

In facility PPPs and infrastructure PPPs, part of what is involved is often shifting responsibility for the design, construction, and long-term operation to the private sector, necessitating that the public sector have a very detailed and clear understanding of its requirements for the facility and its operation.

Creating relationships. Public procurement regulations can make establishing relationships between developers and public entities involved in a PPP complex and filled with risk for both sides.

The public entity is not motivated in the same way the private sector is. The public sector is focused on goals and is motivated by avoiding risk, avoiding failure, and politics. In contrast, the private sector is focused on achieving the highest price at the lowest cost and with minimal ongoing compliance obligations, such as specialized reporting and recordkeeping required by public financing sources. For its part, the private sector often is stymied by a perceived lack of public sector understanding of private capital underwriting criteria.

How much can the private developer provide in project specifications upfront if there is no commitment on the part of the public entity to proceed? What are the specific mechanisms available in a jurisdiction to select a developer and complete a transaction? Under what circumstances should one use a design/build/operate model rather than a design/bid/build model for public facilities in order to secure the potential savings? Strong working relationships are critical to bridge this divide.

Making a fair deal. The public sector should not be putting more public funds into a deal than is required for the project to provide a commercially reasonable return to investors while meeting the public goals. Whether specifically embedded in the law or not, husbanding public funds is a fiduciary responsibility of public officials. But how do the public and private sectors know where the balance lies?

Answering this requires deep and careful financial analysis of the project at hand—a process in which the private sector must be prepared to disclose more than it may like and which the public sector needs to undertake with more seriousness and at greater cost than it may have thought necessary. However, the deep analysis of need and structure—often called a gap analysis, or the "but for . . ." test—is the way to fulfill this requirement and allay the valid fears of elected officials.

Assessing fiscal impacts and community benefits. Just because a project has a financing gap does not mean it is worth executing as a partnership. The fiscal and community benefits also must be analyzed to ensure a positive cost/benefit balance, as well as that community needs are being met—a test against the very public policy goals that are the reason for the PPP. These public goals include direct tax benefits, lower public costs, creation of direct and indirect jobs, and often a community benefits agreement demonstrating the benefits and establishing a commitment to provide them.

Structuring the PPP. The financial and business structure of a PPP will vary according to the type of deal and the types of financing involved. In addition to financial tools, many nonfinancial tools exist as well, including rezoning, regulatory relief, and the waiving of fees and exactions, which can be employed before financial tools are used. Layered financing is typical, however, with many sources of such financing to fill the many gaps. For example, the Flats East Bank project in Cleveland—a $750 million waterfront redevelopment that includes an office tower, a hotel, residences, restaurants, and other uses—required more than 30 sources of financing to complete the capital stack.

In PPPs for developing facilities and infrastructure, the roles of fees, rents, tolls, fares, value capture, and others are all critical and must be prudently estimated in determining the structure of the deal.

Sharing risk and reward. One of the most contentious challenges to be overcome in a PPP is arriving at a mutually comfortable agreement on how to share risk and reward. The debate often focuses on the risks that the private sector is taking on the downside, while the public wants to share in the upside potential but not in that downside risk.

What the public sector is bringing to the transaction may be critical: public land brought in at market value justifies sharing if the project is a home run yielding prices to the developer significantly above those initially expected, for example. Construction cost savings on a project with public financing can be shared with the public sector partner while maintaining the developer's incentive to achieve those savings. At the same time, the developer (including facility and infrastructure entities) must deal with the requirements of its capital sources. On top of that, it is critical that the public sector acknowledge the downside risk and understand the plan for how that risk will be compensated.

To overcome these challenges, each party must thoroughly understand the transaction through the eyes of the other.

Documenting and monitoring deals. Finally, and perhaps most prosaically, all of this complexity and agreement must be properly documented and monitored. Because so many parties and so many elements are involved, this is not a simple matter, even if at the core a developer is simply buying a piece of public land.

Instead of a purchase-and-sale contract, there will be a redevelopment agreement that lays out everyone's commitments. (Often planned development and redevelopment approval are simultaneous.) The execution must be monitored, often imposing on public sector officials responsibilities they are not accustomed to carrying out and imposing on the developer an unfamiliar layer of additional scrutiny. To a developer unfamiliar with the process, the documentation and monitoring may seem quite unusual.

Why bother with something so complex as a public/private partnership? Because creating great places, healthy places, and sustainable communities requires infill redevelopment, more careful new development, and shared responsibility for facilities and infrastructure—all better achieved through public/private partnerships. The result is a better balance of public and private goals, greater efficiencies, greater rewards, and better development than can be achieved through traditional methods.

The Urban Land Institute

By Stephen Friedman and Clayton Gantz

April 20, 2017

Stephen B. Friedman *is president of SB Friedman Development Advisors in Chicago.* ***Clayton B. Gantz*** *is a partner at Manatt, Phelps & Phillips in San Francisco.*

Foreign Buyers Snapping up U.S. Muni Bonds, But Risks Exist for Clients.

Foreign investors are increasing their ownership of U.S. municipal bonds, according to Fed data. But should advisers be recommending muni investments to clients?

Not everyone is impressed with the muni market, or the increased participation of foreign buyers.

“It’s a late-cycle behavior,” says David Haraway, a principal at Substantial Financial, a planning firm in Colorado Springs, Colorado.

At the end of 2016, foreigners owned $106.4 billion in U.S. muni debt, up 32% from the end of 2014, according to the Fed data.

Continue reading.

Financial Planning

By Joseph Lisanti

April 21 2017, 10:30am EDT

[What The Return Of Nuclear Power Plant Construction Means For Municipal Investors.]

The builder constructing the first new nuclear power plants in the U.S. in more than 40 years recently filed for bankruptcy protection. What does this mean for the project’s completion, and, on a broader scale, the municipal market?

The U.S. nuclear power industry is currently comprised of 99 nuclear reactors in 30 states, supplying approximately 20% of the country’s electricity needs.1 These facilities are held by both investor-owned utilities and municipal or public power utilities. The public power utility sector as a whole is viewed as a relatively safe and secure sector of the municipal market due to the stable demand for electricity and the ability of public power utilities to recover cost burdens through electricity rate increases to customers.

A combination of factors, including nuclear accidents at Three Mile Island in 1979 and Chernobyl in 1986, health and safety concerns and cost overruns due to regulatory issues and construction delays, led to a discontinuation in nuclear plant construction in the U.S. for decades. Now, rising fossil fuel prices and concerns regarding greenhouse gas emissions over the past several years have fueled what many believed to be a nuclear renaissance in the U.S. and other countries around the globe.

Westinghouse’s role in nuclear renaissance

Westinghouse Electric Company, a subsidiary of Japan’s Toshiba Corporation and the largest builder of nuclear power plants in the world, is the lead construction contractor of the first nuclear plants to be built in the U.S. in nearly 40 years: Plant Vogtle in Georgia and Virgil C. Summer in South Carolina.

Substantial cost overruns and delays have led to massive financial losses for Westinghouse and the eventual Chapter 11 bankruptcy filing on March 29. The result is a heightened degree of uncertainty about the projects’ future and an increase in the perceived riskiness for municipal bonds and the public power utilities involved with the projects.

Bond issuers exposed to Westinghouse

Six municipal bond issuers have varying degrees of exposure to these nuclear projects.2 Given their ownership interests in the facilities, the following four municipal bond issuers have already incurred substantial costs and issued debt to finance the construction.

- South Carolina Public Service Authority (Santee Cooper) is 45% owner of the Summer project.
- Oglethorpe Power is 30% owner of the Vogtle project.
- Municipal Electric Authority of Georgia (MEAG) is 22.7% owner of Vogtle.
- City of Dalton, GA is 1.6% owner of Vogtle.

Since the following two issuers have agreed to purchase power, they may experience financial pressure as costs are passed along to all participants:

- Jacksonville Electric Authority (JEA) is a purchaser of Vogtle plant power under a 20-year contract that includes responsibility for construction cost overruns.
- PowerSouth is a purchaser of Vogtle plant power under a similar 20-year contract.

Who pays for cost overruns?

Prior to the Westinghouse bankruptcy filing, the various project owners benefited from a fixed-price construction contract provided by Westinghouse, thereby shielding the municipal utilities from substantial cost overruns. Westinghouse, however, is likely to reject this contract in bankruptcy court and attempt to shift the burden of future cost overruns to the project owners, with likely negative impacts to the credit quality and ratings of the various owners. The project owners benefit from a limited guarantee provided by Toshiba, but Toshiba's tentative financial footing calls into question the potential benefit of the guarantee.

To continue the project or not to continue

The public utility owners are now in the process of deciding whether or not to complete the project. The decision will impact the future cost burden, the need to raise additional debt and the magnitude of any future electricity rate increases to customers.

Municipal utilities benefit by having autonomous rate-setting ability, which means that the electricity rates the utilities charge to their residential, commercial and industrial customers are set by the utilities themselves and do not need approval from a regulatory body. Thus, plant construction cost overruns potentially can be recouped through higher electricity rates charged to customers.

This ability to raise rates fairly easily is one of the reasons public power is generally a high-quality, stable sector of the municipal market. Therefore, although the bond prices of the municipalities with exposure to these projects could further weaken, ultimate repayment is not likely to be an issue.

Bottom line

We believe that some credit ratings fallout from the Westinghouse bankruptcy is likely. However, we remain confident that the public power utility sector as a whole is a relatively safe and secure sector of the municipal market because of the stable demand for electricity and the ability of public power utilities to recover cost burdens through electricity rate increases to customers.

1. Source: Nuclear Energy Institute, 2016; https://www.nei.org/Knowledge-Center/Nuclea--Statistics/US-Nuclear-Power-Plants
2. Source: Barclays Municipal Research, April 2017

Article by Chad Farrington, CFA – Columbia Threadneedle Investments

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S&P: U.S. State And Local Governments Wait For The Economic Boost To Kick In

A coalescing of economic momentum underpins credit conditions for state and local governments as of early in the second quarter. Any upside implications of the outlook, however, are tempered by elevated risk stemming from political and policy-based uncertainty emanating from Washington D.C., in S&P Global Ratings' view. Our baseline economic forecast anticipates real GDP will expand at a moderately paced 2.3% during 2017 and 2.4% in 2018. Additionally, we place the odds of a recession occurring over the next year at a less than likely 20% to 25%. As in recent years, we estimate that growth in the first quarter was slow at 1.6%, coming off a somewhat disappointing 2.1% growth rate in the fourth quarter of 2016. While economic growth was slower than expected in late 2016 and early 2017 and has weighed on state tax revenue trends, we believe the sluggishness could give way to somewhat faster collections in fiscal 2018.

Overview

- Economic growth will accelerate but remain around 2.0%;
- Tighter labor markets should lead to rising wages;
- State tax revenue collections should gather momentum, but an equity market correction is a key risk;
- The West South Central region will have the fastest growth, and New England the slowest.

Continue reading.

18-Apr-2017

P3 Digest: April 18, 2017

Read the Digest.

National Center for Public Private Partnerships

Bankable Construction Contracts In P3 Projects: Dentons

Interest in the public private partnership project model (PPP) has increased in recent years as governments look to alternative procurement methods to address their growing infrastructure gaps. The broad concept of PPP is becoming increasingly understood across the world; however, more work is required in understanding the key factors that make a PPP successful. One such factor is ensuring that the PPP project is a "bankable" project.

"Bankability" refers to the overall structure of a project being such that lenders are prepared to finance it. As lenders fund the vast majority of capital required to undertake projects (in some cases, up to 90 per cent of required capital), bankability is of critical importance during the project structuring phase.

In addition, PPP projects are unique to other more traditional procurement methods, as financing by lenders depends heavily on the ability of the project to repay lenders' loans. Therefore lenders have a very close eye on the structuring of the project, including all project agreements (and not just the financing agreements). Put simply, if the parties are unable to find a bankable structure, the project will not proceed.

Download the PDF report to read the complete issue.

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Article by Neil Cuthbert and Atif Choudhary

Last Updated: April 19 2017

Dentons

A New Look for Urban Utility Structures.

As hiding eyesores gets harder, there's more need to get creative with utilitarian facilities and integrate them with their surroundings

Utility and public-works structures in cities traditionally have a pretty uniform reputation: They're ugly.

But a new generation of projects are being designed to weave infrastructure into cities' social fabric, offering amenities and standing as works of public art.

More than half of the world's population lives in urban areas, and by 2050 almost two-thirds of people will be city dwellers, according to the World Health Organization. As cities become more densely populated and land becomes scarcer, it's harder to hide eyesores.

So, there's more impetus to get creative with utilitarian facilities and integrate them with public spaces and neighborhoods.

"Development pressure in American cities today doesn't allow for continuing the old model of single-use infrastructure that isn't designed to be compatible with other uses," says Marie Law Adams, principal architect in the Boston firm Landing Studio and a lecturer in the department of urban studies at the Massachusetts Institute of Technology. "There's not only less space available as old industrial edges of cities become redeveloped, but there's also more of an expectation that infrastructure projects…also contribute to a better public realm experience through their design."

Here's a look at some of the new projects.

Continue reading.

The Wall Street Journal

By Barbara Sadick

Updated April 14, 2017 10:31 a.m. ET

States and Cities in Power Struggle Over Local Laws.

States are stepping up a push to rein in the power of local governments to make laws.

Politicians in Florida, Texas and Pennsylvania are backing broad-based approaches to block city ordinances, rather than fighting cities on specific issues like minimum-wage rules. Arizona passed such a law last year that is currently being tested in the courts.

Proponents say these wide-ranging bills are a way to get ahead of a flurry of local actions around the country, such as a plastic-bag levy in New York City, a paid sick-leave requirement in Philadelphia and ride-sharing regulations affecting companies such as Uber.

These municipal-level measures create a regulatory patchwork that can make it costlier to do business, hampering growth, according to state lawmakers seeking to override them.

But many mayors say the lawmakers, usually Republicans, are simply waging an ever-more aggressive campaign to override local control of cities.

"We're elected by the people," said Carol McCormack, mayor of Palm Shores, Fla., a town of roughly 1,100 people, and president of the Florida League of Mayors. "Our residents expect us to create a safe and healthy environment for us to live in."

Republican Florida state Rep. Randy Fine, who proposed a broad-based law earlier this year, argues that the state is the nexus of government in Florida. Mr. Fine said he isn't targeting any specific issue with his bill, which would pre-empt and prohibit local business regulations that aren't authorized by state law.

"We're simply trying to rein in some of that regulatory abuse," said Mr. Fine. "We end up spending a lot of time in the legislature dealing with these one-off issues."

At its core, the debate—which stretches back to the 19th century—revolves around whether states or cities ultimately control local governance. Legal experts say that while each situation is different, generally cities in most states can legislate only in the gaps between state laws, and tend to lose when their policies are in direct conflict.

"State supreme courts are very reluctant to set aside state law in favor of local law," said Roderick Hills, a law professor at New York University who studies pre-emption.

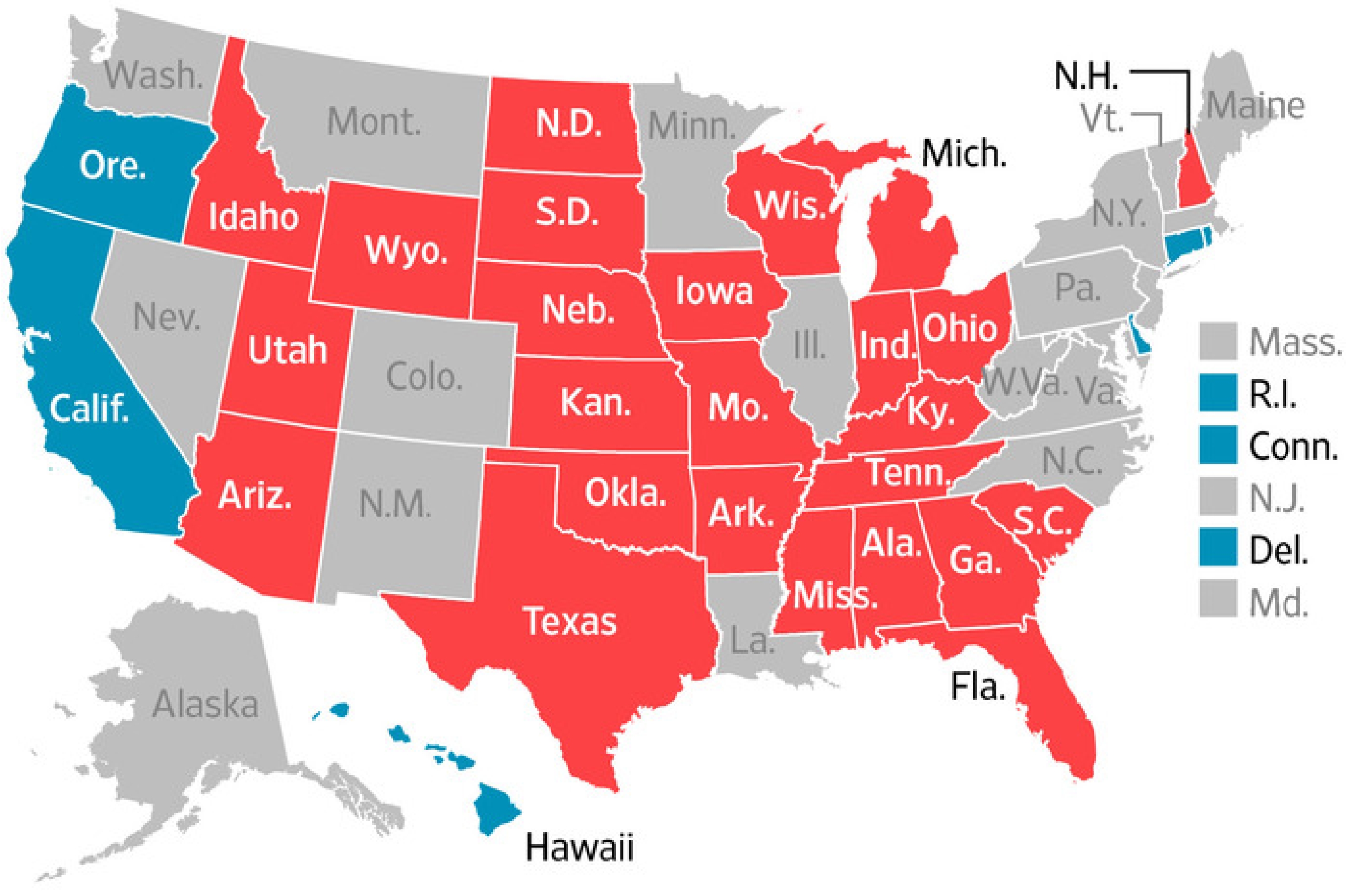
The fault lines aren't always political: Lawmakers in New York, which has a Democratic governor and Democratic-led House, passed a bill in February to halt a planned five-cent fee on plastic shopping bags in New York City, which has a Democratic mayor.

One-Party Control

Republicans significantly outpace Democrats when it comes to single-party control of state governments.

One party controls governor's office, senate and house

Democratic control Republican control



Note: Nebraska has a unicameral legislature that is officially nonpartisan but based off of lawmakers' voter registration, Republicans hold the advantage.
Source: ballotpedia.org

THE WALL STREET JOURNAL

But opposing politics are often in play. Republicans control both the legislatures and governors' offices in 25 states, compared with just six for the Democrats. Democrats, however, remain dominant at the local level, with mayors from the party running two-thirds of the nation's 100 largest cities, according to nonpartisan Ballotpedia.

There is also rising tension between many Democratic-led cities and the Republican Trump administration, which is seeking to withhold funding to cities that protect undocumented immigrants from federal prosecution.

One of the biggest recent pre-emption showdowns took place in North Carolina, where the Republican-led legislature passed a law last year that overrode a Charlotte ordinance and said transgender people must use the public-facility bathrooms associated with their birth sex. State lawmakers there recently repealed the measure, but with a block on local bathroom regulations until late 2020.

Supporters of state-level pre-emption measures say they are needed to assert states' authority and stop cities from creating uneven regulations that scare off businesses. The states are reacting to increasingly aggressive pushes for local rules, said Ben Wilterdink, director of the commerce, insurance and economic-development task force at the American Legislative Exchange Council, which says it is dedicated to limited government, free markets and federalism.

In Texas, Republican Gov. Greg Abbott said local-level rules can raise costs while restraining growth for businesses and driving up prices for customers.

A number of bills in the Texas legislature aim to override local rules on specific issues. But it would be simpler and easier for businesses if the state adopted "an overriding policy," Mr. Abbott said during a recent address at a Texas Conservative Coalition Research Institute event. He didn't mention any specific bill.

In Pennsylvania, Republican state Rep. Seth Grove said he decided to aim wider with a bill restricting employer mandates in cities after introducing two unsuccessful bills that would pre-empt paid-leave ordinances like the one in Philadelphia.

"Instead of us constantly chasing it, why don't we lock it down and be done with it," he said.

A high-profile battle is playing out in Arizona, where the state's Supreme Court is considering whether state law should displace a Tucson ordinance authorizing city police to destroy firearms obtained in the course of law enforcement.

The case is the first test for a 2016 Arizona law—seen by critics as among the most extreme pre-emption laws in the nation—that requires municipalities to rescind ordinances found in conflict with state law or face the loss of state funding.

"Our purpose is not to punish the city," said Attorney General Mark Brnovich, a Republican. "It's to ensure the cities are in compliance with state law."

Tucson has asked the court to strike down the law, arguing it violates the independence guaranteed to local government by the Arizona Constitution.

If legislators "from other parts of the state get to dictate how their city is run, then those city voters have effectively been disenfranchised," said Tucson Mayor Jonathan Rothschild, a Democrat.

The Wall Street Journal

By Jon Kamp and Joe Palazzolo

April 12, 2017 7:00 a.m. ET

Write to Jon Kamp at jon.kamp@wsj.com and Joe Palazzolo at joe.palazzolo@wsj.com

Bloomberg Brief Weekly Video - 04/12

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

Watch the video.

Bloomberg

April 12, 2017

Wells Fargo, Banned From Bond Work, Wins California Deal Anyway.

- State law allowed bank to win with best price in an auction
- Wells Fargo was sanctioned over fake accounts scandal

California's suspension of Wells Fargo & Co. from investment work hasn't completely prevented the beleaguered bank from underwriting the state's bonds.

Wells Fargo submitted the lowest competitive bid Wednesday to sell $636 million of California general obligations. The 12-month ban imposed in September by State Treasurer John Chiang applies to negotiated sales, in which the underwriters are picked in advance. State law requires Chiang to accept the lowest bid submitted at an auction.

"We were pleased with the price that they offered," said Marc Lifsher, a spokesman for Chiang. "It doesn't reflect our feelings about their behavior toward their customers."

Yields on the bonds, which refinanced higher-cost debt, ranged from 0.81 percent for securities maturing in August to 2.66 percent for those due in 2030, data compiled by Bloomberg show. Five-year bonds were priced 0.07 percentage point over benchmark securities, a lower premium than the 0.16 percentage point demanded on similar maturities sold in March.

In evaluating the market and the liquidity of California bonds, Wells Fargo bankers decided to "be aggressive, put our best foot forward for the state and save them money," said Parks Lineberger, a director who worked on the deal. "This shows our commitment to the state."

Federal regulators announced in September that Wells Fargo employees had opened potentially 2 million unauthorized accounts. The scandal has led to fines, firings, claw backs of bonuses, lawsuits and lost business with municipal governments.

Bloomberg Markets

by Romy Varghese

April 12, 2017, 11:32 AM PDT

Don't Mess Around With Government Pensions.

No one likes making pension fund payments. You have to take money that you could be enjoying right now, and hand it over to some stranger, in the hopes that decades hence, when you're ready to retire, said stranger will hand it back to you and enable to live out your golden years in reasonable comfort. The connection between sacrifice and reward is, let us say, a little too distant for proper enjoyment.

You know who likes pension funds payments the least of all? Taxpayers. Because they're not even sacrificing for their own retirements, but so that someone else can enjoy a comfortable old age.

Naturally, this leads to a lot of wrangling. And the nature of this wrangling is that most of it will be, to the average taxpayer, insanely boring: knock-down drag-out fights over financial arcana such as "discount rates" and "funding ratios." This tends to sound, to your average person of normal interests and intelligence, like the adults talking in a Charlie Brown cartoon.

Unfortunately, no matter how boring and technical this stuff sounds, it matters. Getting these boring, technical details right is how we ensure that pensioners do not, suddenly and for no apparent reason, find themselves without their long-awaited pension check. And that taxpayers do not find that their taxes have, suddenly and for no apparent reason, risen to levels they cannot afford.

Nonetheless, there will always be a constituency arguing for a more optimistic assessment of how to sacrifice less now and still meet future obligations. Sometimes that even includes the folks getting the pensions.

The political left often prefers a looser (and therefore riskier) standard, because the more conservative the method you use to value the liabilities, the more the government has to put into the fund right now. This makes generous pension benefits seem more expensive to current taxpayers, lessening support for them. The stricter standards also limit the government's ability to spend money right now on stuff the left wants to do. Thus, those of us who think that a conservative standard is the correct one, periodically end up contending with a new report that brightly suggests that everything would be much better if we fiddled with the accounting standards to lower the amount we require governments to contribute.

One recent installment in this perennial debate comes out of Berkeley's Haas Institute for a Fair and Inclusive Society. The author, Tom Sgouros, has a background in public finance, and his arguments are careful and mathematically literate. Nonetheless, I find them unconvincing.

I favor a conservative approach, and I mean "conservative" in the accounting, rather than the political sense. To err on the side of caution. And why should we be cautious? So we can make darned sure that workers get what they're owed.

Sgouros agrees, in fact, that such conservative standards are the correct approach for valuing private-sector pension contributions, in case the business goes bust and the pension needs to stand on its own. But he says that governments are different, because they can't go out of business. In other words, government pensions are less risky, so they don't need such strict standards.

This is … sort of true. A government pension plan can, in theory, operate underfunded forever — as long as the tax base and the workforce are growing faster than their current pension liability.

It's not quite true that governments are permanent. But if the U.S. government has gone down and

Illinois is just a name in the history books, the status of the state teachers' pension fund is probably going to be the least of everyone's worries.

In less extreme scenarios, government finances are ultimately constrained by the much-maligned Laffer Curve. There is some point, however high the percentage, beyond which raising the tax rate not only doesn't bring in more revenue, but actually lowers government income. And the smaller the level of government, the lower the tax rate at which Laffer effects kick in. If your block had the ability to levy a 25 percent tax on your income, and actually did so, you'd sell your house pretty quick. It's much harder to pick up and move to another country. We also have to factor in the fact that, in a democracy, voters can go to the polls and say "no more," which is a sort of secondary Laffer point that people planning in decades have to reckon with.

Cities tend to declare bankruptcy precisely because they're near one of those points, through some combination of financial mismanagement and local economic decline. When they have exhausted their ability to borrow, or wheedle bailouts out of some larger government entity, they end up with an unpalatable choice between cutting municipal services or failing their creditors — of which the future beneficiaries of an underfunded pension plan are one.

But even if you argue that the ability of governments to tax is greater and more flexible than I credit, that doesn't suggest we can do away with conservative accounting standards for government pensions. We need them more than ever.

If you argue that government pensions don't need huge assets on hand, because they have more protection in the form of an unlimited claim on taxpayer wallets, then you need to add a stakeholder to the pension calculation: the taxpayer.

Those taxpayers have a right to decide how much they're willing to spend on the people employed by their municipality or state. Hiding the true cost of that compensation by lowering the pension funding requirements — while simultaneously relying on an unpriced, undisclosed call option on their future earnings to make the math work — is both unfair and undemocratic.

There's one more reason that we should use a conservative standard: It increases the amount of money we have to put in right now, but it lowers the amount that has to be put in over time. Compound investment returns are a powerful force, one that, over decades, can dramatically reduce the percentage of salaries and taxes that have to be devoted to the pension system. Forgoing those gains because they require political pain now is a mistake.

Most state and local pension plans are not at a point where they'd have to cut benefits tomorrow, and few of them will be in that situation in the near future. But the whole point of a pension is to allow people to know that they'll be secure decades from now, when things may be very different.

Which means that the people in charge of the pension should be planning for that, not saying "Well, the taxpayer of tomorrow will figure out some way to make the numbers work." Current contributions should be invested to cover the future benefits for current workers; future contributions should be devoted to the workers who make them. And no one should be relying on future taxpayers to bail them out of a jam, not least because there's no way to know if they'll be able to.

This isn't a liberal or a conservative idea. It's the basic common-sense reasoning of people who want to make sure they can pay their bills.

Bloomberg View

by Megan McArdle

April 11, 2017

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Australia's Biggest Pension Fund Eyes U.S. Infrastructure.

- AustralianSuper prefers assets such as toll roads, airports
- Could be four years before money committed, Delaney says

President Donald Trump's plan to fix America's crumbling infrastructure with $1 trillion of private and public investment over a decade is drawing interest from 10,000 miles away.

AustralianSuper Pty, Australia's biggest pension fund with over A$100 billion ($75 billion) in assets, is eyeing the U.S. market for infrastructure debt and equity investment prospects, said Mark Delaney, its Melbourne-based chief investment officer.

"Anyone who has traveled to the U.S. would say there are aspects of the infrastructure that could do with updating," he said in an interview. While the fund is somewhat cautious on valuations, "if there are additional infrastructure opportunities available, we will certainly look at them," he said.

The U.S. faces a $1.4 trillion infrastructure funding shortfall in the period from 2016 to 2025, according to estimates by The American Society of Civil Engineers. Without improvement, the U.S. will lose $3.9 trillion in economic output by 2025, ASCE data show. There are signs that, at least globally, infrastructure is becoming more appealing after investors thirsting for stable income pumped a record $413 billion into the asset class last year, according to data provider Preqin.

At the same time, the lack of detail in Trump's plans is tempering interest both in Australia and elsewhere. Public private partnerships are evolving slowly in the U.S and account for less than 5 percent of infrastructure investment, according to data from Bloomberg Intelligence.

Much of the U.S.'s infrastructure assets are held on government balance sheets and funded out of the municipal bond market, making it difficult for funds to get involved. Sam Pollock, head of Brookfield Asset Management Inc.'s infrastructure group, told Bloomberg in March that the amount of red tape involved, modest equity required and small returns would act as a deterrent.

More Deals

Delaney said with the shape of any new U.S. infrastructure program still unclear, it could easily be three or four years before actual dollars are committed, but he was clear about what assets are of interest: “We have a preference for less volatile assets: toll roads, airports or things like that.”

AustralianSuper has historically partnered with other investors to buy infrastructure assets. Last year, in conjunction with IFM Investors Pty, the fund bought a A$6 billion stake in the New South Wales state power network Ausgrid and this is “an approach we want to follow in North America,” Delaney said. AustralianSuper has about A$9.14 billion, or just under 10 percent of its investment portfolio, in infrastructure assets, according to its 2015-2016 annual report.

The fund is not alone in its appetite for infrastructure investments. AMP Capital Investors Ltd., one of Australia’s biggest money managers, has said Asian pension funds and insurers are ramping up investments in infrastructure debt globally as they seek to combat waning returns from traditional fixed income assets.

Michael Hanna, head of Australian infrastructure at IFM Investors, expects there will be significant opportunities in the U.S. “The infrastructure deficit in the U.S. is quite extraordinary,’’ he said by telephone. Since Trump’s election, there had been very strong interest in IFM’s funds from both new and existing investors, and “everyone’s feeling more positive about there being more deals in the U.S. space,” he said.

Australia’s pension fund industry collectively sits on A$2.2 trillion of assets, making it the fourth largest in the world. The wall of money means the funds are increasingly looking for global opportunities. “The big drivers of the portfolio are based outside of Australia,’’ Delaney said.

Bloomberg

by Emily Cadman and Ruth Liew

April 10, 2017, 11:00 AM PDT April 10, 2017, 5:56 PM PDT

Pay to Play? Hardly.

Pennsylvania is going with passive funds. That was the message this week from State Treasurer Joe Torsella, who says he plans to move the state’s $1 billion in actively managed public equity (stock) funds over to index funds within six months.

Index, or passive, funds are known for their lower fees and lower volatility. Rather than managed by a trader, these funds are built using computer models that are designed to mimic the performance of stock indexes like the S&P 500. Torsella expects the shift to save at least $5 million a year in fees.

The treasurer’s announcement is part of an effort to return faith in the office after his predecessor left in disgrace amid a pay-to-play scandal. Former Treasurer Rob McCord pleaded guilty in 2015 to federal charges that he used his office to influence future investment deals and other contracts as a way raise cash for a failed gubernatorial bid.

The Takeaway: The decision to switch to passively managed funds and save money on fees is a growing trend among large investors. Nevada’s $35-billion pension plan, for instance, has long embraced the strategy. And within Pennsylvania, the $509-million Montgomery County Employees Retirement Plan shifted most of its investments to index funds in 2013. So far, the plan has out-performed the state’s pension plan — and at a far lower cost.

While Torsella's announcement is ostensibly about the state's own investments, it raises the possibility that the treasurer will push for a similar shift in the state's troubled pension funds. If he does, he'll have to get a consensus: Pennsylvania's pension funds are controlled by boards.

Either way, Torsella said of the decision: "We shouldn't treat investing public funds like a casino game, trying to 'beat' the market, and paying casino prices to do it."

GOVERNING.COM

BY LIZ FARMER | APRIL 14, 2017

[The Week in Public Finance: Pay to Play, High Investment Fees and the Small Business Credit Crunch]()

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

GOVERNING.COM

BY LIZ FARMER | APRIL 14, 2017

[The Worst Idea in Government Management: Pay for Performance.]()

It hasn't worked that well in business. In the public sector, it has sometimes been disastrous.

I started paying attention to business management in the late 1970s, and my timing could not have been better. I saw all the business fads of the late 20th century paraded before me, from "management by objectives," "Theory Z" and "in search of excellence" through "reengineering the corporation," "good to great" and "Six Sigma." At one point I wondered, are all these management theories actually the same ideas with new titles?

The fads seemed harmless enough — and may have been useful if they encouraged executives to think about their businesses in new ways. But one struck me, then and now, as dangerous. And that was "pay for performance." Even more frightening, it has made its way into government, with terrible consequences.

In one sense, there's nothing new about paying people for performance. Factories have long paid for "piece work" — that is, for each unit a worker turns out. Salespeople often receive commissions, which are a share of each sale. And if you tip a waiter, a hair stylist or a parking attendant, you're paying for performance.

But extending this idea to employees who work not as individuals but as team members and are involved in complex tasks and not simple, easy-to-measure transactions is a new idea. Like a lot of bad new ideas, it came out of Wall Street.

It began with CEO pay, which Wall Street wanted tied to stock appreciation. If you want to know how executive pay became so grotesque with so little to show for it, that's the reason. But why stop with CEOs? In the 1980s and '90s the idea trickled down in corporations, aided by an army of consultants. It was easy to see the appeal. Employers wanted their staffs to work harder with better results. They wanted to hold on to the best workers and didn't mind if the others left. And if pay — in the form of incentives for performance — could do all that, why not use it?

There's just one problem: It doesn't work in the way you'd think. Oh, it produces results all right; but some can be downright destructive.

Consider the Wells Fargo scandal that became public last year. The bank set goals for its customer-service representatives that most people considered unrealistic. One was to "close" (that is, sell) 20 new bank accounts a day. And one way was by convincing existing customers to set up at least eight separate accounts with the bank-checking, savings, credit cards, mortgage and so on. (The CEO had a phrase for it: "Eight is great!")

You can probably guess how this turned out. To keep their jobs and earn bonuses, employees began opening accounts for customers without their knowledge. And not a few rogue employees; thousands were involved in the fraud.

That's a problem in a high-pressure environment like a bank. But it couldn't happen in a government, could it? Well, it has happened. The Atlanta public schools' test-cheating scandal of 2009 began when the superintendent announced that she would measure principals' performance by their schools' progress in standardized tests. For years this strict-accountability approach brought extraordinary gains in test scores — until it became known that some principals and teachers were changing their students' answers in what were called "erasure parties."

It happens once in a while in police departments, too, when a zealous chief decides there ought to be a quota for traffic tickets. ("Eight is great!" or something like that.) Predictably, cops start writing tickets just to meet the quota. Not exactly a formula for great police-community relations.

If setting quotas and paying for performance can turn into a disaster, then how should we think about compensation and motivation? Here's the sensible alternative:

• Pay employees a fair wage that compensates them for their skills, experience and education.

• Encourage teams to set their own measures of performance, ones that they will commit to meeting or exceeding.

• If you feel compelled to offer bonuses for superior performance, award them to the teams and not individuals.

• Understand that there are other motivations that drive people to work smarter and harder. You'll find that, once employees have reached a livable wage, personal pride and the esteem of colleagues and superiors work as well as bonuses with none of the disastrous side effects.

In other words, if you want people to perform complex tasks and do so at a high level, don't cheapen their work with simple measurements and simple-minded rewards. Try coaching, praise, promotions — and maybe a simple "thank you."

GOVERNING.COM

BY OTIS WHITE | APRIL 12, 2017

Public Finance Expert: Pension Costs 'Squeeze Governments.'

Those who are looking closely at how state and municipal governments handle pension costs know the problem is going to require some creativity.

“Whatever share (of budgets) these pension costs are currently making up … it’s likely to increase” Gabriel Petek told *Chicago City Wire*. Petek is a managing director and sector leader in the U.S. Public Finance States group at S&P Global Ratings in San Francisco.

He said city and state officials are looking anywhere they can to balance finances under pressure.

“Governments will have to make cuts elsewhere,” Petek said.

S&P Global Ratings, which measures the creditworthiness of states and municipalities, has observed “a profound shift unfolding” in states where pension system funding is in distress, Petek wrote for The Hill, specifically citing Illinois, Kentucky and New Jersey.

“The pervasiveness of budget pressures in these and other states is inconsistent with a mature national economic expansion and signals real credit stress,” Petek wrote. “Our recent negative rating actions on several states’ debt reflect this. Since January 2016, we have issued 11 state credit rating downgrades and just two upgrades.”

A 2016 report calculated that Illinois’ pension debt reached $130 billion last year – a 17 percent increase from 2015 – and account for more than a quarter of the state’s annual budget, according to the Commission on Government Forecasting Accountability.

The combined total cost of unfunded debt related to local and state government retirement commitments is more than $267 billion, the Illinois Policy Institute reported in March.

Whether Republican Gov. Bruce Rauner and legislators in both parties and local government officials succeed in tackling pension problems will likely depend on whether officials adopt the try-everything approach that experts like Petek suggest may lead them out of the debt wilderness.

For example, Petek said, some governments are holding off on infrastructure investments or changing how they invest in higher education. As states cut funding to colleges and universities, higher education administrators can respond by adjusting tuition or changing the financing of programs.

Reducing existing pension benefits could give taxpayers some relief, Petek said. That would be good for Illinois resident. The Illinois Policy Institute report calculated that the rise in unfunded pension-related debt shakes out to $56,000 per household in added future taxes.

“It’s easier said than done,” Petek said.

That’s because cutting spending can be complicated. Many parts of state budgets are dictated by law. Others, like cutting contributions to secondary education, pose other challenges.

“It’s a sensitive part of the budget to cut,” he said of school funding.

In general, he said, governments are looking in every corner for programs that can be cut, or other ways to decrease deficits in ways that won’t enrage constituents.

“That’s the tension that we see playing out,” Petek said. “It will squeeze governments.”

Chicago City Wire

Justin Stoltzfus | Apr 14, 2017

Investors Warm to ‘Green Bonds’

Popular in Europe, the do-good debt is growing in the U.S., too—part of the mainstream acceptance of sustainable investing

Some $150 billion of green bonds are expected to be issued this year, compared with just $3 billion 2012.

“Green bond” issuance is growing fast, part of the overall trend of do-good investments becoming more popular. And U.S. fund companies are looking to tap into investor demand for these bonds, which finance environmentally friendly projects from green infrastructure and real-estate development to energy-efficiency initiatives.

About $81 billion of green bonds were issued last year, according to the Climate Bonds Initiative, a nonprofit that promotes the debt market as a way to raise money for projects related to climate change. It expects $150 billion of green bonds to be issued this year, compared with just $3 billion were issued in 2012. These figures cover “labeled” green bonds, meaning they have been reviewed externally and meet certain definitions, including those of the Climate Bonds Initiative.

A range of private and government organizations have issued green bonds, from Apple Inc. AAPL 0.55% and Toyota Motor Corp. TM 1.86% to municipalities, New York’s Metropolitan Transportation Authority and the governments of France and Poland. They have proved popular with investors, with most of the issues oversubscribed, according to the Climate Bonds Initiative. “These are no longer niche investments,” says Neena Mishra, director of ETF research at Zacks Investment Research.

The growth of the market has sparked interest from fund companies, with the first U.S.-listed exchange-traded fund focused on green bonds—the VanEck Vectors Green Bond ETF (GRNB)—launched in March.

The ETF was launched to meet growing investor demand for environmentally focused products, says Edward Lopez, head of ETF product management at VanEck, an investment-management firm based in New York. The green-bond market has grown large enough in recent years to allow for an ETF to be listed, he says.

The fund tracks the S&P Green Bond Select Index, which was launched by S&P Dow Jones Indices last month to track the most liquid segment of the broader S&P Green Bond Index.

The S&P Green Bond Index had an annualized return of negative 0.81% over the five years through the end of March, compared with negative 0.39% for its parent index, the S&P Global Aggregate Developed ex-Collateralized Index, which tracks the performance of a broad range of investment-grade debt around the world.

The VanEck ETF was launched on the heels of the Mirova Global Green Bond fund (MGGYX), a mutual fund that launched in late February. Mirova, a subsidiary of Natixis Asset Management that focuses on sustainable investment, had already launched a green-bond fund in Europe, the Mirova Green Bond-Global fund.

In demand

"Both institutional plan sponsors and wealth-management advisers are hearing demands from their participants and clients for investments with positive impact," says Kenneth St. Amand, vice president and client portfolio manager at Mirova, explaining the impetus behind the Mirova funds.

The two new U.S.-listed funds join Calvert Green Bond fund (CGAFX), a $74 million mutual fund that was launched in October 2013 by Calvert Investments, one of the original sustainable-investing firms.

The Calvert fund takes a broad approach, investing both in labeled green bonds and in the bonds of companies it considers to be leaders on environmental issues. For example, the fund will buy any bond issued by Apple—even if a bond doesn't finance an environmentally friendly project—because of the tech giant's efforts to reduce its carbon footprint, says Vishal Khanduja, the fund's portfolio manager.

However, the fund's makeup has changed over the years, Mr. Khanduja says. The percentage represented by green bonds has increased with the growth in their issuance, so that they now account for more than half of the fund's assets.

Bigger in Europe

The U.S. is behind Europe in the listing of green-bond funds; there are several in Europe that aren't open to U.S. investors. That includes the Lyxor Green Bond UCITS ETF, launched in late February by Lyxor Asset Management, part of the Paris-based Société Générale Group , which just beat VanEck's GRNB as the world's first green-bond ETF.

There are numerous Europe-based mutual funds focused on green bonds, including the Allianz Green Bond fund, the AXA WF Planet Bonds fund and NN Investment Partners' NN (L) Euro Green Bond fund. BlackRock Inc. BLK 1.27% launched a Europe-listed Green Bond Index fund in March, while State Street Corp.'s STT 1.53% State Street Global Advisors operates the State Street Global Green Bond Index fund in Europe.

Europe has shown greater interest in the green-bond market than the U.S., in terms of both issuance and investor demand, says Chris McKnett, head of State Street Global Advisor's global environmental, social and governance, or ESG, investments business.

He points to several reasons, including the relatively early issuance of green bonds on the continent by organizations like the European Investment Bank in 2007 and the World Bank in 2008, which helped foster an investor base.

About 37% of the green bonds outstanding, by face value, are denominated in euros, according to the Climate Bonds Initiative, the most for any currency.

Mr. McKnett says that bodes well for the market's further development there, because potential issuers will be confident the market can support new supply.

Still, the number of U.S. dollar-denominated green bonds has grown quickly over the past year or so, and they now account for 36% of the global total.

Mr. McKnett says State Street would consider launching a U.S. fund, “given the increasing level of awareness and burgeoning state of the market.”

Brown Advisory, an investment-management company based in Baltimore, is aiming to launch a mutual fund focused on green bonds before the end of this year, says Thomas Graff, head of fixed income.

Brown Advisory currently includes green bonds in a number of the accounts it manages for it clients. “I believe that more and more investors are going to be thinking about sustainability issues,” Mr. Graff says.

Broader choices

One potential drawback of mutual funds and ETFs focused on green bonds is that they still have a relatively narrow universe to choose from, despite the recent growth of the market, says Jon Hale, head of sustainability research at fund tracker Morningstar Inc.

There are other funds that take a broader approach and therefore have a greater range of bonds to choose from, while retaining an ESG theme, Mr. Hale says. He points to the TIAA-CREF Social Choice Bond Fund (TSBRX), a $1.1 billion fund that invests primarily in intermediate-term investment-grade bonds that meet certain ESG criteria, in areas from affordable housing to renewable energy.

Still, the green-bond market looks set to continue growing, and the new mutual funds and ETFs are crucial in opening access to individual investors, as well as raising the profile of climate change as an issue, says Sean Kidney, chief executive of the Climate Bonds Initiative.

“Once you own a green bond, you also start engaging with the whole issue,” he says. “You start thinking ‘There are solutions, I can do something.’ ”

The Wall Street Journal

By Gerrard Cowan

Updated April 9, 2017 10:56 p.m. ET

Mr. Cowan is a writer in Northern Ireland. He can be reached at reports@wsj.com.

[P3s and the $90 Trillion Infrastructure Need.]

As global populations migrate towards cities, the need for new infrastructure has become more urgent. Oil and commodity producing countries, such as Brazil, Colombia and Peru, as well as Gulf Cooperation Council countries like Dubai, Qatar and Saudi Arabia are looking to build new roads, railways, ports, water, and power facilities as part of broader strategies for driving economic growth in non-oil sectors. At the same time, US President Donald Trump swept to power promising to spend $1 trillion on new bridges, roads, tunnels, sewers, water systems and dams to stimulate economic growth and employment — and rejuvenate creaking infrastructure.

According to the McKinsey Global Institute, from 2015 to 2030, global demand for new infrastructure could amount to more than $90 trillion. But who is going to fund these new projects?

Low oil prices have left the aforementioned Latin American and GCC countries with depleted government coffers. And the US Congress is unlikely to support the hefty increases in federal spending required to fully fund President Trump's ambitious infrastructure plans. This can already be seen with talk of federal funding cuts for mass transit projects in Silicon Valley and the new Hudson River tunnel.

The Trump administration also proposes scrapping the federal Department of Housing and Urban Development's Community Development Block Grant program, which many cities and towns across America rely on to fund housing, education and other public infrastructure. This creates a funding gap that must be addressed.

McKinsey estimates that $7.7 trillion will need to be found annually for the next 15 years to pay for additional global infrastructure needs. With the public sector unable or unwilling to shoulder total financial responsibility for all of this much-needed infrastructure investment, due to budgetary constraints and other considerations, some of the financial risk and burden is likely to shift to the private sector.

A recent study by the Brookings Institution in the U.S. found that Public-Private Partnerships (P3s) are "integral to the overall capital investment and infrastructure strategy of the nation." However, P3s are still a relatively small component of overall infrastructure investment, and are not as well established as other forms of infrastructure development.

Most public infrastructure in the US is financed either in the form of government appropriation — which does not include a mark-up for risk in the case of a default or cost overrun — or municipal bonds, which offer low rates of interest and are subsidized through tax exemptions. According to the Brookings Institution, from 1985 to 2011, there were just 377 P3s in the US, which constituted a mere 9% of total infrastructure P3 nominal costs around the world.

P3s, wherein private investors finance and build public infrastructure in exchange for a relatively decent inflation-linked return on their investment, are gaining in popularity. Greater private-sector investment in public roads, bridges and railways — among other projects — is likely to be welcomed by lenders and/or the financial markets. Private investors have more to lose if a project fails or goes over budget, as they have more "skin in the game." They often bring greater cost discipline to a project than the public sector and are less inclined to invest in "pet projects" that curry favor with the voting public and require a disciplined approach during construction.

Other benefits of P3s include: committed financing during the construction period — and frequently during the bid phase of projects; the inclusion of experienced Project Finance banks, who will carefully consider the feasibility of a project and help develop a financing structure that works. This is in addition to providing financing for such projects using their balance sheets and via capital markets. Private investors can also help when it comes to dealing with construction, regulatory issues and managing the entire group of lenders to a project.

In general, private investment can bring greater investment rigor and scrutiny to infrastructure projects. Depending on how the partnership is structured, the private sector takes on part or all of the commercial/market risk of a project. However, that does not mean that the government loses control or ownership over the project and its assets. But in contrast to many tax-exempted financing structures, it protects the users from unexpected toll increases, as the rate mechanism is typically inflation indexed for P3s, whereas tax-exempted transactions have a rate covenant, which can force a substantial increase in tolls when needed. At the same time, private investment generates taxable income, whereas the municipal market offers tax subsidies.

The commonly-held assumption is that infrastructure projects with a high level of financial involvement from governments are more likely to appeal to private investors. While this helps mitigate demand risk (i.e. revenue risk) and development risk, it can also create political and regulatory risk. Investors may, in fact, prefer to invest in projects that are less regulated, or where government involvement is not overbearing.

However, there still needs to be a determination that the private sector can build the project and run it at a lower all-in long-term cost than the state could, or at least deliver the project faster than a Public procurement. Private investors may have more "skin in the game" (equity risk), which is a strong incentive, but that doesn't guarantee high quality, efficient infrastructure development that benefits the public.

Governments should not assume that P3s will save the public money without proper structuring. After all, private investors are in it to make a profit. And although average cost overruns for P3 schemes are below that of "traditionally procured" projects, to help mitigate against any unanticipated delays, events, cost overruns or unplanned risks, a clear contractual framework with the appropriate protocols needs to be put in place before a project begins.

The Bond Buyer Commentary

by Willem Sutherland

April 12 2017, 10:33am EDT

Willem Sutherland is managing director and head of infrastructure finance, Americas, at ING.

The Muni Market Turns Toward Washington.

With $3.8 trillion in bonds from more than 50,000 issuers, the municipal market is remarkably large and diverse. But right now, the vast muni universe is focused on one city, Washington.

Numerous proposals of the Trump administration and the Republican-controlled Congress could rattle the market if enacted.

President Trump's call for $1 trillion in infrastructure spending could swell the nation's municipal bond supply, for example, while the possibility of lower corporate tax rates could reduce the appetites of banks and insurers, which now own about 30 percent of muni bonds.

What's more, if personal income tax rates went down (another possibility in Washington these days), demand for muni bonds could drop because the tax-sheltering features of the bonds could be less enticing. Even more troubling for the market, the tax exemption of interest income — the very foundation of municipal bonds — is always part of discussions about changing the tax code.

The muni bond market initially reacted negatively to these possibilities. The iShares National Muni Bond ETF fell 4.2 percent from the presidential election until Dec. 2. That was a rough stretch for all kinds of bonds, as interest rates climbed and the Federal Reserve indicated it was on the cusp of more aggressive rate increases, though the muni slide was more pronounced. The iShares Core U.S. Aggregate Bond ETF, which tracks the high-grade taxable market, lost only 2.75 percent in the same period.

But the market may have overreacted, said John V. Miller, co-head of fixed income at Nuveen Asset Management. “There is a perception that every one of the policies being discussed will be passed and passed in short order and all will be deeply harmful to municipal bond investors,” he said. The reality is different. “I expect there will be a delay, and even if some of the proposals get through, they aren’t all unequivocally negative,” Mr. Miller said.

Indeed, after the initial shock wore off, the Bloomberg Barclays Municipal Bond index gained 3.2 percent from its December low through the end of the first quarter, while an index of taxable bonds rose 1.3 percent. “It’s not 100 percent clear it is going to be a rocky year,” said Cormac Cullen, co-manager of Fidelity Municipal Income Fund.

Professional municipal bond investors are generally sanguine that while policy changes may cause some near-term volatility, they are not an existential threat. Depending on how negotiations in Washington play out, there could even be some good news for munis.

For example, the precarious condition of the compromised Oroville Dam during California’s heavy rainfall this winter once again put the spotlight on the need for major infrastructure investments. The early estimates to repair the damaged spillway for the tallest dam in the United States are as high as $200 million. While Oroville is an extreme case, there is no shortage of other dams, bridges, roads and transit systems across the country in need of serious care.

The $1 trillion for infrastructure the president proposed may not roil muni bonds too greatly because the outlay would probably be spread out over a decade, making it more digestible for the $3.8 trillion market. Moreover, all or a portion of the money may be earmarked for funding private-public partnerships, which could resemble something along the lines of the taxable Build America Bonds that were issued as part of the 2009 stimulus. In that case, the supply of traditional tax-exempt munis would not swell. “You can’t presume all the spending would be for projects financed with tax-exempt money,” Mr. Miller said.

Nor is a reduction in the corporate tax rate all bad news. Peter Hayes, head of the municipal bond group at BlackRock, believes that a new rate would not be low enough to cause insurers and banks to high-tail it out of municipal bonds. “What we could see is that they let their municipal portfolios mature and, over time, shift money into other assets,” he said. Yet, Mr. Hayes said, “There’s also the possibility that the ability of corporations to deduct corporate bond interest goes away.” That would lead to less issuance of corporate bonds — and that could increase demand for muni bonds.

A reduction in personal income tax rates is also not expected to be a seismic event. One possibility is that the top rate would fall from 39.6 percent to 33 percent. That’s a lot less than the fall from 50 percent to 28 percent under the Reagan tax cuts, which the municipal market survived. Moreover, it is not as if any state with a high income tax rate is talking about cuts. And right now, a 10-year high-grade municipal bond has the same 2.5 percent yield as a taxable 10-year Treasury note. That works out to a 3.73 percent taxable equivalent yield for someone in a 33-percent federal income tax bracket

As for eliminating the exemption for interest income, changing it would affect thousands of municipalities that rely on muni bonds to finance their public works. For that reason alone, it is widely seen as unlikely to happen.

What has a much higher probability of affecting muni bonds this year is rising interest rates, though even here, the damage may not be great. While a sharp rate spike would cause bond prices to suffer bigger losses, Christopher Ryon, municipal bond manager at Thornburg Investment Management, noted that “we are not in a situation where rates are going to take off.” (Bond prices and bond yields move in opposite directions. Total return is the sum of the yield and the price change.) With expectations for rates that are higher but not too high, “you will be getting more income, which is why you own municipals,” Mr. Ryon said.

And that rate rise is making municipal bonds a better value. “Before the election, you were not getting paid to take risk,” Mr. Ryon said, citing the fact that the inflation-adjusted yield for a 10-year municipal bond was below zero. Today it is back at 0.65 percent. That is still below the longer-term norm of two percentage points, but it is moving in the right direction.

Nonetheless, rising rates merit some attention. Gary Schatsky, a financial adviser based in New York City, is sticking with short-term municipal bonds maturing in three years or less. The yields are small (around 1 percent before factoring in the tax break), but you aren’t exposed to much price movement as rates rise, or if policy changes materialize.

Another way to eke out more yield is to look for portfolios that emphasize bonds rated A (often called single-A) over AA and AAA bonds. A single-A bond is still considered high quality, just a little less than AA and AAA. The 3 percent yield for a 10-year A-rated bond is about a half a percentage point more than the yield for AAA bonds.

Funds and ETFs that track a municipal index hold less than 20 percent in single-A bonds. Actively managed high-quality funds including Fidelity Municipal Income and T. Rowe Price Summit Municipal Income now invest more than 30 percent in single-A issues.

“Single-A bonds offer good risk-reward,” said Kevin Ramundo, co-manager of Fidelity Municipal Income. That’s a balancing act that will be ever more valuable this year as policy makers bear down.

THE NEW YORK TIMES

By CARLA FRIED

APRIL 14, 2017

CUSIP Requests Climb Again in March Signaling Corporate and Muni Bond Surge.

NEW YORK, NY, April 13, 2017 – CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for March 2017. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity, found an uptick in the pre-trade market for corporate and municipal bonds in March. This volume of pre-trade activity in corporate and municipal bond markets is suggestive of future growth in new securities issuance volume.

Read Report.

Fitch Releases Exposure Draft for Public Sector Revenue-Supported Debt Master Rating Criteria.

Fitch Ratings-New York-29 March 2017: Fitch Ratings has published an exposure draft for revisions it is proposing to its criteria for public sector revenue-supported debt.

The four key rating drivers for public sector revenue-supported debt are:

–Revenue defensibility;
–Operating risks;
–Financial profile;
–Asymmetric additive risk factors.

There are approximately 50 ratings that will be covered solely by these criteria, and Fitch anticipates that about 15% of this portfolio will be affected, with a roughly equal mix of upgrades and downgrades. Following the publication of this exposure draft, Fitch expects to place eight ratings on Rating Watch. Rating changes are most likely to result from better identification of issuers whose leverage positions relative to their business profiles suggests a rating higher or lower than the current rating. We do not expect downgrades to exceed one rating category.

Fitch will be accepting market feedback for its proposed revisions until May 9, 2017. Comments can be emailed to 'pfcomment@fitchratings.com'.

Fitch will apply the criteria described in this exposure draft to new issuers/transactions rating assignments during the exposure draft period. Upon finalization of the 'Public Sector Revenue-Supported Debt Rating Criteria', not-for-profit credits currently covered by the 'U.S. Nonprofit Institutions Rating Criteria' will be covered by the criteria for public sector revenue-supported debt instead. Fitch's 'U.S. Nonprofit Institutions Rating Criteria' will then be retired.

'Exposure Draft: Rating Criteria for Public Sector Revenue Supported Debt' is available at 'www.fitchratings.com' or by clicking on the above link.

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U.S. Muni Supply Falls in Q1, Citigroup is Top Underwriter.

The sale of debt by states, cities, schools and other issuers in the U.S. municipal bond market totaled $86.5 billion in 2017’s first quarter, a drop of 9.5 percent from the same period in 2016, according to Thomson Reuters data on Monday.

Citigroup Inc was the top underwriter of muni bonds during the first three months of 2017 with $14.25 billion of debt in 123 deals.

Bank of America Merrill Lynch ranked second with $11 billion of debt in 118 deals, while J.P. Morgan Securities was third with $7.77 billion in 86 deals.

California was the first quarter’s top issuer, selling $2.79 billion of debt, followed by two New York issuers. The Empire State Development Corp sold $1.8 billion and the Triborough Bridge and Tunnel Authority sold $1.2 billion.

Reuters

Mon Apr 3, 2017 | 4:55pm EDT

(Reporting By Karen Pierog; Editing by Andrew Hay)

Bond Insurance Capital: Can You Ever Have Too Much?

Read the Kroll Research Report.

LISC Offers First CDFI Bond to Bring Private Capital to Low-Income Communities.

It’s a strange time to have a landmark day for U.S. community development financing. Crucial community development programs at Housing and Urban Development, the Treasury Department and the Department of Agriculture are on the budget chopping block.

That makes it all the more significant that the Local Initiatives Support Corporation, or LISC, is today announcing it is issuing $100 million in general obligation bonds to raise capital for its community development work in the first offering of its kind.

As one of the nation’s largest nonprofit community development organizations, LISC is breaking new ground to access urgently-needed long-term capital for community development.

“Irrespective of what happens in DC…this is providing a channel for the capital markets to go to work in communities across the country that we are trying to make into high-opportunity communities,” says LISC CEO Maurice Jones, who previously worked in HUD under the Obama Administration.

The projects to be funded span 31 urban and rural areas in 44 states. Standard & Poor’s, or S&P, has given the offering a ‘AA’ rating, and Morgan Stanley is underwriting the 10- and 20-year bonds.

Access to capital

The bond markets represent serious capital. At the end of last year, the U.S. bond market stood at $39.3 trillion, including $3.8 trillion in municipal bonds. By comparison, HUD’s Community Development Block Grants in 2016 totaled just $3.2 billion.

But for places like Puerto Rico, or for the school systems of Chicago or California, bonds have represented a temptation to pile up excess debt, as well as a minefield of deceptive practices. Jones believes LISC can avoid the problems, in part by attracting like-minded investors.

“We are seeking investors who are interested in us both as a business investment and a business that can serve the communities and people that we are serving,” Jones says.

Founded in 1979, LISC has invested $17.3 billion to build or rehabilitate 366,000 affordable homes and apartments and develop 61 million square feet of retail, community and educational space. LISC is among the more than 1,000 community development financial institutions, or CDFIs, certified by the U.S. Treasury. CDFIs – nonprofit funds and credit unions and for-profit banks – specialize in providing access to capital and basic financial services to historically marginalized neighborhoods and groups. The U.S. Treasury typically requires CDFIs to target at least 60 percent of their lending to low-and-moderate income areas; they typically exceed that percentage.

According to Elise Balboni, LISC’s vice president for lending, the bond proceeds will provide “more flexibility to fund a range of high impact products and programs that don’t fit within the geographic and programmatic constraints of individual funders or the short time-horizons or underwriting limitations of individual investors.”

LISC is the first CDFI that doesn’t take deposits to offer its own bond to private investors. Historically, nonprofits have worked with local or municipal governments to access tax-exempt bond financing.

LISC cut its teeth in the bond market through the U.S. Treasury’s CDFI Bond Guarantee Program. The federal government has exclusively purchased or authorized more than a billion dollars in Treasury-guaranteed CDFI bonds since 2013. LISC credits that program with helping it get ready to offer bonds to private investors.

“There is pent up desire on the part of impact investors, especially at the family and foundation level, to deploy longer-term capital domestically,” says Andrea Armeni, executive director of Transform Finance, an impact investor network. “This instrument allows for that, matching the timeline alignment of the projects that need funding with a solid credit rating.”

CDFIs typically raise capital through grants or donations, or deposits in the case of banks and credit unions. They can also access short-term loans from larger banks seeking credit for meeting their obligations under the Community Reinvestment Act or CRA.

Bond ratings

As some CDFIs have grown, they have sought new sources of capital. CDFIs as a group have around $108 billion dollars in assets. LISC is one of five non-depository CDFIs with an S&P rating.

"This is a hybrid of municipal and corporate issuers," says Ki Beom K Park, a credit analyst at S&P who works on CDFI ratings.

CDFIs are similar to housing finance authorities that issue tax-exempt bonds, Park explains. They get a significant amount of revenue from public sources, sometimes around 35 percent. They also each have a lot of real estate in their lending portfolio, especially in low-to-moderate-income census tracts.

Like other lending companies, factors like portfolio quality, underwriting guidelines, management experience, non-performing loan ratios, and cash reserves to cover for losses are key factors for CDFIs. Despite CDFIs working in neighborhoods historically considered "risky," some CDFIs have non-performing loan ratios as low as 1%.

Park says to get an 'AA' rating S&P likes to see that CDFIs have enough equity set aside to survive a "doomsday scenario" of 51.8% of their loan portfolio defaulting.

"We're hoping that five to ten years from now, the notion of CDFI and other community-based organizations issuing bonds will not be news," says LISC's Jones. "The markets will become more familiar with us, and we will become more familiar with them."

IMPACT ALPHA

BY OSCAR PERRY ABELLO • APRIL 4, 2017

Oscar is a New York City-based journalist, covering people and ideas that help create a more just and equitable world. He is a 2015-2016 Equitable Cities Fellow for Next City.

The Case for High-Yield Municipal Bond Funds.

They're lower-risk than their corporate counterparts, and their tax advantages now look more secure.

Investors in search of better yields—but who want to avoid taking too much risk—should consider an often-misunderstood sector: high-yield municipal bonds.

The funds that invest in these low-rated—or unrated—tax-advantaged bonds are staging a comeback after getting slammed after the November election.

So far this year, high-yield muni funds are up 2.7%, compared with 1.66% for long-term national muni funds and 2.48% for high-yield corporate-bond funds, according to Morningstar.

While high-yield muni funds do take more credit risk than investment-grade munis, they have a much lower default risk than their similarly rated corporate-bond counterparts. Yet their yields, at about 5%, are close, says Richard Daskin of RSD Advisors. "On a tax-equivalent basis, you are really way ahead of the game," he adds.

High-yield muni funds have long average maturities, and thus are subject to interest-rate risk—but they don’t correlate with Treasuries as much as investment-grade munis, adding some diversification. Plus, the odds of interest rates spiking this year are lower, now that the Trump administration’s plans to add economic stimulus are getting bogged down in Washington, and some economic data, like Friday’s March payrolls report, are pointing to slower growth. Prospects for major tax cuts—one reason munis sold off last fall—are fading.

“This year is unfolding a little more favorably than most projections for the asset class,” says John Miller, portfolio manager of the Nuveen High Yield Municipal Bond fund (ticker: NHMAX), which is up 3.37% this year and 7%, on average, over the past five years. “Sweeping changes to taxes and budgeting aren’t going to be as easily accomplished as many assumed.”

Closed-end high-yield muni funds, which use leverage, typically offer higher yields and are cheaper than usual. These funds, which trade on exchanges, can be bought at a discount when out of favor, which is the case now. For example, Pioneer Municipal High Income Advantage Trust (MAV) is trading at a 7% discount, while for the past three years it has traded at an average premium of 10.5%. Its yield is 5.16%.

Like other closed-end muni funds, this Pioneer fund has had to cut its distributions recently, as the rise in short-term interest rates increased the cost of borrowing, and its high-coupon holdings were called, requiring the manager to buy new bonds at lower rates. Both trends are likely to continue, which explains the discounts.

“The yields aren’t necessarily sustainable, but if you’re buying them at a discount, and they are liquid, I think they are attractive,” says Jay Hatfield, CEO of Infrastructure Capital, who has been adding the funds to some portfolios lately.

FOR LONG-TERM INVESTORS who want to minimize the risk of needing to sell at a discount, Alexander Reiss, a closed-end-fund analyst at Stifel, recommends Eaton Vance Municipal Income 2028 Term Trust (ETX). It has a 4.3% yield, is selling at a 3% discount, and matures at par in 11 years. “You have a good idea where you’ll land,” says Reiss. The fund’s weighted average credit rating is triple-B-minus, just one notch into investment grade.

“We like high-yield tax-exempt, but it has had quite a run” in recent years, says Jim Robinson of Robinson Capital. He owns Nuveen AMT-Free Quality Municipal Income (NEA), which has more exposure to high-yield than the average muni closed-end fund.

RSD’s Daskin thinks that exchange-traded funds—such as VanEck Vectors High-Yield Municipal Index (HYD), which yields 4.4%—are a good option now. The VanEck fund is liquid, has low fees and no leverage, and about 30% of its holdings are rated investment-grade. “I haven’t felt the need to reach for yield in this space” by turning to closed-end funds, says Daskin.

BARRON’S

By AMEY STONE

April 8, 2017 12:21 a.m. ET

Your State is Probably Facing a New Dawn of Public Finance Problems.

U.S. states have entered a new era characterized by chronic budget stress. For the past 130 years, states have mostly been financially resilient through a range of economic conditions. In fact, no state has defaulted on its debt since Arkansas in the 1930s. This long period of relative calm may have lulled some people into complacency when it comes to state finances. It shouldn't have.

S&P Global Ratings has been evaluating the creditworthiness of U.S. states and municipalities since 1940. We now see a profound shift unfolding in states such as Illinois, Kentucky, and New Jersey, whose pension systems are funded at distressed levels. The pervasiveness of budget pressures in these and other states is inconsistent with a mature national economic expansion and signals real credit stress. Our recent negative rating actions on several states' debt reflect this. Since January 2016, we have issued 11 state credit rating downgrades and just two upgrades.

Nevertheless, the states continue to benefit from certain inherent advantages that result in mostly high credit ratings. Among these are self-imposed controls against financial excess, such as balanced-budget requirements and limits on borrowing. We shouldn't forget that states adopted these restraints in response to a series of debt crises from 1840 through the 1880s.

To this day, these fiscal institutions remain important pillars underneath states' credit standings. The states' co-sovereign status and fiscal integration with the federal government has also protected them in tough economic times. Now, however, demographic and macroeconomic shifts are creating stress that, for some states, render these institutions inadequate.

Low oil prices explain the fiscal gaps for the leading energy states like Alaska and North Dakota. But slower revenue growth, declining worker-to-beneficiary ratios in state retirement systems, and rising Medicaid enrollments are widespread and have meant that fiscal stress is no longer confined to recessionary times. This stress is leading states to forego crucially needed investment in infrastructure and higher education.

There is an asymmetry to the new era for state finances. While the budgetary gains to states during the current expansion have been subdued, recent downdrafts have been severe. In the aggregate, from 1951 through 2001, state tax revenues never posted year-over-year declines, but have done so three times in just the past 15 years.

The most dramatic decline was also the most recent, when in 2009 revenues plunged 8.5 percent. Furthermore, we believe states can expect to largely go it alone the next time a recession strikes. In our view, it's unlikely that in a downturn the current Congress would deliver enhanced aid to states via Medicaid as previous Congresses did in response to the last two recessions.

Large unfunded pension and retiree health care liabilities will also continue to squeeze state finances. The aging population and low gains in productivity imply a federal funds rate that — even after the expected round of tightening monetary policy — is low by historic norms. Yet most states still assume investment rates of return in the range of seven to eight percent, incentivizing greater risk taking, which brings with it greater risk of underperformance.

Recent equity market appreciation and various business sentiment readings indicating improved confidence offer a reasonable basis for near-term optimism. But even a burst of federal fiscal stimulus and deregulatory zeal is likely to lift gross domestic product growth (GDP) growth only temporarily considering the structural headwinds facing the U.S. economy. Therefore, whatever pace of expansion materializes in 2017 or 2018, we expect economic growth will revert to around two percent over the long term.

Not all states will stumble on this more challenging landscape. Those that have maintained pension funding discipline and consistently sought balance between revenues and spending will fare best.

The strongest states will also likely expand their efforts at pension reform to cover retiree health care, which will become more important as time goes on.

With the potential for less countercyclical federal aid, states will need larger budget reserves and fiscal policy guided by a goal of aligning spending with revenue. Healthy budget reserves, balanced fiscal operations, and funding discipline vis-à-vis long-term liabilities will help any state better withstand the effects of protracted slow growth. A review of our rating actions over the past two to three years bears this out and shows that state credit quality has already begun to diverge along these lines.

THE HILL

BY GABRIEL PETEK, OPINION CONTRIBUTOR – 04/04/17 01:20 PM EDT

Gabriel Petek is a managing director and sector leader in the U.S. Public Finance States group at S&P Global Ratings in San Francisco.

Municipal Market Snapshot.

View the Snapshot.

Hutchinson, Shockey, Erley & Co. | Apr. 4

John Arnold: The Most Hated Man in Pensionland.

The billionaire philanthropist has vowed to secure retirement for public employees. So why do so many public employees despise him?

John Arnold wasn't a pension guy.

The billionaire financier, who made a fortune in the stock market before retiring at 38, hadn't ever really been interested in public retirement plans. But in early 2009, just months into the global financial crisis, Arnold began seeing a flurry of news articles about public pension funds collectively losing billions in the stock market crash. Assets had plummeted, causing unfunded liabilities to shoot up. Cash-strapped governments couldn't afford to fix the shortfall, and the longer they delayed putting more money in their pensions, the worse the problem would get. In short, it was a policy nightmare.

Arnold became intrigued. "The fact that you could go in one year from having a system that was well-funded to having a major gap — that affected me," he says. He started digging and found a book called Plunder: How Public Employee Unions Are Raiding Treasuries, Controlling Our Lives and Bankrupting the Nation, by conservative writer Steven Greenhut. As the title suggests, the book is an anti-union take on public pensions that details the misdeeds of the system's bad actors — public employees who game the system and wind up with pensions that are equal to or better than what their working salaries had been. Reading that book, says the now-43-year-old Arnold, "just made me mad."

Plenty of other people have gotten mad over the same thing. But Arnold, whose net worth is pegged somewhere near $3 billion, realized there was something he could do about it. He and his wife had just started a foundation they hoped would help governments make decisions based on evidence and data to produce concrete, measurable and lasting improvements to society. Over the nine years since it was started, the Laura and John Arnold Foundation has supported a range of initiatives, from education and criminal justice policy research to programs that bolster scientific research integrity by trying to replicate the findings of studies. He and Laura have signed on to the Giving Pledge, Warren Buffett and Bill Gates' challenge to wealthy individuals to give away the majority of their money to philanthropic causes. To date, the Arnold Foundation has given away nearly $700 million.

As he learned more about the challenges plaguing public pensions, Arnold started donating money to help study possible reforms. Initially, his foundation doled out relatively small grants of less than $200,000 to think tanks and nonprofits. Then in 2012, it awarded nearly $5 million over three years to the Pew Charitable Trusts to support its Public Sector Retirement Systems project. In total, the foundation has given $9.7 million to Pew to study pensions through 2019. All told, the Arnold Foundation has now directed nearly $28 million to fund pension policy research. John and Laura have also personally donated millions more to pro-reform political candidates and ballot initiatives, such as a failed 2014 measure in Phoenix that would have moved city workers to 401(k)-style plans. The measure was backed by $1 million from the Action Now Initiative, which is bankrolled by Arnold.

All of that has made Arnold public enemy No. 1 among lots of government workers and union leaders, many of whom see any threat to change pensions — no matter how small — as something to be feared and fought. "When people hear of an effort to get rid of pensions," says Bailey Childers of the National Public Pension Coalition (NPPC), which is supported by unions, "the source is almost always John Arnold."

For those who despise Arnold, it's easy to paint him in an unflattering light. He made his first billions as a trader for the energy firm Enron. After the company imploded in bankruptcy and scandal in 2002, Arnold walked away unscathed. (He himself was never accused of any wrongdoing.) He then started a hedge fund that became one of the most successful energy trading funds in history, even as America was plunging toward the Great Recession. Along the way, Arnold, who lives in Houston, bought a place in the city's tony River Oaks neighborhood, a three-acre plot that included a turreted red brick home built in the 1920s by two famous Houston architects — a rare cultural and architectural gem in a sprawling city with few historic preservation protections. It soon became clear Arnold intended to raze the home and replace it with a sleek modern house. Residents protested in front of the property; preservationists met with Arnold but say he was indifferent and condescending. He ultimately tore the house down.

Sometimes the vilification of Arnold can get personal. A recent video produced by the NPPC shows a man sitting poolside, sipping a tropical drink. "John Arnold may have retired in his 30s," the announcer quips. "But the rest of us can't. And we won't be able to retire at all unless we fight back against his efforts." In 2013, the progressive-leaning Institute for America's Future released a report called The Plot Against Pensions: The Pew–Arnold campaign to undermine America's retirement security — and leave taxpayers with the bill. It accused the Arnold Foundation of being "run by conservative political operatives and funded by an Enron billionaire." The same year, Rolling Stone's Matt Taibbi described Arnold as "a dickishly ubiquitous young right-wing kingmaker" and "a lipless, eager little jerk with the jug-eared face of a Division III women's basketball coach."

Arnold may be a lot of the things his enemies say he is. But at a time when many people believe the public retirement crisis has become untenable, Arnold also might just represent governments' best shot at ensuring their public pensions can endure.

There are basically two ways to look at the current pension problems in this country. The first is how unions see it, as a string of broken promises.

Back in the ’90s, stock market gains helped fuel pension investment growth so much that by 2001, the average pension was fully funded. That meant the money it had in assets would grow through investment returns to eventually cover the pensions promised to current workers and retirees. That’s when many governments got too comfortable and made two fatal mistakes: They stopped regularly paying their annual pension bill, and they boosted retirement benefits for workers.

Even in the best of times, those were financially questionable decisions. But then the first baby boomers began to retire. Every day, there were fewer people paying into the pension system and more people taking money out of it. By 2005, the average pension was just 86 percent funded. Then came the financial crash: In 2008 and 2009, pension funds saw roughly one-quarter of their assets disappear. Meanwhile, governments grappling with major budget shortfalls skipped pension payments to make ends meet. Unfunded liabilities grew even larger. Around 2012, government budgets and the stock market began recovering, and pension funding levels stabilized. But as a whole, pensions haven’t regained any ground. They have remained around 73 percent funded, on average, for the past four years. (Of course, that doesn’t describe the path of all pension plans. New York state’s plans are more than 90 percent funded, while Wisconsin’s retirement system is fully funded.)

If governments had only kept up their end of the bargain and continued to responsibly fund pensions, most experts agree that today’s troubled systems would be in far better shape. For unions, then, the argument is simple: Lawmakers must step up and pay more into the pension funds now, be it by raising taxes or finding some other source of revenue, to make up for their predecessors’ broken promises.

But that’s not the way Arnold sees it. For him and many others, the current situation isn’t a question of failed promises or unfair policies. It’s a math problem.

Arnold is a mathematics whiz whose remarkable skill with numbers had enabled him to develop new option-pricing models for oil and gas trading while at Enron. The same understanding of systems and figures fueled the unmatched growth of his hedge fund, Centaurus Advisors. At heart, Arnold is a data nerd. He doesn’t just want to understand what is going to happen next, he wants to know why. So when he first began looking into public pensions, what he found didn’t make sense to him. Here was a system that forced governments to shoulder all the risk for paying out pensions in the event of a market crash, but offered no immediate repercussions for governments that chose not to fund their obligations like they were supposed to. Everyone had skin in the game, but there was no referee. “It seemed like an issue,” he says, “where every actor involved had an interest in the system [but] there was no objective voice that was really the voice of the next generation and of fiscal stability.”

Arnold began zeroing in on places where the math — thanks to lawmakers’ inaction over the years — simply wasn’t viable anymore. That included places like Kentucky, which had habitually skipped its pension payments for years and had less than one-third of the assets it needed to meet its promised pension benefits. Or San Jose, Calif., where retirement costs were eating up nearly a quarter of the city’s budget. Plans such as these, in which previous lawmakers had ignored a problem to the point of threatening a system’s stability, were prime candidates for the kind of data-driven and evidence-based policy change the Arnold Foundation supports. “That’s the kind of conversation we want to facilitate,” says Josh McGee, the foundation’s pension expert and vice president of public accountability. “This is an issue that folks on the ground are struggling to figure out, and they often don’t have the resources. The fundamental piece we need to solve this problem is understanding the data."

In 2012, the foundation financially supported two major efforts in those places that have become indicative of its approach since then — either providing research assistance directly to lawmakers or funding the efforts of a like-minded research partner. Kentucky lawmakers, after receiving research assistance and advice from Pew, promised to increase funding to the state's public employees' plan while creating a cash balance plan for new employees. The latter shifted much of the future pension investment risk away from the state, a major theme of reforms the foundation's money tends to support. In San Jose, voters approved a ballot measure that included cuts to retiree health care and eliminated bonus payments to retirees when the pension fund had a good investment earnings year.

These approaches have now been repeated in dozens of places across the country. Funding from the foundation has also gone to think tanks and research institutes that produce public pension literature. Some of these are advocates — the libertarian Reason Foundation has received more than $3.5 million for pension research, for example — but many of them are not. Boston College's Center for Retirement Research, for instance, receives Arnold funding to maintain its well-regarded and widely used databases on pension fiscal health. The Nelson A. Rockefeller Institute of Government recently published a series of papers, funded by the Arnold Foundation and Pew, warning of the increasing risk involved in current pension accounting and investment practices.

Sometimes the foundation and unions actually find themselves on the same side. In Arizona last year, for example, voters approved a ballot measure that reduced cost-of-living payments to retired police and firefighters; the measure had received support from both the foundation and organized labor. More often, however, the foundation's money assists groups that want to press through with plan changes after union negotiations have failed. In San Jose, former Mayor Chuck Reed said city officials negotiated for months with the city's 11 unions, even bringing in state mediation services. (Reed now works for the advocacy group Retirement Security Initiative, which receives Arnold funding.) "When we got down to it, there were three or four of them that were almost to the point of getting to an agreement, but they didn't want to be the first and be out in front of crossing other unions," he says. "So ultimately they never agreed to anything."

As a result, unions feel railroaded by the kinds of overhauls backed by Arnold. Although the foundation's partners like Pew and Reason say they want input from all stakeholders when they are consulting on pensions, public employee buy-in isn't a requirement. "Obviously labor organizations are an essential part," says Pew's Greg Mennis. "We just try to focus on the fact of the numbers … to bring the analysis to light and educate stakeholders what it means."

Policy papers funded by the foundation tend to focus on changes to pension systems that shift risk away from the government and taxpayers, and toward the public worker. For instance, a 2012 white paper written by McGee lays out principles for creating a new pension plan. The paper outlines what's wrong with the current system — insufficient government contributions, lower-than-expected investment returns and unpredictable retiree costs — and then offers five potential solutions. None of the solutions propose keeping the traditional pension structure, and four of them would partially or fully incorporate a 401(k)-style plan for workers.

Those kinds of ideas, in combination with the Arnold Foundation's fealty to data and numbers, have led many people to perceive the group as anti-union and set on eliminating pensions. "Pension reform is more than a math problem — it's not simply solving for X," says Vijay Kapoor, an independent consultant who has no connection with either the foundation or unions. Kapoor advocates a mediation approach to pension reform that requires agreement and sacrifice from all parties. "These are human beings and this is their retirement," he says. "Any actuary can run a scenario where you can make the numbers work. But the question is, how do you get a comprehensive solution that actually addresses the problem? To do that, you need buy-in from everybody."

All the unions' vitriol against Arnold suggests a larger-than-life villain, a fast-talking conservative Wall Street tycoon in a $3,000 suit and slicked-back hair. In reality, he's much more boring. He's a soft-spoken and thoughtful policy wonk. He and Laura give money to causes on the political right and left — charter school networks as well as Planned Parenthood — and they once hosted a fundraiser for Barack Obama at their home. Arnold's Twitter feed consists mostly of dry policy observations and the occasional wry joke. In January he tweeted, "Did everyone have a relaxing two months between the end of 2016 and the start of the 2020 campaigns?" He's reserved and private about his personal life. He doesn't smile much in photos. He says he likes to blow off steam with his three kids, all under the age of 10, but when pressed on what he does for fun, he hesitates. "Probably shouldn't put that in print."

Much of the focus on the foundation and on Arnold himself comes from the fact that he's one of the very few outside players in an arena where unions have long held sway. Arnold says the vitriolic nature of the attacks against him, while surprising at first, are now a badge of honor. "If we were not being effective in these conversations," he says, "then we'd be getting ignored."

To public employees, the insinuation from outsiders — especially billionaire outsiders — that pensions need to be fixed is practically a personal affront. Workers didn't get us into this mess, they say. Political leaders did, through years of neglect and underfunding.

That may be true, say Arnold and others, but so what? The focus should be on how to fix things going forward, not on casting blame about how we got here. Politicians aren't likely to start throwing significantly more money at pension funds any time soon. States and cities, Arnold believes, must look at where the numbers are heading and at least explore some other possible reforms. Doing nothing is not an option.

Arnold doesn't just preach to others about living by the data. When his physician recommended that he begin taking anti-cholesterol medication, he wanted to know if there was solid research to show that the medicines actually helped and why. His doctor's response was frank. "We don't know what the marginal value of taking them is," he said. "But we do know that people who don't take them are dead."

John Arnold took the medicine.

GOVERNING.COM

BY LIZ FARMER | APRIL 2017

The Week in Public Finance: States Warned of 'Profound Shift' in Finances, Hurting in Illinois and More.

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

GOVERNING.COM

BY LIZ FARMER | APRIL 7, 2017

Make Prison Financing Transparent.

Wouldn't a constitutional amendment be necessary for prison construction bonds? This is a question I asked state officials last year as the Governor's initial proposal for a mega-prison construction plan was first revealed. The answer was no, because the proposal was funded by revenue bonds, which do not count toward Alabama's constitutional debt limits.

The constitutional limit on general obligation bonds makes lawmakers and state agencies accountable to voters. To fund large capital projects beyond the debt limit, they need voters to approve a constitutional amendment. Revenue bonds avoid that accountability, because in theory they don't require taxpayers to foot the bill.

Some revenue bond projects – toll bridges and hospitals, for example – do generate revenue which can be used to pay back the principal and interest. But do prisons? Not really. While the Alabama Department of Corrections (ADOC) does collect some revenue from prison labor contracts, it is nowhere near enough to cover the tens of millions of dollars required to make the bond payments on even one new 4000-inmate facility. The bonds won't be repaid with revenue at all, but from projected budget savings of lower operating expenses on the new prisons. But to avoid the hurdle of voter approval, the bond issues create a legal fiction, where revenue comes in the form of lease payments from ADOC to a new legislatively-created prison finance authority, headed by the governor.

Essentially, the state would move money from one pocket to the other and call it "revenue" to get around the popular vote required for General Obligation Bonds.

Setting aside the ethical question of avoiding voter approval, Alabamians should be concerned about lease-revenue bonds. Because they rely on uncertain sources of revenue to pay them, revenue bonds are viewed by the market as riskier than general obligation bonds. This means the interest rates are higher, and therefore cost more to pay back.

Perhaps a bigger problem is that these bonds make long-term commitments for state and local governments in response to short-run problems. County and municipal bonds are in some ways even worse; they commit local governments with relatively small tax bases to decades of bond payments and hundreds of millions in total debt. Although they would more plausibly be collecting revenue from the state to pay the bonds, ultimately Alabama taxpayers are still on the hook if ADOC's promised savings don't materialize.

All government debt, including revenue bonds, creates a fiscal illusion. Debt allows large increases in spending with no apparent need for higher taxes. Yet, this mentality only commits more discretionary future tax revenues to servicing past debt. Without reform, state debt will increasingly compound the growing burden of the federal debt. Only fiscal transparency and taxpayer constraint can reverse this trend.

A more transparent approach to fixing the problems of overcrowding and poor conditions would be to fund construction and renovation from existing tax revenue or go through the proper channel of seeking voter approval. It would cost taxpayers less in interest, and it would be more honest.

Al.Com

by Dr. Stephen Miller

April 06, 2017 at 9:25 AM, updated April 06, 2017 at 9:27 AM

By Dr. Stephen Miller, executive director of the Manuel H. Johnson Center for Political Economy at Troy University. The views and opinions expressed are those of the author and do not imply endorsement by Troy University.

The Golden Infrastructure Opportunity That Government Missed.

States had a cheaper option for investing in infrastructure, but they didn't take it. Now, they must pay the price.

There's a lot of talk in Washington about spending more — perhaps $1 trillion more — on infrastructure over the next decade. It's too bad a free-spending approach wasn't taken sooner.

Interest rates are starting to tick up after years of historically low levels. That means that any capital projects that get underway in coming years are inevitably going to cost more than they would have if states and other jurisdictions had been more aggressive about taking on debt at those now-disappearing bargain rates. Financing for new projects between 2011 and 2015 cost half as much as during the previous decade. Rather than taking advantage of this opportunity, though, states retrenched.

As interest rates plunged, the volume of borrowing actually dropped. Back in 2009, state and local government spending on capital projects, encouraged by the federal stimulus and the Build America Bonds program, represented 2.6 percent of GDP. By 2014, its share dropped to 1.9 percent — a decline of nearly 25 percent. Borrowing rose last year, but most of that was refinancing old debt, not money for new projects. "There was an opportunity to lock in interest rates for a 20- to 30-year period to address these infrastructure problems that everyone seems to recognize," laments Ron Fisher, an economist at Michigan State University.

Politically, though, it was very difficult to take on new debt. Some states have imposed caps on the amount of capital debt that can be added in a given year. Meanwhile, the cost of addressing leaky lead pipes and failing dams and bridges continues to rise. And now states and localities have to worry that their borrowing costs will go up not only due to rising interest rates, but as a result of new federal rules eroding or erasing the tax exemptions of the bonds they issue.

Perhaps such tax breaks will be maintained. And interest rates haven't risen dramatically yet, despite the Federal Reserve's recent hike. Nevertheless — with the notable exception of public colleges and universities — government agencies missed a golden opportunity to go on a building spree. "We squandered a decade of low interest rates to get some of this stuff done," says John Engler, a former governor of Michigan and until recently president of the Business Roundtable.

GOVERNING.COM

BY ALAN GREENBLATT | APRIL 2017

This Infrastructure Program Ended Up Costing Governments Millions. Trump

Might Bring It Back.

States and localities are wary of the president's support for the Build America Bonds program.

A popular Obama-era infrastructure financing program may get revived this year as President Trump moves forward on his pledge to invest $1 trillion in infrastructure. But this time around, state and local governments might not be as excited about it.

The program, Build America Bonds (BABs), was created in 2009 as one of many recession-era initiatives aimed at jump-starting the economy. Unlike tax-exempt municipal bonds, BABs are taxable, and, as a result, open up the municipal market to new investors, such as pension funds or those living abroad. But BABs are also more expensive for governments. So to defray the added cost, the federal government offered a direct subsidy of 35 percent of state and local governments' interest payments on BABs.

But the program became a casualty of sequestration: cutbacks in federal subsidies promised under the program left state and local governments scrambling to fill the void. A recent estimate by the Institute of Government and Public Affairs at the University of Illinois found that so far Illinois and its localities have had to pay out a collective $70 million to offset the higher costs of BABs.

The study comes as economic advisors to Trump have expressed support for the BABs program as a financing tool. While details are light on the president's plan to incentivize infrastructure investment, most experts agree that taxable and tax-exempt municipal bonds are likely to play a role. And that has states and localities wary.

"With direct subsidy bonds, until the bond matures, you're exposed to the federal process," says Martin J. Luby, the author of the study. "So the question is, is the lower borrowing cost worth the risk that it could increase [should the federal government defund the program]?"

Dan White, senior economist at Moody's Analytics, predicts that the answer is no. "[The feds] could theoretically design a program that protects states against this," he says. "But states know this has the potential to be changed at a moment's notice by policymakers in Washington."

Back when BABs started, few — if any — considered the baked in exposure to federal policy. Therefore, the program was largely heralded as a success. All told, state and local governments sold more than $151 billion in BABs between 2009 and 2010. The program even propelled total bond issuance in 2010 to $433 billion, a record that still holds today.

But when sequestration hit in 2013, the mandated cutbacks in federal appropriations included the federal subsidies for the popular program. Annual subsidies for BABs dropped by anywhere from about 7 percent to nearly 9 percent. In addition, notes Luby, most BABs were not eligible for refinancing, so governments were stuck with the higher bills for the life of the bond. In Illinois, he estimates that will cost governments $400 million over the next two decades for roughly $11 billion in BAB debt. Cash-strapped Chicago would lose out on $56 million alone.

Nationwide, Luby figures the total subsidy losses are in the billions. "It's stressing out these governments one way or the other," he says. "And the expectation is, it's just going to continue."

GOVERNING.COM

BY LIZ FARMER | APRIL 6, 2017

A Smarter Approach to Infrastructure.

When the American Society of Civil Engineers published its latest Infrastructure Report Card last month, the results were sobering: a grade of D+ for the U.S. and an estimated price tag of $4.6 trillion to make needed repairs by 2025. Such shortcomings have gotten widespread coverage in recent years, with images of Amtrak derailments, crumbling highways and the damaged Oroville Dam vividly illustrating the costs inflicted by decades of underinvestment.

So far, though, Congress has been unable to come up with a sustainable model for funding necessary improvements. President Donald Trump wants to spur $1 trillion of investment by relying on tax credits and public-private partnerships. Senate Democrats have announced their own $1 trillion program, with more conventional federal appropriations aimed at repairing roads, bridges, railways and water systems.

Yet even if these proposals could be enacted, they wouldn't be sufficient. Due to continual pressure on federal and state budgets, new and more reliable sources of funding are needed.

One promising solution is for states or regional economic zones to lead the way by creating their own infrastructure banks, modelled on successful development banks in other countries. The Northeast has taken the first step, with Massachusetts filing bills in January to establish a state infrastructure bank and examine a regional one. This model could be easily replicated across the U.S. to accelerate investment and economic activity.

How would it work? Taking the Northeast as an example, states from Massachusetts to Maryland could create a jointly owned entity capable of financing critical projects, including those that cross borders. Each state would contribute part of the initial equity, which could then be leveraged with private debt to invest in revenue-producing projects. The equity could be boosted through annual contributions from state transportation budgets — or from other sources — with every new dollar having a multiplier effect.

This approach has several benefits. Projects could be funded on a portfolio basis, with excess cash flow from one investment subsidizing another. Smaller projects could be aggregated to create critical mass. And regional banks could become repositories of best practices, acting as centers of excellence for negotiating complex projects on behalf of taxpayers.

Perhaps more important, regional banks could draw investment from institutions such as pension funds and sovereign wealth funds that generally don't invest in the traditional municipal bond market. That would significantly expand the pool of available capital for infrastructure, while enabling bigger investments with longer maturities.

Regional banks wouldn't replace the states' role in issuing municipal bonds, or eliminate the need for federal dollars. Nor would they aim to privatize public assets. They would simply expand the universe of funding sources and viable projects, thereby boosting regional competitiveness.

This is a tried and tested model. The European Investment Bank, founded in 1958, last reported more than 450 billion euros in disbursed loans, about two-thirds of which were for infrastructure projects. In 2016, China launched the Asian Infrastructure Investment Bank, with $100 billion to help accelerate investment across developing Asia. Canada is creating a bank that will leverage C$35 billion in state funds with private capital to pay for domestic construction.

Although the U.S. attempted to create a National Infrastructure Bank, the legislation stalled in

Congress. And our current approach to funding is too fragmented and politically fraught to make transformative investments. By seizing this opportunity, the U.S. could mobilize capital to finally invest in infrastructure for the 21st century — creating high-paying jobs and boosting economic growth in the process. States can lead the way by seeing beyond their borders, and investing in a more prosperous future.

Bloomberg View

By Suneel Kamlani

APRIL 5, 2017 6:00 AM EDT

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

Bloomberg Brief Weekly Video - 04/06

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

Watch the video.

Bloomberg

April 6, 2017

Testimony by Atlanta Mayor Kasim Reed on FAST Act Implementation: State and Local Perspectives.

Read the testimony.

Why Foreigners Keep Buying the Debt of America's Small Towns.

Foreign investment in municipal bonds has doubled since 2009

America's asset managers are finding new ways to take advantage of the latest trend: the wave of foreign investors buying the debt of U.S. cities and states.

Overseas dollars have been flooding into the municipal market for several years, with foreign investment in munis doubling since 2009 to $106 billion of the $3.8 trillion market, according to Federal Reserve data. The trend picked up in the last quarter of 2016, with foreign investors adding an unprecedented $21 billion in municipal bonds.

Foreign companies see no benefit from the tax-exemption that comes with most muni bonds, so they tend to gravitate to higher-yielding taxable bonds. But some foreign investors are also interested in tax-exempt bonds, testing an assumption of the muni market, that buyers typically are drawn in part by tax advantages.

Attempting to meet the surge in demand, Nuveen Asset Management and a subsidiary of Citigroup Inc. C -0.77% will soon launch a mutual-fund type municipal-bond investment vehicle. The fund will be managed by Nuveen, according to people familiar with the matter.

Other money-management firms are wooing banks and insurance companies in Taiwan, Korea and Japan by offering private municipal-bond funds. Another firm is selling shares in exchange-traded funds to Swiss and British investors.

“Munis are global now,” said Rob Amodeo, head of municipals at Western Asset Management, a Pasadena, Calif.-based bond manager that is a subsidiary of Legg Mason .

Since November 2015, Western Asset has run a private fund that invests in municipal debt on behalf of Japanese financial institutions in partnership with Japan’s Shinsei Bank Ltd.

Standish Mellon Asset Management LLC, a unit of Bank of New York Mellon , recently won a commitment from a Korean insurance company to run a separately managed account filled entirely with municipal bonds, senior portfolio manager Jeffrey B. Burger said. The firm is in talks with other insurers in Korea, China and Japan as well as an investor in Australia, he said.

The typical overseas investors in municipal debt are foreign life insurers in search of long-dated securities to match their long-term liabilities, bankers and asset managers said. Banks have also made up a substantial portion of the demand.

The trend means these overseas investors are often buying the debt of towns they couldn’t find on a map. At Nuveen Asset Management, which already manages the municipal-bond investments of some Asian and European institutions, “We’ve brought an atlas into meetings before,” said co-head of global fixed income John Miller.

These investors are tempted by the bonds’ relative safety, longer duration and relative yield. Some are also seeking diversification. A strengthening dollar—which the Federal Reserve could promote by raising short-term interest rates—could also help bolster the investments.

There are risks, given the bonds often won’t mature for decades and rising long-term rates could reduce their value. Municipal bonds aren’t as liquid as Treasurys. In addition, U.S. municipalities have, on rare occasions, defaulted.

Even so, several factors continue to tempt buyers.

At asset manager VanEck, about 8% of its $1.8 billion municipal high-yield ETF is foreign investment, up from 3% one year ago.

“Muni high yield has compared very favorably across the globe,” said senior municipal strategist Jim Colby.

The majority of the international investment in the VanEck ETF—$116 million—comes from Taiwan. Investors in Canada, Switzerland and the United Kingdom each hold more than $5 million. These investors have bought in despite the fact that the bonds in the VanEck ETF carry a tax-exemption that doesn’t benefit foreign investors.

More typically, foreign investors gravitate to higher-yielding taxable bonds, of which there are about

$450 billion outstanding, according to Barclays. The S&P Taxable Municipal Bond Index returned 1.72% in the past year, compared with a negative-2.05% return for the S&P U.S. Treasury Bond 7-t--10 year Index and a negative 0.75% for the S&P Global Developed Sovereign Bond Index.

The heightened demand is a likely contributor to increased market activity.

Trading in taxable municipals has shown a steady climb in activity since 2014, according to an analysis of Municipal Securities Rulemaking Board data by Natalie Cohen, head of municipal research at Wells Fargo Securities.

The new market players are also changing the work life of professionals accustomed to a quiet and slow-moving domestic market. Mr. Burger, the Standish portfolio manager, hadn't visited Asia once in his 41 years before October. He has now been to Beijing, Hong Kong, Seoul and Tokyo.

"If you were to ask me even in early summer of last year would I ever expect that this career would change to where I am now about to embark on my fourth trip to Asia in six months," he said, "the answer would have been 'no.'"

THE WALL STREET JOURNAL

By HEATHER GILLERS

Updated April 4, 2017 7:28 p.m. ET | WSJ Pro

Fall, Recover, Repeat: Munis Rebound From Sharp Drops, Again.

NEW YORK — So much for that sleepy reputation.

The municipal-bond market used to be a reliably boring one, full of small cities, state governments and others borrowing to build sewers, roads and hospitals. But in the last decade, the muni market has been all-too-interesting and whipped investors through several sell-offs.

The latest struck in November, when the largest muni-bond fund had its worst month since the 2008 financial crisis. It lost 3.4 percent on worries that the incoming White House and Congress would cut tax rates and pursue other moves that could weaken muni bonds' appeal. Since then, though, muni funds have clawed back about half their losses and look to be on their way to erasing yet another downturn.

"That's the nature of the muni market, it overreacts," says James Dearborn, head of municipal bond investments at Columbia Threadneedle.

Looking ahead, muni fund managers say they expect the market to remain interesting. Volatility will likely remain as Washington continues to debate changes to the tax system. Returns, meanwhile, will likely be lower than in past years, but managers say they can still grind out modest gains.

"What the last two years have taught us is: Don't panic," says Hugh McGuirk, head of municipal bonds at T. Rowe Price.

Few were taking that advice in November, after Republicans swept elections for the White House, Senate and House. Prices for all types of bonds fell on expectations that faster economic growth and inflation may be on the way.

Munis fell even more on fears that some proposals would directly hit the market, chiefly a rewrite of the tax code. “Any time you talk tax reform, the muni market quivers,” McGuirk says.

The income that municipal bonds pay can be exempted from income taxes. That’s why investors buy a muni with a lower yield than a similarly rated corporate bond, because the return will be better after taxes. Tax reform could put the exemption in the crosshairs. Even if it survived, muni bonds could be hurt if tax rates dropped and diminished the exemption’s benefit.

Beyond that, investors worried that a big infrastructure program from Washington could mean a deluge of new municipal bonds hitting the market and overwhelming demand from buyers.

November’s tumble in prices for munis followed earlier sell-offs, such as in 2010 and 2013. But this past one didn’t last as long as those.

“That was the most interesting part of this particular sell-off in November, how quickly it reversed,” says Karl Zeile, portfolio manager at Capital Group. “It really lasted only about four weeks, and then the market woke up to oversold valuations and started moving.”

Part of it is who was doing the buying. The muni market is usually dominated by individual investors, who can be prone to follow the tide. Prices for munis eventually fell enough that hedge funds and other big institutional investors got interested and helped set a floor.

On top of that, it’s becoming clear that change could be slower to occur in Washington than initially expected, if it happens at all. Republicans last month pulled their proposal to revamp the nation’s health care system due to a lack of support.

“Taxes are even more difficult than health care,” says Peter Hayes, head of the municipal bonds group at BlackRock. “The complexity of the tax code and difference of opinion tells us that it’s more likely to be later than sooner.”

Even if tax reform and an infrastructure program do pass, the effects may not be as bad for the market as many had feared. A drop in the top tax rate would likely hurt muni bond prices but doesn’t have to be a catastrophe. Munis held their own after President George W. Bush enacted tax cuts in 2001, for example. And the federal government could make sure bonds for infrastructure get issued outside the tax-exempt market.

Now, regular investors are coming back to the market. They’ve put more money into muni funds than they’ve taken out for three straight months, after fleeing in November and December.

So, how much is fair for them to expect in returns?

One benchmark index that many muni funds follow has already returned close to 1.7 percent in the first quarter of the year. Don’t except that every quarter.

Broad muni funds generally have yields around 2.5 or 3 percent, and returns for 2017 will likely be close to there, managers say. The 10-year yield on the AP Municipal Bond index is 2.54 percent.

Volatility is also likely to remain. The Federal Reserve is in the midst of raising rates off their record lows, and higher rates knock down prices for all kinds of bonds. If the Fed can stick to its promise to move slowly and modestly, bonds can continue to chug along. But if the economy and inflation pick up their pace, the Fed would have to get more aggressive.

And prices could quiver again as talk inevitably heats up on tax reform. When that happens, though, managers say they don't expect the drop to be as steep as in November.

"The muni market has become less sleepy," Hayes says. "People understand that these big sell-offs represent buying opportunities."

By THE ASSOCIATED PRESS

APRIL 6, 2017, 3:16 P.M. E.D.T.

Bloomberg Brief Weekly Video - 03/30

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

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March 30, 2017

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

GOVERNING.COM

BY LIZ FARMER | MARCH 31, 2017

A Way to Unlock the Value of an Airport.

St. Louis is looking at a public-private partnership. If the issues are properly addressed, it's an idea well worth considering.

St. Louis Mayor Francis Slay recently asked the Federal Aviation Administration to consider allowing his city to enter into a public-private partnership to lease its airport to a qualified airport manager backed by private infrastructure funds — a model that exists in much of the rest of the world but not so much in the United States. The mayor's plan has the potential to unlock value now trapped in the airport to address broader city needs, and it could serve as an example of how local governments can produce resources without adverse budget or ratepayer impact at a time when the country is starved for infrastructure investment.

Local officials who have pledged to keep an open mind on the proposal have nevertheless raised issues that will need to be addressed. The issues are familiar ones to me. As mayor of Indianapolis in the 1990s, I did the country's first major full outsourcing of an airport. At the time our airport, as is true of St. Louis' Lambert International, was successful and well managed. I wanted to market-test whether a private company that specializes in airport management, with access to worldwide technology and best practices, could produce more customer satisfaction, better airline relationships and more net revenue while holding down increases in passenger enplanement costs.

My Indy transaction preceded and in part brought about congressional authorization of the [Airport Privatization Pilot Program] that Mayor Slay is requesting permission for St. Louis to join. This FAA program permits a limited number of cities to unlock the value they have created in this asset and deploy that value back into the community. Since in Indianapolis we did not have access to this FAA program, no matter how much money we saved the city could in no way benefit. This made no sense to me. If the airport didn't operate at maximum efficiency, the airlines and thus the passengers would pay more. If it did operate better, then why shouldn't the city benefit in a share of the revenues or receive repayment for some of its original contribution of land?

But we did it anyway, both to improve passenger satisfaction and enhance the airport's net revenues — both of which got better during the time the airport was operated by BAA, at the time the operator of London's airports. BAA agreed to a performance-based contract in which goals for improved operations, maintenance cost savings and better passenger experience levels had to be met before it received compensation. The project ended when BAA exited the U.S. market.

The anxieties raised by various St. Louis stakeholders are reasonable and should be addressed, and the best way to do that is by laying out at the rules from the beginning. Neither passengers nor the airlines should pay more as a result of any transaction. The city should be a financial partner in the deal, with its long-term interests aligned with the private operator through an ongoing revenue share. Customer-service levels should go up based on measurable, enforceable operating standards. The successful private manager should have specific requirements and incentives for significant capital investment in the airport and ancillary economic development. Overall, the transaction should be perceived as a win for the city, the community, the airport and the airlines.

A good model for the process is the most recent large U.S. airport public-private partnership, that of San Juan's airport. The Puerto Rico government brought the necessary political will to the P3 market and ran a thorough proposal process that resulted in a contract providing for over $1.2 billion in unrestricted proceeds to the territory's government and another $1.4 billion of capital investment at the airport over the 40-year lease to the private operator.

Mayor Slay's bold move to test this evolving market deserves support. The flying public, St. Louis taxpayers and the airlines deserve protection and continued excellence in operations and capital investment, and all of that can potentially be accomplished while producing significant unrestricted proceeds for the city.

GOVERNING.COM

BY STEPHEN GOLDSMITH | APRIL 3, 2017

Transportation Advocates to Trump: Where's the Money?

The president's budget proposal has many in the industry worried that he might break his promise to spend $1 trillion on infrastructure.

One of President Trump's most popular promises has been his oft-repeated pledge to spend $1 trillion in infrastructure improvements. While he has never given much detail about how he'd do that, the idea was enough to give hope to local officials, state highway departments and transit agencies.

But those hopes are beginning to dim.

Earlier this month, the Trump administration released a budget outline that called for cutting funding for the U.S. Department of Transportation by 12.7 percent. The new president also proposed eliminating popular programs, such as competitive TIGER grants, which are used to build large, intermodal projects, and New Starts, which funds transit construction.

In addition, the administration wants to ax subsidies for air service in small cities and eliminate Amtrak services for unprofitable routes in the South and West. The plan, which has informally been referred to as the "skinny budget," would cut Energy Department programs for researching new vehicle technologies, and scale back funding for the U.S. Army Corps of Engineers, which maintains ports, rivers and other waterways throughout the country.

Cuts like these, many observers say, are at odds with a president who envisions himself a builder.

"There's clearly an inconsistency between the campaign promises and the very first budget proposal," says Robert Puentes, the president and CEO of the Eno Center for Transportation. "We know [infrastructure] is not the first policy priority, but the skinny budget has left people scratching their heads."

Trump's top budget aide, Office of Management and Budget Director Mick Mulvaney, acknowledged the dissonance while discussing the budget outline.

"People might say, 'Well, goodness gracious, that doesn't line up with what the president said about a commitment to infrastructure.' That was done intentionally," Mulvaney told reporters. "Why? Because we believe those programs to be less efficient than the infrastructure package that we're working on for later this year. So what we've effectively done is try to move money out of existing, more inefficient programs, and hold that money for what we expect to be more efficient infrastructure programs later on."

But without any details about what would be in the new infrastructure package, that explanation isn't likely to sit well with transportation advocates.

"Actions that result in a reduction to U.S. transportation system investment concern us, so we're anxious to see the president's full infrastructure investment package to put the proposals outlined in this budget in context," says Bud Wright, the executive director of the American Association of State Highway and Transportation Officials.

Linda Bailey, the executive director of the National Association of City Transportation Officials, went further, saying the Trump budget outline would be a "disaster for cities."

"President Trump has promised to rebuild our nation's infrastructure with a widely touted $1 trillion infrastructure plan," she says. "But it is impossible to square his words with his budget proposal."

Trump's budget proposal also suggested large cuts to popular programs like Meals on Wheels, public television and energy assistance for low-income Americans in order to pay for increases in military spending.

Marcia Hale, the president of Build America's Future, says the combination of all of those unpopular proposals makes it unlikely that Congress will go along with the Trump blueprint. She doesn't think the fate of the budget proposal will directly affect the president's plans to invest in infrastructure. But Hale anticipates that the administration will focus on areas that could attract private financing, such as toll roads, water and broadband.

Puentes, the president of the Eno Center, says Trump's background may give him a different perspective on what is crucial infrastructure. Trump may be more interested in spurring real estate developments than, say, funding public transportation.

In his first weeks in office, Trump's biggest impact on infrastructure will ultimately benefit private developers. The president signed executive measures that encouraged construction of two controversial oil pipelines, the Keystone XL Pipeline and the Dakota Access Pipeline.

Just weeks before Election Day, Trump's campaign released a short infrastructure plan that would have relied primarily on tax credits for private investors. That plan received only tepid support from transportation advocates because it did not include any new revenue to pay for projects. It also focused solely on projects that would generate their own revenue, which wouldn't really help residents in rural areas or agencies with major repair and maintenance needs.

Both Commerce Secretary Wilbur Ross, one of the two authors of the Trump campaign proposal, and Transportation Secretary Elaine Chao, said during their confirmation hearings that new federal revenues would be needed to address the country's infrastructure needs. But they didn't elaborate.

"The infrastructure paper I put out was meant to provide another tool, not to be the be all and end all," Ross told a Senate panel in January. "There will be some necessity for [direct federal spending on transportation], whether it's in the form of guarantees or direct investment or whatever."

For now, though, transportation advocates will have to wait to see whether that funding materializes and, if it does, whether it will be used to pay for the needs at the top of their lists.

GOVERNING.COM

BY DANIEL C. VOCK | MARCH 27, 2017

How the Buyside Is Handling Trump's Shift from Healthcare to Tax Reform.

Municipal portfolio managers are sticking with their health care strategies after the failure of the American Health Care Act last Friday, saying they expect the Trump administration to continue its quest to undo Obamacare.

With tax reform replacing health care on the front burner, they predicted the prospect of lower rates or a change in the muni tax exemption will have a greater impact on overall market demand and other technicals than on their individual strategies.

"On any given day, we are and will remain open to sourcing value across the hospital sector – or any other major municipal sector for that matter – as long as the end product in our portfolios is properly diversified and all credits have been thoroughly reviewed," Jonathan Law, a portfolio manager at investment and financial services firm Advisors Asset Management, said on Wednesday.

Law, who has been pro-health care sector since prior to President Obama's Affordable Care Act becoming law in 2010, said his exposure was steady through the first quarter of 2017 and he doesn't expect to do anything different in light of the AHCA defeat.

His firm is responsible for $1.1 billion of client assets under management, of which $370 million consists of municipal assets, as of Dec. 31, 2016.

He said he will keep his sights set on larger, nonprofit systems with multiple hospitals in multiple states, organizations with leading market share, and/or well-diversified revenues that aren't overly reliant on Federal funding.

"The sound and rational municipal investor was generally unaffected by the proposal and the failure of the American Health Care Act," Law said. "Compared to the rest of the market, the health-care sector did not trade out of the ordinary at any point during the lifespan of this bill."

Law said it is also unlikely that health care bonds will rally and spreads significantly tighten following the AHCA's demise.

Dawn Mangerson, who co-manages municipal portfolios with Jim Grabovac at McDonnell Investment Management, said the team continues to like the hospital sector, in which it was recently overweight.

McDonnell oversees $11.5 billion in client assets, 63% of which are tax-exempt municipal assets, including separately-managed accounts and two sub-advised municipal mutual funds, as of Dec. 31, 2016.

"We were looking for an opportunity to take advantage of spread widening – which we did see – but there was not enough supply" in the first quarter, Mangerson said on Tuesday.

She and Grabovac will be looking for more opportunities from the sector as the second quarter rolls in next week.

While portfolio managers are seeing little impact from the failure of the AHCA, the event is triggering more of a reaction in the overall municipal market, municipal experts said this week.

Price, performance, and value are just some of the market technicals being influenced – or expected to be impacted – by the non-vote of AHCA, according to municipal experts this week.

For instance, municipal bonds already outperformed along the curve, following U.S. Treasuries to "decidedly higher levels" last week, Jeffrey Lipton, managing director and head of municipal research and strategy at Oppenheimer & Co. wrote in a March 27 report.

Municipal yields finished unchanged on March 24 – the day the AHCA vote was removed from the previous day, which Lipton said indicated "support for haven assets evident early this week."

The 10-year and 30-year Municipal Market Data triple-A benchmark yields declined by 12 and 11 basis points, respectively, Lipton pointed out, while comparable maturity U.S Treasury yields declined by seven and eight basis points, respectively.

Other impacts from the defeat of the AHCA are being seen in municipal volume and flows, managers and analysts said.

"With municipal yields off their highs of the quarter and supply limited on year-over-year basis, it wouldn’t be a surprise to see issuers returning to the market with more new money and refunding deals during the second quarter,” Law of AAM said.

The volatility and uncertainty surrounding the new administration “and its ability to pursue a successful fiscal stimulus policy with tax-reform at the core would likely create a more uneven trajectory of muni bond mutual fund flows,” according to Lipton’s report.

For example, he said, flows turned positive after three consecutive weeks of outflows, according to Lipper Inc.

Meanwhile, some managers agreed that the impact from the passage of the AHCA would have put the municipal health care sector in critical condition.

“The potential to restrict Medicaid funding would have been a negative for the hospital sector,” Grabovac said.

Secondarily, it would have also been a negative for states, which would have been responsible for picking up the slack in a market where states and hospitals make up a quarter of the debt.

He said the market is “breathing a little easier” in the wake of AHCA’s failure. “To have dodged that bullet is a credit positive,” especially for smaller, rural hospitals, Grabovac added.

Managers like Lipton said the negative consequences could have included significantly reduced funding for Medicaid beneficiaries, a more restrictive deployment of subsidies, and elimination of the newly applied taxes under ObamaCare, as well as associated budgetary implications.

Alan Schankel, managing director of research at Janney Capital Markets, said it would have triggered investor concerns about the healthcare sector, since fewer customers covered by insurance in coming years would have reduced hospital revenues.

“The state sector would also have been pressured by the conversion of federal Medicaid matching funds into block grants, which would have reduced federal payments to states over time,” Schankel added.

The bill’s failure serves as an example of “rhetoric meeting reality,” according to Grabovac.

“The failure of the AHCA to even come to a vote in the house is really significant and a significant indication of how difficult the legislative road is going forward,” he said.

Schankel said although the ACA “emerged from the Congressional process intact, uncertainty remains, with the potential for Congress to revisit in future.”

Lipton said the “much-heralded, yet perhaps ill-conceived” AHCA would have been the fulfillment of one of the “hallmark promises” of President Trump’s campaign.

“Given the events of last week, we would expect market performance to be more sensitive to potential disruptive forces regarding the President’s agenda,” Lipton said. “Undoubtedly, there is likely to be an extended post mortem of the AHCA.”

Now that health care is taking a backseat, managers say the focus on tax reform under the Trump administration creates some challenges and uncertainty for the municipal market. But like the failure of the AHCA, it will not damage or alter their investment strategies or goals.

“The House failure to pass the AHCA does not render tax-reform improbable,” Lipton wrote in his report.

“It does, however, make it more difficult with potential delays, especially given the observation that the Republicans have competing ideological agendas within their own party, and we have to wonder how easily they can come together on other policy legislation.”

Lipton predicted tax reform will be a fourth quarter event – or possibly a 2018 first quarter occurrence – with the Border Adjustment Tax a widely-debated issue, and infrastructure spending and deregulation also crucial topics.

“We remain skeptical over just how much GDP growth can actually offset the Republican tax cuts,” Lipton wrote, adding that there is a potential impact on economic growth from tighter Fed policy and a stronger dollar.

Lipton predicts three increases to short-term rates this year, with June and December being appropriate dates.

“If Congress demonstrates continued divergent views that inhibit the Administration’s agenda, there could very well be a recalibration of economic growth and inflationary performance expectations,” he added.

Lipton said as the market moves into the tax-reform phase of fiscal policy, he expects the relative value ratios to remain “generally rangebound.”

On March 24, the Bloomberg Valuation 10 and 30-year ratios stood at 95.56% and 102.86%, respectively.

“While we remain cautious of the potential effects these various tax proposals could have on the municipal market, the concrete issues at hand that we prepare and adjust our investment strategy around continue to be rising interest rates and inflation,” Law said.

He seeks a defensive duration versus his benchmark, above average coupon bonds, and properly diversifying across various sectors, states, as well as parts of the yield curve to manage his composite portfolios through a rising rate environment – despite the potential tax proposals.

Tax reform is not as complex as health care economics, according to Grabovac, who believes any potential tax changes will involve smaller reductions in rates compared to some of the more significant cuts that have been floated as ideas.

“There were concerns that if a significant change in marginal rates were implemented that could reduce demand from insurance companies and banks, which are 30% of the market,” Grabovac said.

“To the extent those changes are very likely to be moderated significantly that has removed some potential concern,” he added.

In fact, the failure of the AHCA could end up sparking increased appetite for municipals, portfolio managers and analysts predicted.

“Perhaps we may see a change in sentiment now that health care reform has been tabled and chances of Republican consensus have now been diminished,” Lipton’s report said, suggesting the possibility of a “more enduring appetite” for less risky assets.

"Other than an immediate selloff following the election, the market has held in extraordinary well, and there has been no significant lessening of the demand," Grabovac said.

Similarly, there is less concern if individual tax cuts are likely to be moderate and take longer to implement "rather than more quickly and at an extreme fashion," according to Grabovac.

"I think the big issue of potentially the border tax and deductibility of interest are extreme changes to the tax system and probably will have a difficult time getting resolution even within the Replication party – if they chose to take a path other than through reconciliation," Grabovac said.

He said tax reform issues highlight the difficult political balance that Congress and the Trump administration face. He said it will likely be "much more difficult to accomplish the fiscal initiatives than the market anticipated."

The Bond Buyer

By Christine Albano

March 30, 2017

[Trump Proposes $17.9B More Budget Cuts for FY-2017, Gutting TIGER, CDBG.]

WASHINGTON – Having failed to get Congress to enact a health care bill to replace the Affordable Care Act, President Trump may now be setting up a contentious debate with lawmakers over the budget for fiscal 2017, which is almost half over.

The Office of Management and Budget has proposed $17.9 billion in additional spending cuts beyond the program levels already negotiated by the House and Senate in the continuing resolution for fiscal 2017, which ends on Sept. 30. The CR is due to expire on April 28 and the failure to extend it, adopt a new one, or pass an omnibus bill by then could force a shutdown of the federal government.

The cuts proposed for fiscal 2017 were made just two weeks after President Trump released a skinny budget proposing major cuts for domestic programs for fiscal 2018, which starts on Oct. 1 of this year. Senate Appropriations Committee Vice Chair Patrick Leahy, D-Vt., criticized the cuts.

"Unfortunately, this appears to be more of the same partisan campaign gestures from the Trump Administration, making shortsighted and draconian cuts on the backs of the middle class and the most vulnerable Americans," Leahy said. "Cutting cancer research, slashing affordable housing and programs to protect the environment, and making middle class taxpayers pay for a wall that Mexico was supposed to pay for? I've already made some blunt statements about the idea of an enormously expensive and ineffective wall. These may be the Trump Administration priorities, but they aren't the priorities of the American people."

In its chart of the $17.9 billion of cuts proposed for fiscal 2017 that was sent to the lawmakers and made available by publications such as CQ and Politico, OMB proposed eliminating the $499 million for the popular Transportation Investment Generating Economic Recovery (TIGER) grant program. The House and Senate agreed in the current CR to provide $499 million to the program, which supports innovative projects, including those that are multimodal and multi jurisdictional and are difficult to fund through traditional federal programs. The $499 million figure was a compromise from the $450 million in the House CR and the $525 million in the Senate CR.

Since 2009, the TIGER grant program has provided a combined $5.1 billion to 421 projects in all 50 states, the District of Columbia, Puerto Rico, Guan, the Virgin Islands and tribal communities. The program is so popular that demand far exceeds available funding. In 2016, the Transportation Department, which administers TIGER, received 585 eligible applications requesting more than $9.3 billion – well over the $500 million that was leveraged to support $1.74 billion in transportation investments.

OMB told lawmakers in the chart that the $499 million cut “eliminates funds for the TIGER program, which provides localized benefits that can be funded through other existing funding streams.”

Susan Monteverde, vice president of government relations for the American Association of Port Authorities, said many lawmakers have been very supportive of the TIGER program, which is broader and more flexible than other federal grant programs, such as FASTLANE.

The FASTLANE grant program, established by the Fixing America’s Surface Transportation (FAST) Act, provides grants to fund critical freight and highway programs, but is not multimodal, she said.

TIGER grants can be used for freight or rail projects connected to ports and are not just for local projects, Monteverde said. “Seaports provide national benefits,” she said, adding, “They handle imports and exports that come into and go out of the country.”

OMB also proposed cutting $447 million from the Transit New Starts program, the Federal Transit Administration’s primary grant program for funding major transit capital investments, including heavy rail, commuter rail, light rail, streetcars and bus rapid transit. The current CR makes $2.16 billion available for the program, after the House initially called for $2.5 billion and the Senate $2.34 billion.

OMB said the cut would “cover the cost of projects with existing full funding grant agreements” but that the administration “proposes to suspend additional projects from entering the program and believes localities should fund these localized projects.”

OMB proposed to cut $1.49 billion from the Community Development Block Grant (CDBG) program, about half the $2.99 billion level the House and Senate agreed to in the current CR.

Both chambers had initially proposed $3.0 billion for the program before dropping the level in the final CR.

OMB said in the chart: “No grants have been awarded for the fiscal year. The program is unauthorized and has been challenged to demonstrate its effectiveness given the breadth of activities it can support.”

The CDBG is one of the longest-running programs with the Department of Housing and Urban Development and funds local community development activities such as affordable housing, anti-poverty programs, and infrastructure development. The grants are allocated to local and state governments according to a formula.

“This program has very deep roots and is widely supported by both sides of the aisle” in Congress, said one source at the U.S. Conference of Mayors. “It would be devastating to get this kind of cut. This program serves more than 1,200 jurisdictions.”

“We’re almost half through fiscal 2017,” said the source, who did not want to be identified. “I don’t think this is doable. Cities have been going on as if they were going to get this revenue.”

The Bond Buyer

By Lynn Hume

March 28, 2017

Federal $1 Billion Bond Program Is Making a Difference in Community Development.

Steve and Deona Thomas manage a 13-unit apartment building on Chicago’s South Side, and they needed to refinance the mortgage on it this year. Through their small property management and rehab company, the Thomases have become award-winning preservers of affordable housing in the city. Such developments don’t get the familiar 30-year, fixed-rate mortgages that individuals and families use to buy their homes. Commercial loans, which apply in the Thomases’ case, tend to have terms of five to 10 years. Typically, in order to lower monthly payments during the life of the loan, commercial loans are structured so that the last payment is a very large lump sum of the remaining balance (what’s known as a balloon payment). As they near the end of a current loan, businesses usually refinance — and pay off the existing mortgage with a new five- to 10-year loan. That comes with a new balloon payment looming at the end.

For many small businesses and nonprofits, this mortgage game becomes a stress-inducing cycle.

A few weeks ago, the Thomases were able to obtain a 20-year loan for that property, fully amortized — meaning no balloon payment — from the Chicago Community Loan Fund (CCLF). No more endless refinancing cycles. At the end of the 20 years, the building will be free and clear of commercial mortgage debt.

That loan was made possible thanks to the newest program of the U.S. Treasury’s CDFI Fund, known as the CDFI Bond Guarantee Program, or BGP. It was created by the Small Business Jobs Act of 2010. The federal government purchases bonds issued by federally certified community development financial institutions, or CDFIs. The bonds are 100 percent guaranteed by the U.S. Treasury, and each bond provides capital at up to 29.5-year terms. The BGP is currently the only source of long-term, fixed-rate capital for community development.

Continue reading.

NEXT CITY

BY OSCAR PERRY ABELLO | MARCH 30, 2017

California Taps Investors' Craving for Yield With Tobacco Bonds.

- Tobacco debt beat the market four times in past five years
- Buyers snap up bonds after Trump rout as yields scarce

California’s taking advantage of investors’ taste for tobacco.

Tobacco bonds are returning 10 percent this year, over seven times that of the municipal market as a whole, as buyers itching for yield pick up the securities and drive prices higher. California on Thursday plans to sell $619 million to refinance a portion of a deal from a decade ago.

The new securities, which are backed by payments from tobacco companies under a settlement based on nationwide cigarette shipments, come just days before smokers in California will see state taxes on each pack jump to $2.87 from 87 cents on April 1.

“This is probably the top” of the market for tobacco bonds, said Alan Schankel, a managing director at Janney Montgomery Scott. “There’s not a lot of supply. Yields are hard to find.”

Tobacco bonds have been rallying since a rout in November sparked by Donald Trump’s presidential victory forced fund managers to sell the securities to meet redemptions. Tobacco bonds have outperformed the overall market four of the past five years, according to S&P Municipal Bond Indices.

Municipal high-yield funds have seen inflows for the past 11 consecutive weeks, according to Lipper US Fund Flows data. New York took advantage of the improved appetite in January by selling $1.1 billion in tobacco refunding bonds. Some of the securities have since traded with less in extra interest, or spread, indicating demand.

The securities come with unique risk. Higher cigarette taxes have contributed to declines in smoking, and nine states are considering raising them, according to an analysis by forecasting firm IHS Global Inc. The fewer cigarettes the tobacco companies sell, the less in revenue the governments get to pay bondholders.

The firm projects cigarette consumption to drop by an average of 3.1 percent annually through 2029. National shipments of cigarettes in the year ended in December totaled 258 billion, a 28 percent decline from 2007, bond documents show.

S&P Global Ratings gave an A rating, the sixth-highest level, to the California securities maturing through 2020, and rated the longest maturities three steps lower at BBB, based partly on the credit quality of the two largest participating tobacco manufacturers, Altria Group Inc. and Reynolds American Inc.

The refinancing would lower the overall 2007 deal’s carrying costs, which would improve the performance of the bonds not being taken out, said New York-based underwriter Ramirez & Co., which is working on the transaction.

The bulk of the offering isn’t being refinanced, demonstrating there are limited arbitrage opportunities, noted Janney’s Schankel. With the market expecting the Federal Reserve to continue raising rates this year, states are facing a smaller window to retire higher-cost tobacco bonds.

Last year, $474 million in bonds were issued, compared with $2.7 billion in 2013, data compiled by Bloomberg show.

“They’re squeaking out these refundings,” Schankel said.

Bloomberg Markets

by Romy Varghese

March 28, 2017, 9:39 AM PDT

U.S. Municipal Bond Sales Down 10 pct in First Quarter.

March 31 (Reuters) – Debt sales by states, cities, schools and other issuers in the U.S. municipal market slumped 10.1 percent to $85.87 billion in the first quarter of 2017, compared with the same quarter last year, according to preliminary Thomson Reuters data on Friday.

Refundings of existing bonds totaling $44.7 billion slightly outpaced new money issuance of $41.16 billion.

In March, issuance of $29.8 billion was up from $21.8 billion in February, but lagged March 2016's $40.9 billion supply.

In the coming week, sales of bonds and notes are estimated at nearly $7.5 billion.

Next week's biggest deal is a $778 million Massachusetts general obligation bond issue pricing through Citigroup on Thursday.

The deal includes $400 million of bonds with serial maturities in 2032 through 2037 and term bonds due in 2042 and 2047, according to the preliminary official statement.

Nearly $277.6 million of refunding bonds are due in 2017 and from 2022 through 2027. Green bonds totaling $100 million carry serial maturities from 2023 though 2027 and in 2037, as well as a 2047 term maturity.

Meridian Health will sell $620 million of new and refunding revenue bonds through the New Jersey Health Care Facilities Financing Authority. Bank of American Merrill Lynch is scheduled to price the bonds on Wednesday.

Flows into U.S. municipal bond funds perked up in the week ended March 29. The funds reported net inflows of $265 million, up from $173.5 million in the prior week, according to Lipper, a unit of Thomson Reuters. (Reporting by Karen Pierog; Editing by Jeffrey Benkoe)

Can Government Incentives Boost Green Bond Growth?

Government incentives to boost issuance?
Despite the rapid growth seen across the green bond market, it may not be enough to meet the climate goals set out by governments globally. In addition to creating clear definitions and standards to promote market confidence and transparency, government incentives may also be needed to spur further growth. Tax advantages for investors, similar to the benefits individual investors in U.S. municipal bonds receive, may be one option governments can explore. Alternatively, direct subsidies to issuers, preferential treatment for green bonds that are held on bank balance sheets, or preferential withholding tax rates are other avenues worth exploring. A massive increase in issuance, as well as a robust secondary market and additional ways for investors to access green bonds, are essential for continued market growth.

What can add to further growth?

In order for the green bond market to expand further, government roles are vital. Government policies and standardizations will lead to more transparency in the green bond market and thus reduce the issuance of unlabeled bonds. The proceeds from green bonds are needed to fund and finance projects to mitigate climate-related risks.

The proceeds from these bonds have been used in various environmental projects, as you can see in the above graph. Green companies earn 50%–100% of their revenues from clean technologies such as renewables (QCLN) and energy efficiency (IEO).

You can get exposure to the clean energy industry by considering the VanEck Vectors Global Alternative Energy ETF (GEX), the PowerShares WilderHill Clean Energy ETF (PBW), and the iShares Global Clean Energy (ICLN).

Some governments have gotten involved in supporting and developing the standards of the green bond market. A research paper by the OECD (Organisation for Economic Co-operation and Development) stated that in 2015, Switzerland was the first national government member of the Climate Bonds Partners to show support in the development of the Climate Bonds Standard.

José Ángel Gurría, the secretary-general of the OECD, stated in a research paper on green bonds, “Government policies can play a central role in influencing how private capital is mobilised and shifted. It will only be green if the investment landscape is supportive.”

Governments can add to the growth of the green bond market by mobilizing and making efficient use of public capital. That could lead to a faster transition to a low-carbon economy.

By VanEck | Mar 31, 2017

GFOA Advisory: Pension Obligation Bonds.

Advisory:
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:
Pension obligation bonds (POBs) are taxable bonds1 that some state and local governments have issued as part of an overall strategy to fund the unfunded portion of their pension liabilities by creating debt. The use of POBs rests on the assumption that the bond proceeds, when invested with pension assets in higher-yielding asset classes, will be able to achieve a rate of return that is greater than the interest rate owed over the term of the bonds. However, POBs involve considerable investment risk, making this goal very speculative.2 Failing to achieve the targeted rate of return burdens the issuer with both the debt service requirements of the taxable bonds and the unfunded pension liabilities that remain unmet because the investment portfolio did not perform as anticipated. In recent years, local jurisdictions across the country have faced increased financial stress as a result of their reliance on POBs, demonstrating the significant risks associated with these instruments for both small and large governments.

Recommendation:
The Government Finance Officers Association (GFOA) recommends that state and local governments do not issue POBs for the following reasons:

1. The invested POB proceeds might fail to earn more than the interest rate owed over the term of the bonds, leading to increased overall liabilities for the government.
2. POBs are complex instruments that carry considerable risk. POB structures may incorporate the use of guaranteed investment contracts, swaps, or derivatives, which must be intensively scrutinized as these embedded products can introduce counterparty risk, credit risk and interest rate risk.3
3. Issuing taxable debt to fund the pension liability increases the jurisdiction's bonded debt burden and potentially uses up debt capacity that could be used for other purposes. In addition, taxable debt is typically issued without call options or with "make-whole" calls, which can make it more difficult and costly to refund or restructure than traditional tax-exempt debt.
4. POBs are frequently structured in a manner that defers the principal payments or extends repayment over a period longer than the actuarial amortization period, thereby increasing the sponsor's overall costs.
5. Rating agencies may not view the proposed issuance of POBs as credit positive, particularly if the issuance is not part of a more comprehensive plan to address pension funding shortfalls.

Committee:
Retirement and Benefits Administration

Notes:
1 The Tax Reform Act of 1986 eliminated the tax exemption for pension obligation bonds.

2 Alicia H. Munnell, Jean-Pierre Aubry, and Mark Cafarelli, "An Update on Pension Obligation Bonds," Center for Retirement Research at Boston College, July 2014.

3 See GFOA Advisory – Using Debt-Related Derivatives and Developing a Derivatives Policy (2015)

Approved by GFOA's Executive Board:
January 2015

U.S. Sanctuary Cities Weigh Response to Trump's Threat to Curb Funding.

NEW YORK — Officials from so-called sanctuary cities met in New York on Tuesday to discuss their response to threats from the Trump administration to cut off some funding to cities and states that fail to assist federal authorities in arresting illegal immigrants.

Attorney General Jeff Sessions threatened on Monday to strip U.S. Justice Department grants from cities and other local governments that choose to shield illegal immigrants from deportation efforts under President Donald Trump.

His remarks were aimed at dozens of cities and other local governments, including New York, Los Angeles and Chicago, that have joined a growing "sanctuary" movement aimed at protecting immigrant communities.

Tuesday's meeting in New York marked the second straight day of brainstorming on the immigration issue by leaders of some of America's biggest urban centers.

Public officials, liberal activists and academics from around the country shared information on a host of issues. Topics discussed included when and how to challenge requests from Immigration and Customs Enforcement (ICE) to hold illegal immigrants under arrest, for separate local offenses.

Attendees came from California, Texas, Wisconsin, Pennsylvania, Connecticut, Washington State and elsewhere.

Sanctuary cities in general offer safe harbor to illegal immigrants and often do not use municipal funds or resources to advance the enforcement of federal immigration laws. Sanctuary city is not an official designation.

Federal records show the Justice Department doled out $1 billion to state governments and $430 million to nonprofits in 2016, but only $136 million directly to cities and counties.

Crime is generally lower in sanctuary counties, according to a study presented by University of California San Diego assistant professor Tom Wong. He said the findings echoed those of law enforcement officials themselves, since they have found they are more effective when they can focus on day-to-day policing instead of immigration enforcement.

Chicago City Council member Carlos Ramirez-Rosa said that although his city is a sanctuary jurisdiction, immigration agents raided a home there on Monday where eight people, including three children, were sleeping.

The agents shot and wounded Felix Torres, though he was not the person agents were seeking, Ramirez-Rosa said.

“This guns blazing raid … is exactly why my city should refuse to comply with ICE, under all circumstances,” he said.

By REUTERS

MARCH 28, 2017, 2:33 P.M. E.D.T.

(Reporting by Hilary Russ; Editing by Daniel Bases and Tom Brown)

U.S. Threat to 'Sanctuary' City Funds Likely to Have Little Impact: S&P

SAN FRANCISCO — U.S. Attorney General Jeff Sessions’ threat to strip Justice Department grants from cities and local governments that shield illegal immigrants from deportation would have minimal impact on municipal credit ratings, according to S&P Global Ratings.

The financial rating firm said on Thursday that an analysis of 10 large so-called sanctuary jurisdictions found the Justice Department funds made up on only 0.2 percent of budgets, on average.

The term sanctuary is not an official designation but has come to be used generally to describe cities and local governments that offer safe harbor to illegal immigrants and often do not use municipal funds or resources to advance the enforcement of federal immigration laws.

The 10 jurisdictions reviewed were: Cambridge, Massachusetts; Detroit; Josephine County, Oregon; Los Angeles County, California; New York City; Oakland, California; San Francisco; Santa Fe, New Mexico; Seattle; and Washington, D.C.

Of the places reviewed by S&P, funding from the Justice Department made up the largest share of federal funding in Oakland, with 8 percent of federal funding, and Seattle, with 7 percent.

S&P said it expected both cities' financial strength and economic growth to offset any potential losses.

Grants for health, community development and transportation generally make up the largest share of federally derived revenue for jurisdictions. But this funding is typically allocated by formulas set in statute and lack any connection to immigration enforcement. As a result, S&P said it viewed "the likelihood of Congress withholding or deferring these funds to sanctuary jurisdictions as more remote."

Justice Department grants were among the most at risk, because this funding is "generally provided on an annual basis in the form of competitive grants," said S&P.

Some local governments receive as much as 41 percent of their budgets from the federal government, while others receive none at all. Counties tend to have more exposure than cities, as counties generally administer their own criminal justice programs, according to S&P.

By REUTERS

MARCH 30, 2017, 3:06 P.M. E.D.T.

(Reporting by Robin Respaut; Editing by Bill Rigby)

Fitch: Toshiba Insolvency Would Raise US Nuclear Plant Costs.

Fitch Ratings-New York-21 March 2017: The fiscal pressures on Westinghouse Electric Company LLC and its parent company, Toshiba Corporation, are weighing on the credit quality of the public power issuers that are involved in two nuclear power projects, Fitch Ratings says. The three issuers with co-owner interests have been subject to negative actions since 2015 when Toshiba's credit began to weaken, construction delays continued and additional cost overruns began to develop.

Westinghouse and Toshiba are the lead contractor and guarantor, respectively of the Alvin W. Vogtle Electric Generating Plant (Vogtle) and the Virgil C. Summer Nuclear Generating Station (Summer) development. The public power co-owners include Municipal Electric Authority of Georgia (MEAG), Oglethorpe Power Corporation, GA and South Carolina Public Service Authority (Santee Cooper), all of which remain on Negative Watch or Outlook. JEA and PowerSouth Energy Cooperative have agreed to purchase project output, but have Stable Outlooks.

The current financial strain on Westinghouse and Toshiba could lead to higher completion costs and further delays. In the event of bankruptcy, the Engineering, Procurement and Construction contract could be terminated and allow the co-owners to draw on letters of credit posted by the developer. However, the co-owners' abilities to recover additional costs and damages from the project guarantor could be limited in bankruptcy, undermining the benefits of the fixed-price agreement.

Fiscal pressure rose last week as the Japanese government said it was not considering supporting Toshiba and the company missed, for the second time, a reporting deadline for its audited third quarter results. Its application to delay its results until April 11 was approved, but it remains at risk of being delisted for failure to meet the requirements of the Tokyo Stock Exchange. Toshiba has undertaken a number of initiatives to bolster its liquidity and improve credit quality, including the proposed sale of its profitable memory chip business, but the success of these strategies is uncertain.

The public power issuers we rate have begun to make their plans for completing the plants with substitute contractors more detailed should Toshiba enter bankruptcy. The transition to a new construction team would almost certainly result in further revisions of the in-service dates past 2020 and higher costs to be borne by ratepayers.

The public power issuers have different supports that limit their rating downsides from these possible outcomes, including the unconditional obligation and ability to recover project-related costs, whether or not the projects are completed or operated. Each of the public power issuers also has the ability to set rates necessary to recover those costs independent of external regulatory approval. However, the willingness of each issuer to maintain robust financial metrics in the wake of higher costs is uncertain.

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Investors Bottom Fish Municipal Bonds Tied to Westinghouse Bankruptcy.

NEW YORK — The sell-off of municipal bonds tied to the bankruptcy filing of Westinghouse Electric Co paused on Thursday as investors reconsidered concerns on the likelihood that construction of four U.S. nuclear power plants hit by billions in cost overruns will be completed.

The four reactors are part of two projects known as V.C. Summer in South Carolina, which is majority-owned by SCANA Corp and Vogtle in Georgia, which is owned by a group of utilities led by Southern Co.

Westinghouse is a unit of Japanese conglomerate Toshiba Corp.

Tax-exempt bonds issued by the Municipal Electric Authority of Georgia (MEAG), which owns 22.7 percent of the Vogtle units, and South Carolina Public Service Authority (Santee Cooper), which owns 45 percent of the V.C. Summer units, reversed a recent slide, albeit in thin trading volumes.

“It could be considered a dead-cat bounce in the market as people are starting to get comfortable with their ability to pay their bonds and it doesn’t appear that this is going to lead to a default,” said Brett Adlard, municipal strategist at Piper Jaffray in Chicago.

Adlard said there could be near-term weakness in the bonds because of headline risks, but there is a slow realization that there are underlying strengths, such as Santee Cooper’s flexibility to raise electricity rates given that the rates are considered low when measured against the rest of the nation.

On Wednesday, SCANA executives told analysts that in the case of the V.C. Summer operations, most of the components are already bought and on site, which employs about 5,000 people.

“The Trump administration, being so pro-jobs, shutting down these two large nuclear plants would look like a negative from their goal,” Adlard said, adding that Westinghouse’s involvement in military operations makes this a national security interest.”

MEAG’s 6.637 percent bond maturing in 2057 saw improvement with the yield spread over the benchmark MMD yield curve narrowing by 4.5 basis points to 285.7 basis points. However, over the last 10 trading days, spreads are wider by a significant 26.9 basis points, according to Thomson Reuters data..

Santee Cooper’s 5 percent bond maturing in 2028 improved on Thursday with the yield spread narrowing by 16.7 basis points to 95.1 basis points. That is still 35.6 basis points wider over the last 10 trading days. Wider spreads indicate weak performance in a credit.

Costs for the projects have soared due to increased safety demands by U.S. regulators and also due to significantly higher-than-anticipated costs for labor, equipment and components.

“These are fundamentally strong credits, but that said, they have made a lot of investments in these plants and now there is more uncertainty on how much more it is going to cost or how much longer it will take to complete the plants,” said John Ceffalio, municipal credit analyst at AllianceBernstein in New York.

“To date, both MEAG and Santee Cooper have had a lot of political support. We question how strong that support will be going forward given additional costs and delays,” he said.

By REUTERS

MARCH 30, 2017, 6:27 P.M. E.D.T.

(Reporting by Daniel Bases; Editing by Leslie Adler)

Bloomberg Brief Weekly Video - 03/23

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

Watch the video.

Bloomberg

March 23, 2017

Bloomberg Markets: Bonnell Says Munis in ‘Wait and See’ Period.

Bloomberg Markets with Carol Massar and Cory Johnson.

GUEST: John Bonnell Senior Portfolio Manager USAA Investments Discussing outlook for the municipal bond market infrastructure spending, healthcare and tax reform on the horizon.

producer: Paul Brennan +1-212-617-8292 or pbrennan25@bloomberg.net

Play episode.

Running time 09:30

March 23, 2017 — 12:15 PM PDT

HSE Municipal Market Update - March 17, 2017

HSE Municipal Market Update – March 17, 2017

Treasury To Suspend Sales Of State And Local Government Series Securities.

The U.S. Department of the Treasury's Bureau of the Fiscal Service (the "Treasury") announced on March 8, 2017 the suspension of sales of State and Local Government Series (SLGS) nonmarketable Treasury securities, effective 12:00 noon Eastern Time, March 15, 2017.

SLGS are special purpose securities that the Treasury issues to state and local government entities to assist them in complying with federal tax laws and Internal Revenue Service arbitrage regulations. SLGS are issued at the request of the government entity when it has cash proceeds to invest from the issuance of tax exempt bonds. SLGS securities are purchased only by issuers. As a result of the SLGS suspension, also known as closing the SLGS window, the Treasury will no longer accept new subscriptions for SLGS securities. The Treasury is anticipated to reopen the SLGS window when Congress enacts, and the President signs, legislation raising the debt limit.

Please note that entities must submit their intention to purchase SLGS either 7 calendar days before the issue date, if for more than $10 million, or 5 calendar days before the issue date if for $10 million or less. Therefore, the window for subscriptions closed on Wednesday, March 8 and Friday, March 10, respectively. Treasury's past practice has been to honor all SLGS subscriptions submitted by the specified time and date of the SLGS suspension. Unless otherwise prohibited for another reason, SLGS maturities, interest payments, and early redemptions will be processed as normal during the SLGS suspension. Open-market Treasury securities, which are purchased after soliciting bids from banks and other financial institutions are still an option.

Last Updated: March 22 2017

Article by Luisella P. McBride and 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.

Cambridge Minibond Official Statement.

City of Cambridge, Massachusetts General Obligation Bonds, 2017 Series A (Minibond Program) (MA)

Official Statement posted 3/3/17

Preliminary Official Statement posted 2/24/17

Rieger Report: Why Foreign Investors Like U.S. Municipal Bonds.

A trend that has been catching attention is purchases of U.S. municipal bonds by foreign investors. A terrific summary was recently published by VanEck's Michael Cohick and that can be found by clicking here.

As that research points out, the Federal Reserve data on foreign investor holdings has jumped to end 2016 at $106 billion. That data can be found on page 125 of the Federal Reserve Statistical Release March 9th 2017.

Some factors that could be making U.S. municipal bonds attractive to foreign investors include:

- A strong U.S. dollar or perspectives of a strong for longer U.S. dollar.
- U.S. municipal bonds, whether tax-free or taxable, offer incremental yield relative to the negative or near zero yield environments seen in the Eurozone and Japan.
- The relatively high quality of investment grade municipal bonds to other asset classes such as U.S. corporate bonds and in some cases sovereign bonds.
- The low historical default rate of investment grade municipal bonds.
- Shorter duration than U.S. investment grade corporate bonds. For example, investment grade municipal bonds tracked in the S&P National AMT-Free Municipal Bond Index have more than a two year shorter duration than those tracked in the S&P 500/MarketAxess Investment Grade Corporate Bond Index. Note: both indices designed to reflect more liquid segments of the markets.
- Relatively lower volatility of U.S. municipal bonds as compared to U.S. corporate bonds.
- Due to these factors, U.S. municipal bonds can also be a diversifying asset class.

Liquidity: Due to the large number of U.S. municipal bond issuers and the sheer number of municipal bonds outstanding the depth of liquidity for U.S. municipal bonds has been a factor impacting the market for decades. The lower depth of liquidity for U.S. municipal bonds helps keep yields higher as a liquidity "premium" is demanded by the market in return for this risk. The advent and growth of diversified municipal bond Exchange Traded Funds (ETF's) could be helping to provide access to and liquidity for municipal bonds. The Federal Reserve Statistical Release shows assets in municipal bond ETF's have grown from $15.1 billion at year end 2014 to $24.7 billion at year end 2016.

J.R. Rieger
Head of Fixed Income Indices

S&P Dow Jones Indices

MARCH 27, 2017 – 1:00 »

Toshiba Meltdown Casts Cloud Over Bonds for Nuclear Plants.

- Company unit that's building facilities considering bankruptcy
- Public utiltities in two states issued muni bonds for projects

The financial meltdown at Toshiba Corp.'s nuclear power-plant business is seeping into the U.S. municipal-bond market.

Debt issued by public utilities in Georgia and South Carolina that helped finance the first U.S. nuclear reactors built in 30 years has gotten riskier as exploding construction costs threaten the solvency of contractor Westinghouse Electric Co., a unit of Toshiba.

As the company reels from losses, Westinghouse is considering bankruptcy and Toshiba may sell a majority stake in its memory chip business to stem the bleeding. While the Japanese company guaranteed that Westinghouse will finish the work, the security of that backstop has been cast into doubt by Toshiba's weakened condition. Moody's Investors Service warned this week that it may downgrade the municipal debt tied to the projects, with S&P Global Ratings following suit late Thursday.

"A bankruptcy would raise a level of uncertainty about what happens," said Moody's analyst Michael Haggarty. "Our concern is they may have to go back to the ratepayers for potential additional costs."

The Municipal Electric Authority of Georgia is working with Southern Co. to build new reactors at Plant Vogtle, about 30 miles (48 kilometers) southeast of Augusta. The South Carolina Public Service Authority, known as Santee Cooper, and Scana Corp. are constructing two new units at the V.C. Summer plant some 30 miles northwest of Columbia, the state capital. Santee Cooper owns 45 percent of the new units, while the Georgia power authority owns about a quarter of the project in its state.

Moody's changed its outlooks on the ratings of $7.1 billion of municipal debt issued by Santee Cooper and $2.9 billion from the Georgia agency, saying a Westinghouse bankruptcy could call into question its ability to complete the projects and shift costs onto those agencies. Moody's rates Santee Cooper's debt, A1, the fifth-highest level. The Georgia bonds are graded either A2, one step lower, or Baa2, two steps above junk, depending on the legal security that backs them.

"We would argue the plants most likely get finished, but what is that additional cost going to be and who's going to absorb that cost," said Lyle Fitterer, who oversees $40 billion, including securities issued by Santee Cooper, as head of tax-exempt debt for Wells Capital Management. "Most likely, if Westinghouse files bankruptcy the onus is going to be put on the owners of these plants."

The difference between the yield on some bonds issued by Santee Cooper and top-rated securities — a measure of the risk perceived by investors — has widened to more than 2.2 percentage points, an increase of about 0.67 percentage point since late December, according to data compiled by Bloomberg. That gap for Georgia project bonds averaged 1.35 percentage points Thursday, up from 0.96 percentage point two months ago.

A Westinghouse bankruptcy could make prices on the bonds more volatile, particularly because the debt issued by Santee Cooper has traditionally been held by risk-averse investors, Fitterer said.

“We think the whole complex is at risk of downgrade because of this, but ultimately it’s not something that will put any one of those entities out of business or cause their ratings to go to non-investment grade,” he said.

Santee Cooper is committed to finishing the project, said Mollie Gore, a spokeswoman for the agency. She declined to comment on Moody’s decision to change the outlook on its rating.

“We’ve got about 5,000 contract workers on site today at V.C. Summer and they’re all working hard and continue to make progress building these new units,” said Gore.

Santee Cooper, created by the South Carolina legislature in 1934, serves 2 million residents, and its board has the power to set rates. On March 20, the utility’s board voted to study whether customers need to pay more to fund construction of the new reactors, the Post and Courier of Charleston reported.

The Georgia electric authority was created by the state legislature in 1975 to provide wholesale electric power to 49 cities in the state. Moody’s action was “more related to the concern with Westinghouse that it is with MEAG power,” said Edward Easterlin, the agency’s chief financial officer.

In addition to Toshiba’s guarantee, and $2.1 billion of unspent construction proceeds, the authority has $920 million letters of credit issued by Japanese banks that would be available if Westinghouse files for bankruptcy, said Pete Degnan, the Georgia agency’s general counsel. Toshiba has guaranteed as much as 40 percent of the contract price if Westinghouse abandons the project, Degnan said.

“We don’t see that the Westinghouse bankruptcy would impact our ability to access the letters of credit or the parent guarantee of Toshiba,” Degnan said.

Westinghouse has been building the power plants since 2013. The projects have been plagued by litigation, design changes and the need to get approvals from the Nuclear Regulatory Commission. Labor productivity has suffered because of a lack of supervisors on the site, said Degnan.

Bloomberg Markets

by Martin Z Braun

March 23, 2017, 12:20 PM PDT

Subtracting Schools from Communities.

What happens to communities when local schools close?

When schools close for good in Chicago or Baltimore or Detroit, it makes headlines. People stage protests, go on hunger strikes, file lawsuits.

When a school closes for good in Joiner, Arkansas, the national media barely notices—but the community certainly does.

“The impact is felt more quickly in rural areas,” said Tequilla Banks, an executive vice president with TNTP who grew up in Joiner and has worked in nearby districts. “There aren’t other wraparound services, right? There aren't other venues. Even extracurricular activities—it's harder to get kids to those if the school isn't right there."

Research has shown that although changing schools can negatively affect students, the impact of moving to a better school after a school closure can be positive. Similarly, research in New York City found that closing low-performing high schools benefitted future students, who instead attended other, higher-performing schools. But none of this research accounts for what happens to the community.

"The decisions that we make, when they affect the communities our kids live in, they also affect the kids," Banks said. "We make these decisions to close schools in isolation, but they have unintended consequences that very well may undermine our efforts."

To begin to understand those unintended consequences, we must first understand which communities and students school closures affect.

[Continue reading.]

The Urban Institute

by Alexandra Tilsley

March 23, 2017

[Fitch: Proposed US Budget Cut May Pressure State Revolving Funds.]

Fitch Ratings-New York-20 March 2017: The Trump Administration's proposed 2018 budget cuts to the US Department of Agriculture's (USDA) rural water and wastewater grant program would likely result in a partial diversion of funds from the US Environmental Protection Agency's (EPA) State Revolving Fund (SRF) Programs, Fitch Ratings says.

The recommended budget essentially calls the USDA program redundant and eliminates its nearly $500 million budget. Without any offsetting increases in SRF grant funding, SRF project funding, which is frequently used, would likely be strained.

SRF programs provide valuable financing options for municipalities' water- and sewer-related infrastructure needs. SRFs combine a pool of loan repayments with additional forms of credit enhancement, such as reserve funds, to protect bondholders from losses caused by the default of pool participants.

The combined 2018 budget proposal for clean and drinking water SRFs is approximately $2.3 billion, which is similar to last year. Therefore, increases in funding needs, or similarly, funding reductions, could eventually lead to further leveraging of the SRF programs.

We do not expect any ratings impact in the near term, as the SRF programs rated by Fitch have substantial reserves and equity positions. However, ratings could be pressured over the long term if there are any substantial increases in program leverage to meet the demands from utilities historically served by the USDA.

Most SRFs are rated 'AAA' by Fitch. Associated costs of financing are passed to SRF program borrowers, many of which may not have affordable access to the capital markets.

Fitch's program asset strength ratio (PASR) is a measure to help market participants distinguish the relative financial strength of Fitch-rated SRFs. The PASR, an asset-to-liability ratio, is calculated by dividing the amount of aggregate pledged assets, including scheduled loan repayments, reserve funds, and account earnings, by aggregate outstanding debt service. The overall median PASR for the sector in 2016 was 1.9x, equivalent to 2015 and up slightly from 1.7x and 1.8x in 2013 and 2014, respectively. The high PASR levels reflect SRF's robust enhancement.

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Additional information is available on www.fitchratings.com. The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

New Wave of Puerto Rico Bond Troubles Hits Mutual Funds.

Oppenheimer, Franklin Templeton, others see market value plunge

Another downturn in Puerto Rico bonds is rippling through mutual funds on the mainland.

A new fiscal plan that leaves the troubled island commonwealth with less money to cover its debts pushed the value of certain bonds down as much as 9% last week through Thursday, according to Municipal Securities Rulemaking Board data.

That means tens of millions of dollars in paper losses for U.S. mutual funds that are some of the largest holders of Puerto Rico's $70 billion in debt. That includes OppenheimerFunds, said a person familiar with the matter.

Oppenheimer and Franklin Templeton Investments are among more than 50 U.S. fund companies that own $14 billion in bonds issued by the commonwealth, according to research firm Morningstar Inc.
The market value of that $14 billion has dropped to $8 billion as Puerto Rico's financial condition

worsened over time, according to the most recent information available from Morningstar.

The lower value doesn't necessarily equate to $6 billion in losses because the funds could have purchased the bonds at any time over the past several years as the value dropped. The date of the mutual funds' bond purchases aren't public.

Oppenheimer's $6.6 billion investment now has a market value of $3.5 billion, according to Morningstar. Franklin Templeton's $2.7 billion holding has a value of $1.4 billion, according to Morningstar. About 7% of Franklin's debt is insured, according to a person familiar with the matter.

Puerto Rico Gov. Ricardo Rossello had initially proposed earmarking about $1.2 billion a year for debt repayment over the next decade. But the fiscal control board that Congress created to oversee a debt restructuring required him to revise his economic forecasts downward. That left about $800 million for annual debt service.

The move affected various Puerto Rico bonds in different ways. One considered a benchmark—a $3.5 billion general- obligation bond maturing in 2035—fell about 9% for the week through Thursday, according to trading data from the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website. That is a big move in the normally sleepy municipal-bond world. The bond price, which had been climbing since Mr. Rossello took office in January, is now a few cents above its one-year low.

Paper losses on that bond for mutual funds were about $10 million, based on trading data. Mutual-fund holdings of that particular bond could have sold for about $98 million as of Thursday, compared with $108 million at the end of the prior week, based on trading data Thursday tracked by MSRB.

Other commonwealth bonds also dropped in value during that period. Prices on four sales-tax bonds and two other general-obligation bonds fell between 2% and 10%, according to an analysis by ICE Data Services. Those bond groups together make up much of U.S. mutual funds' holdings.

More declines are likely, said Matt Fabian, a partner with the research firm Municipal Market Analytics. "Even if the fiscal plan is the start of a negotiating process, bondholder losses are probably larger than current market prices imply," Mr. Fabian said.

One big U.S. mutual fund company isn't worried: MFS Investment Management's Puerto Rico bonds have a market value of $508 million, according to Morningstar, but the mutual fund said the "vast majority" is insured, making it far less vulnerable to changes in the island's financial condition.

A total of about $12 billion of the island's outstanding debt is insured, according to filings by the island's five biggest bond insurers

"Our direct exposure to the credit of Puerto Rico is limited," a MFS spokesman said.

THE WALL STREET JOURNAL

By HEATHER GILLERS

March 19, 2017 9:52 p.m. ET

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

Uncertain Fate of Obamacare Causes Some Hospitals to Halt Projects, Hiring.

(Reuters) – Uncertainty surrounding the Republican plan to replace Obamacare is forcing some U.S. hospitals to delay expansion plans, cut costs, or take on added risk to borrow money for capital investment projects, dealing an economic blow to these facilities and the towns they call home.

Hospitals typically lay out multi-year operating plans that prioritize investments, such as new clinics, medical wings, technology or other projects that help draw in more patients and increase revenue. In addition to enhancing patient care, these projects are vital to the local economy as a driver of jobs ranging from construction and maintenance to restaurants and transportation.

Denver Health Medical Center, for example, opened a new $26.9 million clinic in the city’s southwest in 2016 to provide care to an area lacking in health services and saw more patients within six months than it had expected over two years. The health system planned to build or remodel five more facilities based on the new clinic’s success.

But since November’s election, when Republicans swept the White House and Congress, Denver Health has deferred $73.7 million-worth of construction projects that had been planned to serve more low-income residents, many of whom were newly insured under Obamacare.

“We want to know what will happen with the Medicaid expansion population, and what will be the timeline for that,” said Peg Burnette, Denver Health’s chief financial officer. “Due to the uncertainty, we’re not going to issue new debt. We have no plans for that in the near future.”

Denver Health is not alone. Across the country, hospitals are shifting to a more conservative stance as they await sweeping changes to the nation’s healthcare law that for the first time in U.S. history would reverse a government healthcare entitlement program. The Affordable Care Act, commonly known as Obamacare, provided coverage to 20 million Americans and brought higher revenues to many hospitals.

The law’s likely overhaul puts many hospitals in a uniquely daunting position of being unable to predict how many of their patients will be insured and what type of coverage they will have in the future. As a result, many are more wary than in years past to invest in expensive capital projects, issue debt, or expand into new regions, said healthcare experts and hospital executives.

This is playing out in Arizona, where Kingman Regional Medical Center is taking cost-cutting measures by renegotiating medical supply and service contracts. The University of Alabama at Birmingham Health System, which includes six hospitals, is largely holding off hiring non-clinical staff, a trend also evident in national data.

Across the industry, hospital jobs so far in 2017 grew by 8,775 monthly on average, compared to 11,413 jobs for the same period last year, Bureau of Labor Statistics data shows.

The Republican-proposed bill, set to come before the U.S. House of Representatives on Thursday for a vote, would unwind the Medicaid expansion, cap federal payments to states and replace Obamacare’s income-based tax credits with flat age-based credits. The bill would still need approval in the Senate if it clears the House this week.

When asked about the early signs of hospitals putting spending on hold, a White House spokesperson expressed confidence that “the disastrous Obamacare law will be replaced with the American Health Care Act — the vehicle which will reform our broken healthcare system.”

The nonpartisan Congressional Budget Office estimates the new proposal would cause 14 million people to lose health insurance next year and 24 million by 2026. The bill has divided House and Senate Republicans and sparked fierce criticism from Democrats and leading medical and hospital groups, including the American Medical Association and American Hospital Association.

“It’s very challenging to plan for your future in an environment like this,” said Beth Feldpush, senior vice president of policy and advocacy at America’s Essential Hospitals, a group that represents safety-net hospitals nationally.

Not all hospitals are on hold. Some healthcare groups in areas with growing populations, such as Atlanta and Houston, are pushing ahead with capital expansion projects. Others, such as Maryland’s Prince George’s County, are still planning to move forward with construction plans, thanks in part to a partnership with the University of Maryland Medical System.

With the new medical center, Prince George’s County hopes to end its long-time reliance on $30 million annually from public subsidies to help cover operations. But that goal assumed Obamacare would remain intact, said Thomas Himler, Prince George’s deputy chief administrative officer.

“It could be that three years out we are no longer making money, we are losing money,” said Himler.

The uncertainty has seeped into the municipal bond market, where nonprofit hospitals access capital. The sector sold 36 percent less debt for new projects so far in 2017, compared to the same period last year, while the rest of the municipal market increased the amount of new money issued by 23 percent, Thomson Reuters data shows. While municipal analysts say it’s too early to draw conclusions, the uncertainty surrounding Obamacare is a likely cause for the decline.

“There’s a wait-and-see feeling,” said Kevin Holloran, a senior director at S&P Global Ratings. “Hospitals are saying, we’ll revisit this in six months or more.”

REVENUES AND RESTRAINT

Since enrollment started in 2014, the Affordable Care Act brought significant changes to Denver Health Medical Center, a safety-net hospital with the busiest trauma center in Colorado. Historically, nearly two-thirds of patients were either uninsured or covered by Medicaid, the government health insurance program for the poor.

Almost immediately after Obamacare went into effect, rates of uninsured dropped and Medicaid coverage jumped to over half of all patients.

With so many more patients covered, hospital margins grew and days of cash-on-hand climbed. Such financial improvements enabled the hospital to invest in new projects, including the Pena Family Health Center in southwest Denver. The hospital planned to construct three more clinics, to expand two existing clinics, and to build a new parking garage to drive new revenues and expand its coverage.

But since November’s elections, much of those plans have been deferred, including a $24 million expansion of a second clinic, largely financed through bonds. The health system still plans to move forward with the construction of one clinic and the remodeling of another. But those plans could be bigger.

“There’s great demand that we’re concerned about not being able to meet in the future,” said Burnette.

By REUTERS

MARCH 23, 2017, 8:15 A.M. E.D.T.

(Reporting by Robin Respaut in San Francisco and Yasmeen Abutaleb in Washington; editing by Edward Tobin)

Pension Crisis Too Big for Markets to Ignore.

In late 2006, Aaron Krowne, a computer scientist and mathematician, started a website that documented the real-time destruction of the subprime mortgage lending industry. The Mortgage Lender Implode-O-Meter caught on like wildfire with financial market voyeurs, regularly reaching 100,000 visitors. West Coast lenders, some may recall, were the first to fall in what eventually totaled 388 casualties.

A year earlier, to much less fanfare, Jack Dean launched another website in anticipation of the different kind of wave washing up on the California coastline. Called the Pension Tsunami, the website was originally conceived to provide Golden State taxpayers with a one-stop resource to track news stories on the state's mammoth and numerous underfunded public pensions.

Dean came about his inspiration honestly: "I started tracking this issue in 2004 after the Orange County Board of Supervisors gave a retroactive pension formula increase of 62 percent to county employees," he said. "I was stunned. It's the main reason Orange County has a $4.5 billion underfunded liability today."

As the years have passed, though, the site has become a font of information for states and municipalities nationwide as well as corporate pensions. In all, over 40,000 headlines have been posted to the website to date. On a recent Friday, Dean posted multiple stories on the California Public Employees' Retirement System, the country's largest pension program, as well as a budget cliff facing San Francisco, six Los Angeles public safety officers who collected over $1 million apiece last year in pensions, and eight cities that could face bankruptcy when the next recession hits. But the day's headlines also included the latest on the fiasco unfolding in Dallas, an update on Houston's less awful situation and features on states that have become the site's other usual suspects — Connecticut, Illinois and New Jersey. And that was a slow news day.

The question is why haven't the headlines presaged pension implosions? As was the case with the subprime crisis, the writing appears to be on the wall. And yet calamity has yet to strike. How so? Call it the triumvirate of conspirators – the actuaries, accountants and their accomplices in office. Throw in the law of big numbers, very big numbers, and you get to a disaster in a seemingly permanent state of making. Unfunded pension obligations have risen to $1.9 trillion from $292 billion since 2007.

Credit rating firms have begun downgrading states and municipalities whose pensions risk overwhelming their budgets. New Jersey and the cities of Chicago, Houston and Dallas are some of the issuers in the crosshairs. Morgan Stanley says municipal bond issuance is down this year in part because of borrowers are wary of running up new debts to effectively service pensions.

Federal Reserve data show that in 1952, the average public pension had 96 percent of its portfolio invested in bonds and cash equivalents. Assets matched future liabilities. But a loosening of state laws in the 1980s opened the door to riskier investments. In 1992, fixed income and cash had fallen to an average of 47 percent of holdings. By 2016, these safe investments had declined to 27 percent.

It’s no coincidence that pensions’ flight from safety has coincided with the drop in interest rates. That said, unlike their private peers, public pensions discount their liabilities using the rate of returns they assume their overall portfolio will generate. In fiscal 2016, which ended June 30th, the average return for public pensions was somewhere in the neighborhood of 1.5 percent.

Corporations’ accounting rules dictate the use of more realistic bond yields to discount their pensions’ future liabilities. Put differently, companies have been forced to set aside something closer to what it will really cost to service their obligations as opposed to the fantasy figures allowed among public pensions.

So why not just flip the switch and require truth and honesty in public pension math? Too many cities and potentially states would buckle under the weight of more realistic assumed rates of return. By some estimates, unfunded liabilities would triple to upwards of $6 trillion if the prevailing yields on Treasuries were used. That would translate into much steeper funding requirements at a time when budgets are already severely constrained. Pockets of the country would face essential public service budgets being slashed to dangerous levels.

What’s a pension to do? Increasingly, the answer is swing for the fences. Forget the fact that just under half of pension assets are in the second-most overvalued stock market in history. Even as Fed officials publicly fret about commercial real estate valuations, pensions have socked away eight percent of their portfolios into this less than liquid asset class. Even further out on the risk and liquidity spectrum is the 10 percent that pensions have allocated to private equity and limited partnerships. For the better part of a decade, New Albion Partners Chief Market Strategist Brian Reynolds has tracked pensions’ allocations to these so-called alternative investments, and the total is approaching $350 billion.

The working assumption is that the Pension Tsunami will never make land fall, but the next time you take comfort in the sanctity of pensions given they have yet to self-destruct, ask yourself instead how they are hedged in the event of a correction. Will it be their bond, stock, real estate or private equity holdings that shield their portfolios? Or will it be none of the above?

Bloomberg Prophets

By Danielle DiMartino Booth

MARCH 24, 2017 8:45 AM EDT

Professionals offering actionable insights on markets, the economy and monetary policy. Contributors may have a stake in the areas they write about.

Danielle DiMartino Booth, a former adviser to the president of the Dallas Fed, is the author of “Fed Up: An Insider’s Take on Why the Federal Reserve Is Bad for America,” and founder of Money Strong LLC.

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

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Rising Pension Debts Checking Muni Supply, Morgan Stanley Says.

- Muni market sees low new money issuance compared to mid-2000s
- Government credit not facing ‘imminent deterioration’

A drop in the sale of state and local government debt this year may have a culprit other than rising interest rates.

Analysts at Morgan Stanley, led by Michael Zezas, said the rising retirement-system costs has made government more leery of running up new debts. State and local revenues have not kept pace with growth in total liabilities that now amount to $4.97 trillion, the analysts say.

Despite January seeing a year-over-year rebound in tax revenues, the unfunded pension liabilities pressures “would make this a hollow victory if they aren’t sustained,” the analysts added. Unfunded pension obligations have risen to $1.9 trillion from $292 billion since 2007, according to data compiled by Bloomberg.

The drop-off in muni new money issuance comes as unfunded pension liabilities continue to pressure many municipalities’ budgets, ranging from Chicago Public Schools to the Dallas Police and Fire Pension.

Escalating pension bills for the city of Chicago triggered Moody’s Investors Service to downgrade its credit to junk. S&P Global Ratings has warned Dallas and Houston could have their ratings lowered if they don’t shore up their pension funds while New Jersey’s rating has been cut repeatedly due to underfunded pension obligations.

As state tax collection growth is slowly decelerating, the analysts say investors should limit their exposure. Investors should note that this trend won’t add more pressure to the municipalities than they’re already facing.

“None of this is to suggest a crisis or imminent deterioration in general government credit,” the analysts said in a note.

Blooomberg

by Jordyn Holman

March 21, 2017, 9:28 AM PDT

Crisis? What Pension Crisis?

A new paper from the University of California at Berkeley contends that concerns about the declining health of public retirement systems in the modern era are largely overblown. The author, Tom Sgouros, argues that maintaining a fully funded pension is not necessary for governments because they’ll always be around to pay the bill.

Sgouros also argues that the accounting standards used to evaluate pension plans are partly to blame for the current pension crisis narrative. Be it city council members or “analysts at Moody’s determined to justify a downgrade,” these players often misuse the data to blame pension plans for municipal woes. “Debt due in the distant future is not a crisis today,” he writes, “even if it is a cause for concern.”

The Takeaway: Sgouros makes several good (and interesting) points. But he doesn’t really acknowledge that pension funds are essentially money set aside to invest and help pay for retirement benefits and are thus designed to defray the ultimate cost of those benefits to the government. In other words, pay less today rather than a lot more down the road. The accounting and numbers may be twisted in seven different kinds of ways, depending on who’s doing the talking, but it’s not a reason say the entire process doesn’t matter.

GOVERNING.COM

BY LIZ FARMER | MARCH 24, 2017

The Week in Public Finance: Detroit's Big Pension Plan, Debating the Pension Crisis and Counties Under the Gun.

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

GOVERNING.COM

BY LIZ FARMER | MARCH 24, 2017

Recycling Infrastructure Assets to Spur Infrastructure Investment.

The Trump Administration has the admirable goal of encouraging infrastructure investment. One policy it may want to consider is promoting the recycling of existing municipal infrastructure assets. This policy was developed in Australia and has been successful there.

Recycling infrastructure assets does not refer to re-using concrete blocks. Rather, it is a vernacular term that refers to the sale by a municipality of existing infrastructure assets to private investors to raise cash that the municipality can then use to construct new infrastructure assets.

Existing infrastructure assets with revenue histories are perceived as a safer investments for investors than investing in the construction of a new asset that is unknown whether or not it will be able to be operated successfully. This perception means that private investors will pay a higher price for an infrastructure asset with a revenue history than for an infrastructure asset that has yet to be constructed. Further, new infrastructure projects require years to design, approve and construct.

Under a policy of recycling infrastructure assets, municipalities are encouraged by the federal government to sell existing assets that have revenue streams. An example could be a tunnel or a port. The proceeds of the sale are required to be held in a account that can only be used to fund new infrastructure projects.

The federal government encourages the sales by providing a financial incentive to the municipality that is a percentage of the sales price, for instance 15%. So if an operating toll bridge is sold for $100 million to private investors, the federal government provides an additional $15 million. Now, the municipality has $115 million that it can use immediately to construct a new infrastructure project that either might not be suitable for private investment (e.g., improvements to public school buildings) or that private investors may be reluctant to underwrite without a revenue history.

The federal subsidy serves three purposes. First, it motivates the municipality to undertake a complicated legal and financial process, which it might otherwise opt to avoid. Second, when constituents assert that the municipality should not sell a much loved asset (e.g., a stadium), the municipal officials can respond that they care about the stadium too; however, the federal government is providing a cash subsidy for doing this. Third, it provides much needed funding for infrastructure.

Another nuance is that in Australia title in fee simple to the infrastructure asset in question is not usually sold to the private investor. Rather, the municipality enters into a long-term lease or concession contract for the asset with the private investors. Therefore, constituents who are concerned about a prized asset being in private hands can be assured that eventually (e.g., 50 years) that possession of the asset will eventually revert to the municipality. That is, the politicians can state we did not sell the beautiful toll bridge, we merely leased it to an investor.

Even more infrastructure funding could be raised if the tax-exempt bond rules in the United States were modified to permit private investors to issue tax-exempt bonds to fund a portion of the payment for the long-term lease or concession contract. The tax exemption on the bonds would enable the private investors to issue debt at lower interest rates than they could using traditional taxable debt and, thus, pay more for their interest in the infrastructure assets while earning a comparable equity return.

If the Trump Administration wants to improve America's infrastructure in an expedited manner with minimal involvement of the federal bureaucracy, then it should urge Congress to enact legislation that provides municipalities a subsidy based on the sale proceeds of assets and enables private investors to issue tax-exempt debt to fund their investment in municipal infrastructure assets.

Mayer Brown

By David K. Burton on March 22, 2017

President Trump Takes Executive Action On Energy Infrastructure Projects: Cadwalader

President Trump issued an executive order and four presidential memoranda (the "Executive Actions") intended to streamline the regulatory process, dismantle burdensome regulations and promote domestic job growth within the energy sector. The Executive Actions direct specified Cabinet members and agencies to remove regulatory barriers to infrastructure investments, and order the use of American-made materials to construct pipelines within the United States.

In a memorandum, Cadwalader attorneys Mark Haskell, Brett Snyder and Mary Treanor review the Executive Actions, as well as the ongoing challenges faced by natural gas and oil projects in light of those actions.

Commentary

The Executive Actions do not clarify whether these requirements apply to offshore or cross-border pipelines, nor how the administration will effectuate the directive without violating existing international trade agreements. Key language in the memoranda, requiring American-made materials "to the maximum extent possible and to the extent permitted by law," may provide a loophole. Commenters suggest that this phrase avoids running afoul of existing trade treaties.

Last Updated: March 20 2017

Article by Brett Snyder

Cadwalader, Wickersham & Taft LLP

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

Cambridge, Mass., Community-Sourced Minibonds Could Spark Market Trend.

Cambridge, Mass., raised $2 million through a sale of community-sourced minibonds, which the city and its underwriter say could further a trend in the $3.8 trillion municipal bond marketplace.

Public finance firm Neighborly underwrote the general obligation deal through its affiliated broker-dealer, Neighborly Securities.

"Our intention is to democratize access to municipal bonds," said James McIntyre, head of finance for San Francisco-based Neighborly and a former executive director of public finance for Morgan Stanley.

Cambridge, a 110,000-population city across the Charles River from Boston and home to Harvard University and Massachusetts Institute of Technology, will use the proceeds to fund capital projects such as school building renovations and street and sidewalk improvements.

Officials marketed the tax-exempt bonds only to city residents, capped individual orders at $20,000 and lowered the minimum investment amount to $1,000 from the customary $5,000.

Retail orders began selling at the close of business on Feb. 17, at the start of the three-day President's Day weekend. The sale closed March 8.

The Series A minibonds bonds pay a tax-exempt interest rate of 1.6% and will mature in five years, on Feb. 15, 2022, with the first coupon due Aug. 15.

According to Neighborly, more than 240 individuals invested in the minibonds. It marked the initial investment in a municipal bond for 45 of them.

Locke Lord LLP was bond counsel in Cambridge. Hilltop Securities Inc. unit First Southwest was the financial advisor.

Fitch Ratings, S&P Global Ratings and Moody's Investors Service all assign triple-A ratings to Cambridge GOs.

“This will not only engage residents, but we will make them a financial partner in our infrastructure investments,” said City Manager Louie DePasquale.

A publicity campaign included pamphlets, “invest in Cambridge” mass-transit posters, a video and a huge sign in front of City Hall on Massachusetts Avenue.

According to neighborly founder Jase Wilson, the sale is a throwback to yesteryear.

“The most exciting thing about the Cambridge minibond issue is that it’s not a new idea at all,” he said. “It’s in fact the way our nation’s communities used to borrow money to build public projects.”

Denver, for example, issued its first minibonds in 1990. In 2014, the city generated $12 million through a crowdfunding in $500 increments, as part of a $550 million transaction to finance city road improvements.

“The minibonds definitely met Denver’s goal of helping residents invest in the community, so the project was well worth the additional resources and effort,” wrote Elizabeth Fu, a manager at the Government Finance Officers Association’s Research and Consulting Center.

“Of course, this tool isn’t for everyone,” she wrote, because some governments might have trouble with the additional workload, the level of resources needed for administration, or the additional cost.

Cambridge also sold $56.5 million in general obligation municipal purpose loan of 2017 Series B bonds competitively on March 1. Morgan Stanley submitted the winning bid with a true interest cost of 2.303%.

Proceeds from that sale will benefit sewer and stormwater, energy efficiency and street repair citywide, including Cambridge Common and tourist spot Harvard Square.

Neighborly’s director of business development, Pitichoke Chulapamornsri, said the firm structures bond financings to connect a city’s capital plan with its residents. “We are excited to help redefine the ‘public’ in public finance,” he said.

Wilson and bond broker Patrick Hosty founded Neighborly in Kansas City, Mo., in 2012. Wilson moved headquarters to San Francisco while Hosty still runs the Kansas City office. The firm also has an office in New York.

Neighborly plans deals similar to Cambridge this year in Burlington, Vt.; Austin, Texas; and Lawrence, Kan. – all home to state universities.

“Communities that are innovative and engaged are usually college towns,” said McIntyre. “They are the ones with the most participation.”

Harvard and MIT, two of the nation’s wealthiest universities and the two largest employers in Cambridge, fuel the city’s economy. According to Fitch, they employ more than 18% of the city’s workforce.

MIT, in particular, has built out significantly around the Kendall Square neighborhood near the river.

“Cambridge continues to maintain and strengthen its position as a national leader in the life-sciences and high-tech sectors,” Fitch wrote in a report. Expansions in these sectors have contributed to the tax base, employment and resident income growth over the past several years and is projected by the city to continue in the near future, the rating agency wrote.

The city has $377 million of debt, said Moody's.

The Bond Buyer

By Paul Burton

March 15, 2017

As Interest Rates Rise, Muni Bonds' Unique Characteristics Matter More.

This year, the Federal Reserve is likely to raise interest rates at least three times. The current rate hike cycle is the first in nearly a decade and after all those years of zero-bound rate policy, some investors may feel as though this is a step into uncharted territory. Standish, however, has managed municipal bond portfolios through many similar interest rate tightening cycles and our analysis of how various asset classes have performed during previous periods of rising rates makes us confident that opportunities may exist for investors to earn attractive yields while also reducing portfolio risk amid the ongoing normalization of monetary policy.

Download the White Paper.

S&P Credit FAQ: Cybersecurity, Risk, and Credit in U.S. Public Finance.

Cyberattacks on all types of companies, governments and other organizations are regular news headlines. Motivations of the attackers vary and while it may appear that there is little discrimination as to the type of entity targeted, with retail stores, political national committees, and major tech giants all reporting incidents, almost all cyberattacks have an intended result.

Continue reading.

Mar. 13, 2017

The Week in Public Finance: Trump's Budget, the CBO on Health Care and Accounting for Higher Ed.

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

GOVERNING.COM

BY LIZ FARMER | MARCH 17, 2017

Bloomberg Brief Weekly Video - 03/16

Amanda Albright, a contributor to Bloomberg Briefs, talks with Editor Joe Mysak about this week's municipal market news.

Watch video.

Bloomberg

March 16, 2017

The Big Three: Taking a Comprehensive Look at Financial Reporting.

The GASB is either actively working on or conducting research on three interrelated projects that will allow the Board to take a comprehensive look at financial reporting for state and local governments.

Of these three efforts, two are on the current technical agenda:

- Financial Reporting Model Reexamination, and
- Revenue and Expense Recognition.
- The third, the Note Disclosures Reexamination, was recently added to the Board's pre-agenda research.

Work on "The Big Three" began with the Financial Reporting Model Reexamination. The project was added to the current agenda after two years of research. In late 2016, the Board issued an Invitation to Comment (ITC) in this project. Here, the Board is evaluating—and asking for your input at each stage along the way—what the model should ultimately look like. While the existing model remains effective in most respects, recent Board research identified that there are potential areas for improvement. These are the areas the Board is asking for your input on at the ITC stage.

As the direction is determined for the reporting model, the Board also will look at how revenue and expense should be recognized within that model in the Revenue and Expense Recognition project. This project is designed to develop a comprehensive application model for the recognition of revenue and expenses that arise from nonexchange, exchange, and exchange-like transactions, including guidance for exchange transactions that have not specifically been addressed in the current literature.

As the model is being determined, the question becomes: What disclosures need to be made to offer a complete understanding of the financial model and the related recognition concepts? The objective of the pre-agenda research on the Note Disclosures Reexamination is to evaluate whether currently required note disclosures are sufficiently meeting the informational needs of users of state and local government financial reports. The research should provide the Board with the information necessary to determine whether additional or revised guidance is needed.

The timing of the interrelated projects is staggered to allow the Board to work on them in unison so they can be issued consecutively—and in as timely a manner as possible. The time horizon for completion of these efforts is relatively lengthy, however. The anticipated timing for completion of the Financial Reporting Model Reexamination alone is late 2021. The Board looks forward to your input as these activities progress.

Fitch: CBO Estimate Confirms Major Implications for States from AHCA.

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.

CUSIP Requests Surge in February Signaling Corporate and Muni Bond Bounce.

NEW YORK, NY, MARCH 16, 2017 – CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for February 2017. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity, found a notable uptick in the pre-trade market for corporate and municipal bonds in February, following three straight months of declines.

Read Report.

Trump Budget Blueprint Mum on Major Infrastructure Plans.

The Trump administration's 2018 budget proposal would make significant cuts in the budgets of three agencies that may be expected to help carry out the president's ambitious infrastructure repair and modernization plans. What isn't included in the budget blueprint are details about the president's often-touted $1 trillion infrastructure renewal plan.

"[T]he President has emphasized that one of his top priorities is modernizing the outdated infrastructure that the American public depends upon," according to the March 16 blueprint. "To spearhead his infrastructure initiative, the President has tapped a group of infrastructure experts to evaluate investment options along with commonsense regulatory, administrative, organizational, and policy changes to encourage investment and speed project delivery. Through this initiative, the President is committed to making sure that taxpayer dollars are expended for the highest return projects and that all levels of government maximize leverage to get the best deals and exercise vigorous oversight. The Administration will provide more budgetary, tax, and legislative details in the coming months."

In terms of individual department and agency funding, the proposal would slash $2.6 billion (31 percent) from the Environmental Protection Agency's budget, which would result in the elimination of 50 programs and 3,200 positions, reported The Washington Post. However, the $5.7 billion agency budget would include $2.3 billion for state revolving funds (a $4 million increase) and $20 million for the Water Infrastructure Finance and Innovation Act program (level funding).

The Department of Transportation's budget would be cut by $2.4 billion (12.7 percent) to $16.2 billion. This would include eliminating funding for the Transportation Investment Generating Economic Recovery grant program, which funds surface transportation projects. The proposal also calls for privatizing the Federal Aviation Administration's air traffic control function. It is not clear whether this could involve a P3 element.

The Army Corps of Engineers' budget would fall by $1 billion (16.3 percent) to $5 billion.

However, the General Services Administration's discretionary budget authority would increase by $200 million to $500 million, although it's not clear how much money it will be authorized to spend on costly projects such as the planned FBI headquarters swap or plans to consolidate the Department of Homeland Security at the St. Elizabeth's West campus, reported the Washington Business Journal.

This preliminary budget blueprint will be followed by a more comprehensive budget proposal to be released in May, the Post reported.

NCPPP

March 16, 2017

[The Old, Dirty, Creaky U.S. Electric Grid Would Cost $5 Trillion to Replace. Where Should Infrastructure Spending Go?]

The American Society of Civil Engineers just gave the entire energy infrastructure a barely passing grade of D+

The electric grid is an amazing integrated system of machines spanning an entire continent. The National Academy of Engineering has called it one of the greatest engineering achievements of the 20th century.

But it is also expensive. By my analysis, the current (depreciated) value of the U.S. electric grid, comprising power plants, wires, transformers and poles, is roughly US$1.5 to $2 trillion. To replace it would cost almost $5 trillion.

That means the U.S. electric infrastructure, which already contains trillions of dollars of sunk capital, will soon need significant ongoing investment just to keep things the way they are. A power plant built during the rapid expansion of the power sector in the decades after World War II is now 40 years old or older, long paid off, and likely needs to be replaced. In fact, the American Society of Civil Engineers just gave the entire energy infrastructure a barely passing grade of D+.

The current administration has vowed to invest heavily in infrastructure, which raises a number of questions with regard to the electric system: What should the energy grid of the future look like? How do we achieve a low-carbon energy supply? What will it cost?

Infrastructure seems to be an issue that can gather support from both sides of the aisle. But to make good decisions on spending, we need first to understand the value of the existing grid.

[Continue reading.]

JOSHUA D. RHODES, THE CONVERSATION

Upgrading Our Infrastructure: Targeting Repairs for Locks, Dams and Bridges.

Colorado State University engineers outline their plan to improve America's D+ infrastructure rating

For the second time in a row, America's infrastructure has earned a grade of D+ from the American Society of Civil Engineers. ASCE issues these report cards every four years, grading the state of U.S. bridges, dams, parks, airports, railroads and other vital links. The fact that our nation's overall grade has not improved since the last report card in 2013 shows that major investments are long overdue. The Conversation

President Trump has promised to propose US$1 trillion in investments over 10 years to modernize the nation's infrastructure. If the Trump administration finds a way to fund such a plan, it will face many pressing questions over how to spend the money.

The most likely and logical strategy would be to pursue a combination of new construction projects, repairs and retrofits, selected to provide maximum bang for the buck. Repairing a structure is typically less expensive than retrofitting it by adding new components, which in turn is cheaper than building a new structure.

At Colorado State University (CSU) we are developing two strategies that can prolong the service life of structures such as bridges and navigation locks. First, we are identifying appropriate intervals between inspections, to minimize inspection costs without undercutting public safety. Second, we are using innovative methods to effectively increase structures' service lives, reducing the need for expensive new construction projects.

Continue reading.

HUSSAM N. MAHMOUD, THE CONVERSATION

SATURDAY, MAR 18, 2017 12:29 PM PDT

Water Infrastructure Funding: Where Do We Go From Here?

Donald Trump made big claims during the election about a plan to invest $1 trillion in America's infrastructure, indicating he would make water a top priority. Indeed, it was one of the least controversial aspects of his campaign. There is a currently a $600 billion funding gap for water and wastewater infrastructure, and the need to invest in these systems is one of the few things both parties actually agree on. “These are real numbers that no one is disputing,” said Adam Kranz, CEO of the National Association of Clean Water Agencies (NACWA) in Washington, D.C. “Now we need real money on the table to address them.”

The president's vision includes developing a long-term water infrastructure plan to upgrade aging water systems, and tripling funding for state revolving fund (SRF) programs to help states and local governments upgrade critical drinking water and wastewater infrastructure. It's an enticing promise for communities across the country that are struggling with aging systems and the cost of upgrading their infrastructure to meet new regulatory requirements. However it remains to be seen whether his administration will follow through on all of these investment promises, and more importantly, where all the money will come from. "All I can say now is 'who knows?'" said Kranz.

Bonds, Funds, and Rate Increases

Kranz does believe there will be more money on the table for water infrastructure during this administration based on Trump's vision statement and his desire to be viewed as a builder. However, Republicans have also made it clear that they intend to cut back spending, so Kranz worries that any money put in place for water infrastructure may come at the expense of other important programs. "The goals within the administration suggest a level of conflict," he said.

Mike Keegan of the National Rural Water Association is especially concerned about how funding for specific projects will get prioritized. His members are all small communities with significant infrastructure needs, and they worry that the current administration will funnel funds to more affluent communities through WIFIA, which is for larger projects and limited to communities with good credit. "A lot of the communities with the greatest need can't access that kind of funding, which is limiting for our members," he said.

Another vital source of funding that might be at risk are tax exempt bonds. "Tax exempt municipal bonds are a very important tool for municipalities of all sizes," said Tracy Mehan, executive director of government affairs for the American Waterworks Association (AWWA). They give local bodies access to low-cost capital and the power to issue bonds for specific projects based on the needs of their communities, rather than leaving these decisions to federal bodies. However, Republicans have vowed to overhaul the tax code and have made it clear that everything is on the table. "There has been specific talk about getting rid of the tax exempt status for municipal bonds, which has a lot of utility folks concerned," added Tommy Holmes, director of federal legislation for AWWA.

NACWA, AWWA, and 27 other industry organizations wrote a letter to Congress in January, encouraging the new administration not to eliminate tax-exempt municipal bonds, noting that they have been used to finance more than $2 trillion in infrastructure investments over the past ten years and are on a path to finance another $2 trillion in the next ten years. "It's an important finance tool for the water utility industry," Holmes said, noting that the loss of tax-exempt status would deliver a significant blow to water infrastructure investment.

Julius Ciaccia, CEO of Northeast Ohio Regional Sewer District in Cleveland, believes communities shouldn't count on government funding for these projects, and that they need to consider rate increases to fill the funding gaps. He notes that after big grants for wastewater infrastructure projects dried up in the 90s, Cleveland had no choice but to raise rates to cover the cost of upgrades. "We've all seen what happens when utilities don't invest in their infrastructure," he said. Cleveland residents saw 12 percent annual rate hikes over the past five years, and will see another 8.3 percent increase per year through 2021, with additional funds supporting Project Clean Lake, a federally mandated $3 billion effort to reduce stormwater runoff into Lake Erie.

The rate increases are significant, but Ciaccia noted that they are comparable to gas and electric rates for residents, and align with the real cost of managing the water and wastewater systems. "A lot of utilities' rates are still way undervalued when you consider the cost of the service we provide," he explained. And while increases can be a tough sell for residents, it's better than running the system to failure. "You have to have strong leadership and you have to communicate about the value of the water system to help people understand what they are getting," he said. "It's something that all utilities need to do better."

Value in Teamwork

The reality is that regardless of who is in office, there are no easy solutions to the country's water infrastructure crisis. Municipalities and utilities need to rely on a number of funding sources and strategies to deliver any projects, and the more innovation they can get the better, said David St. Pierre, executive director of the Metropolitan Water Reclamation District of Greater Chicago (MWRD). MWRD has 80 ongoing projects as part of its five-year capital program. St. Pierre is focused on finding more innovative strategies to fund these and other badly needed water infrastructure projects, in large part by working more collaboratively with communities and state agencies.

MWRD's primary source of financing is through bonds and the SRF, and they encourage communities to match funds when possible. Being able to access SRF funds is particularly helpful because it gives local communities the confidence to participate financially in these projects, he said. "Because we can match them, they are willing to leverage their own funds, whereas on their own they are afraid to makes these kinds of commitments."

But to have a real impact, communities need to think beyond traditional water funding sources. He points to a unique project in Robbins, Ill., that he hopes will become a model for future infrastructure development. The small community had significant flooding problems, and while MWRD could have come in and "dug a big hole" to address the flooding, his team wondered if they could do more for the struggling community.

They ultimately partnered with 50 government agencies and private organizations to design and fund a three-tiered infrastructure amenity project, complete with wetlands, athletic fields, parks, paths, shops, green energy infrastructure and a residential community near the metro. "We brought all of these public and private stakeholders together and showed them that if we work together we can get so much more done," he said. The project is still in the design phase, but everyone is excited about the potential, and they have all agreed to contribute funds. The project is expected to break ground in 2018.

St. Pierre sees these kinds of collaborations as the key to getting big infrastructure projects off the ground, and the future for water infrastructure funding. "I can't solve every problem with a $20 million a year budget," he said. "But if we get out of our niches and work together we can accomplish so much more."

WaterWorld

By Sarah Fister Gale

About the Author: Sarah Fister Gale is a Chicago-based correspondent for WaterWorld. Over the last 15 years, she has researched and written dozens of articles on water management trends, wastewater treatment systems and the impact of water scarcity on businesses and municipalities around the world.

[To Speed Up Infrastructure Projects, Trump Revisits Environmental Regs.]

The White House's push to build more infrastructure — and quickly — will likely bring

changes to some of the country's most iconic environmental laws.

President Trump has made no secret over the course of his campaign and early administration that he thinks it takes too long for infrastructure projects to get approved and built. A report from The Wall Street Journal last week indicated just how much he'd like to speed things up: The president wants states to start building within 90 days of getting federal money, compared with the years it can take for projects to start now.

The biggest hold-ups for most projects, though, come from federal — not state — regulations. State and county transportation officials say federal environmental, safety and workplace reviews can more than double the time it takes to complete a project.

But, they add, a GOP-controlled Congress and new administration provides the perfect opportunity to re-evaluate many of those long-standing environmental laws.

"We are not talking about trying to go out and gut the environmental process," says Tim Hill, the administrator in charge of environmental services for the Ohio Department of Transportation (ODOT). "That's not what states are about. They support clean air. They support clean water. They want to make good, common-sense decisions. But they want common-sense decisions in a process that allows flexibility."

Of course, many environmental groups are wary of any major changes to landmark environmental laws, especially because Congress has already sped up many parts of the reviews in recent years.

"They already won," says Scott Slesinger, the legislative director for the Natural Resources Defense Council (NRDC). "The problem isn't and has never been [environmental reviews] that have caused the delays. It's other stuff. It's money. It's local opposition. It's supply-chain problems."

Trump has already begun the process of rolling back some environmental regulations, but his administration largely hasn't specified what changes they'd like to see in order to speed up infrastructure projects. Experts, however, point to several areas that are most likely to get more scrutiny.

Clean Water Act

In February, Trump signed an executive order instructing the Environmental Protection Agency to start the years-long process of defining more specifically which types of waterways fall under the Clean Water Act.

The order was cheered by the National Association of Counties, which has complained that the Obama administration's interpretation of the act is too expansive.

Congress passed the Clean Water Act in 1972, but a series of court decisions since 2001 left in question which waters were regulated by it. Everybody agrees that the law applies to navigable rivers and lakes. Beyond that, though, things get trickier — particularly when it comes to wetlands and areas that are sometimes, but not always, covered in water.

In 2015, Obama sought to settle the debate by including small streams and wetlands under the act. But Brian Namey, a spokesman for the National Association of Counties, says Obama only muddied the waters further.

"What the previous administration did to clarify the definitions [only confused them more]," he says. "We are going to work with the new administration to make clearer rules. Counties need clarity."

One of the reasons road builders are so concerned about the existing rule is that the more expansive definitions give opponents of a project more opportunities to sue to stop or delay it, says Nick Goldstein, the vice president of regulatory affairs for the American Road and Transportation Builders Association.

But Schlesinger of the NRDC says the worries over the Obama-era interpretation are overblown. He argues that the industries most affected by the more expansive rule he issued are home building and oil and gas development — not transportation.

Beyond the issue of what kind of waterways are covered by the Clean Water Act, Congress could also look at whether the permit application process required by the law is duplicative. ODOT's Hill says projects that include, say, bridges over streams need both an environmental impact statement that includes the project's effect on waterways and a separate approval from the U.S. Army Corps of Engineers that covers many of the same areas.

Endangered Species Act

Congress is already looking at revising the landmark 1973 environmental law, for reasons that go far beyond transportation and infrastructure projects.

For one, the law restricts land development, which can hamper oil drilling, home construction, farming and ranching. For another, the process of delisting a species that has recovered is very contentious.

Nevertheless, the Endangered Species Act touches upon "almost every project that we process," says ODOT's Hill. It's "been around for 30 or more years and has not been through any substantial changes since its inception. So [it's] definitely due for a rework."

The law currently protects 1,276 species that are either threatened or endangered. New wildlife are added all the time, especially because the law gives private citizens the ability to sue to add new species. In other words, it's rare for a large project to go from start to finish without having to adjust to a new listing.

Making matters worse, the federal government often lists new protected species before it determines its plan for rehabilitating them. That means that transportation agencies can go several years without knowing for sure whether they will meet the federal criteria. During that time, frequent communication with the U.S. Fish and Wildlife Service is required on every individual project in order to make sure the new projects are in compliance once the rehabilitation plan is completed.

"When they put a new species on that list without that homework being done first, transportation agencies are at loss," says Hill.

National Environmental Policy Act

The National Environmental Policy Act (NEPA) is one of the most sweeping environmental laws on the books, and, depending on your perspective, one of the most onerous.

It requires anyone receiving federal money to assess the environmental impact of the projects as well as their impact on businesses, residents and historic sites.

The scope of the review depends on the size of the project. Projects that cost less than $5 million — which are the vast majority of transportation projects — are generally excluded from the impact study. Slightly larger projects, like a new intersection or highway on-ramp, require a more involved process called an “environmental assessment.” The biggest projects, like ones that require new rights of way, require a full environmental impact statement.

It’s the biggest projects that tend to get the most attention, and they’re the ones with the longest approval process. For projects approved in 2011, for example, the average time the NEPA process took was more than six years.

Congress responded to criticism about the lengthy reviews when it wrote its last two major surface transportation funding bills in 2012 and 2015. Federal lawmakers, for example, expanded the types of projects that were exempt from the reviews. They also allowed states to conduct their own NEPA reviews on behalf of the federal government, which California, Florida, Ohio, Texas and Utah have opted to do. Hill says Ohio saved $4.6 million in the first three months of doing the reviews itself.

Shannon Eggleston, the director of environment programs for the American Association of State Highway and Transportation Officials, sees another opportunity to streamline the process. She points to a provision that blocks federal money from being spent on environmental reviews for a project until all the funding to pay for that project has been identified.

The result, she says, is that “there’s not on-the-shelf, ready-to-go projects.”

Buy America

As part of his infrastructure push, Trump has emphasized making U.S. companies “buy American and hire American.” Congress has already enacted several Buy America provisions covering a range of infrastructure including highways, rail cars and water pipes. But if Trump opts to go further, it could undermine his goal of expediting infrastructure projects.

Goldstein, from the road builders group, says the issue with Buy America provisions is not location but cost.

“If you’re talking about something that costs under a dollar — like a nut or a bolt — should you be required to go to spend many dollars to buy an American screw?” he asks.

Buy America laws already complicate the building of transit projects, says Rob Healy, the vice president of government affairs for the American Public Transportation Association. For example, when transit agencies have to relocate utility lines, they have to ensure that they are using American-made pipes and other components to do so. But that makes it hard to re-use the same pipes because utilities don’t track the origins of those components with the detail required by Buy America provisions.

Healy notes that the most recent federal transportation law, the FAST Act, which was signed in December 2015, increases the percent of U.S.-made components required to be in new buses and rail cars from 60 percent to 70 percent by 2020.

“We just had this increase,” he says. “Let us implement it before we go to a higher domestic content requirement.”

Funding

If there’s any agreement on what could speed up new infrastructure projects, it’s on the need for more federal spending.

Slesinger from the NRDC says better funding of federal environmental agencies would help provide staff to do the needed environmental reviews for infrastructure projects more quickly.

An influx of new money would also allow transportation planners to make plans farther into the future. The current federal spending plan for transportation only goes through 2020, and it relies on one-time money. That doesn't bode well for planners who want to build a project that will take more than three years to finish.

"You don't have a lot of projects because they're not funding a lot of projects," says Schlesigner. "If the pool of projects is small, you can't blame that on NEPA."

GOVERNING.COM

BY DANIEL C. VOCK | MARCH 13, 2017

SIFMA Issues Statement on the ASCE 2017 Infrastructure Report Card.

Today, SIFMA issued a statement from Michael Decker, managing director and co-head of SIFMA's Municipal Division, on the American Society of Civil Engineers (ASCE) 2017 Infrastructure Report Card: "While showing some incremental progress towards improving our nation's infrastructure since the 2013 ASCE Report Card, the 2017 Report Card clearly shows the desperate need for a strong commitment to infrastructure investment, which will help spur job creation and economic growth. SIFMA strongly advocates that the tax exemption for municipal bond interest remain intact, so that it may continue to help America's cities and states boost their local economies through the construction of new projects such as roads, hospitals and schools." Michael Decker also noted the importance of public-private partnerships as a key component of any plan, as they ease the burden on the cash-strapped federal government.

ASCE 2017 Infrastructure Report Card

SIFMA Press Release

S&P: U.S. Higher Education Sector Credit Quality Remained Stable Overall In 2016.

The higher education sector's credit quality remained predominantly stable in 2016 despite a record number of rating changes. As of Dec. 31, 2016, S&P Global Ratings maintained public ratings on 440 U.S. not-for-profit colleges and universities. Our ratings span the spectrum from 'AAA' to 'CC.'

Continue reading.

Feb. 8, 2017

S&P: U.S. Charter Schools' Credit Quality Is Stable Despite Negative Rating

Trend In 2016.

The credit quality of U.S. charter schools remained relatively stable in 2016 but the trend of rating and outlook changes was negative. S&P Global Ratings took 47 rating actions last year, of which 36 were downgrades and 11 were upgrades. Affirmations made up about 41% of the total number of actions for the year.

Continue reading.

Feb. 3, 2017

S&P: Pension Pressures Will Weigh On 15 Largest U.S. Cities' Budgets.

U.S. cities have varying legal, governance and benefit structures and operate in different legal and economic environments, so there's no one-size-fits-all measure for assessing their pension risk. Regardless of structure, most municipal pension plans experienced the market downturn in 2008-2009 and have not been able to recover to funded levels seen in the early 2000s.

Continue reading.

Mar. 8, 2017

Bloomberg Brief Weekly Video - 03/10

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

Watch the video.

Bloomberg News

March 10, 2017

Will Tobacco Bonds Go Up In Smoke?

Tobacco bond yields can be addictive, but price volatility and default risk could make you ill.

Municipal tobacco bonds are one of the largest and most liquid segments of the high-yield muni bond market. They can offer enticing yields and periods of extraordinary returns. However, those features also come with high levels of price volatility. And because their repayment is dependent on cigarette consumption — and consumption is going down faster than expected — future defaults are almost certain, although perhaps not for a few years. So, are tobacco bonds good for investors or are they likely to go up in smoke?

How tobacco bonds came to be

The vast majority of these bonds were issued between 1998 and 2007, following the tobacco company settlements with 46 states to compensate for damages incurred due to smoking. States agreed to drop any future litigation against tobacco companies in return for annual payments based on cigarette consumption, subject to certain adjustments. Many states decided to securitize the future revenue stream and offload the risk of declining consumption — and future tobacco company solvency — on investors through the issuance of bonds. Today, tobacco bonds represent close to 20% of the Bloomberg Barclays High Yield Municipal Bond Index.

Will smoking declines snuff out payments?

Because of its addictive nature, smoking was initially thought to be fairly inelastic and unaffected by price increases that tend to depress demand in other products. This resulted in bond securitization structures that assumed fairly low levels of annual consumption declines. However, since the initial issuance, cigarette tax increases and stronger governmental regulation — including smoking bans in bars and restaurants — have combined to accelerate a decline in smoking.

The resulting declines in cigarette sales have been more severe than initially modeled in earlier tobacco securitizations and may portend future defaults. But as long as people are smoking cigarettes and the tobacco manufacturers remain in business, the odds of ultimate recovery may be higher than in other defaulted municipal bond situations — even if repayment is much later than scheduled maturity. This is because the pledge of securitization payments by the tobacco companies is perpetual.

Tobacco bonds rally, then decline

The characteristics that attract buyers to the tobacco bond sector — namely the size and liquidity — also largely explain the high levels of volatility when things turn. The most recent period of outflows that began in October 2016 and accelerated following the national elections is a good example of how quickly things can turn for valuations in the tobacco sector.

After years of consistent declines in cigarette sales, cigarette usage in 2015 was largely flat — reportedly due to increased consumer discretionary income as a result of falling gas prices. This set in motion a strong rally in tobacco bonds that lasted from September 2015 to October 2016. During this time, the tobacco sector of the high-yield index was up an impressive 21.7%. But for November 2016, tobacco bonds were down more than 9%, outpacing the overall high-yield index, which was down just under 6% for the month. The sector continued to demonstrate its volatile nature as we entered 2017, returning 10.86% through February 2017, significantly outperforming the overall high-yield index return of 3.82%.

Bottom line

We maintain a negative view on the tobacco bond sector. The availability of higher yield and the sector's strong potential for ultimate recovery — even if not at the originally scheduled bond maturity — can justify some limited exposure to tobacco bonds. However, since price volatility can be significant, only those portfolios with a very high risk tolerance should have exposure to this sector.

By Columbia Threadneedle Investments on March 6, 2017

Donald Trump is Poised To Do Great Harm to U.S. Cities (But Not For the Reasons You Might Think).

American cities collectively hold about $3.7 trillion in bonds, which have historically been used to fund capital expenditures. In recent years, however, bond issuers have been strategically leveraging municipalities' debts via derivatives, which have introduced systemic risk into the municipal finance system. L. Owen Kirkpatrick writes that the Trump administration's stated desire to dismantle the Dodd-Frank Act may speed up the current cycle of financial instability, and lead to more financial pain and misery for US cities.

On February 3, 2017, President Donald Trump signed an executive order directing the US Treasury to begin dismantling the financial regulations established by the 2008 Dodd-Frank Act. On the surface, the order may seem to have little to do with the affairs of US cities. But cities are now deeply reliant on finance markets to pay for the things that they need. In 2011, the US municipal bond market encompassed over one million bonds worth $3.7 trillion, issued by almost 50,000 different municipal entities. Being so closely tethered to capital markets means that cities are now profoundly impacted by changes in the financial sector.

Local officials, of course, have always needed access to long-term debt for the upfront capital expenditures required for large-scale municipal systems. In the mid-twentieth century, the municipal debt market was a rather staid and sedate place, made up of low-risk, long-term debt instruments. This debt took two basic forms: (1) low-risk "general obligation bonds" backed by the taxing power ("full faith and credit") of the issuing municipality, and (2) "revenue bonds" that are backed by dedicated revenue streams (such as toll receipts), which do not require electoral approval nor count against local debt limits.

In the 1970s and 1980s, municipal finance began changing as arcane, high-risk products and practices gained popularity. These profitable but unstable instruments flourished in an under-regulated environment. While the federal government sets the parameters of municipal securities via tax law, they are otherwise only lightly monitored. As the Securities and Exchange Commission (SEC) reports, "[d]espite its size and importance, the municipal securities market has not been subject to the same level of regulation as other sectors of the US capital markets." The passage of the Tax Reform Act of 1986 changed the structure of the market, but not the level of regulation or oversight. After its passage, new practices emerged which ultimately encouraged municipal issuers to strategically leverage their bond proceeds.

The strategic leveraging of municipal debt takes the form of financial derivatives: interest-rate swaps, variable-rate demand obligations, floaters/inverse floaters, auction-rate instruments, and the like. If there was any doubt as to the regulatory status of municipal derivatives, the Commodity Futures Modernization Act (2000) ruled that they were exempted from federal rules governing securities, an exemption that would also preempt the field of state regulations. Municipal derivatives had three key things in common. First, they promised more profits for Wall Street firms than long-term, fixed-rate bond issues. Second, due to the lack of oversight, they could be aggressively pitched to local officials. And, lastly, they promised impressive returns for municipal issuers by capturing the spread between long- and short-term interest rates.

Derivatives also introduced systemic risk into the municipal finance system. As more US cities made the bet that interest rates would remain low, vulnerability spread, and when interest rates rose, it triggered a crisis from which some cities are still recovering. Diminished revenues and a rash of speculative municipal debt that "went bad" in the aftermath of the crisis tightened the fiscal noose.

When Detroit filed for bankruptcy in 2013 it became the twenty-eighth US city to do so since the onset of the crisis. Numerous quasi-public agencies (local and regional authorities, public corporations, and special districts) face similar pressures. For better or worse, urban fortunes are now tied to finance markets.

Cyclical volatility and the three stages of municipal finance

This linkage has a destabilizing effect on municipal finance, but the instability is not random. American economist and financial theorist, Hyman Minsky (1919-1996), posits that volatility in financial markets is cyclical. According to Minsky's *financial instability hypothesis* (FIH), the cycle begins during boom times, when a heady sense of optimism contributes to the spread of increasingly speculative debt structures, whereby firms more aggressively leverage debt for the purposes of investment and expansion. This speculative activity causes the price of financial assets to increase, which (temporarily) rewards and legitimizes risky debt leverage practices. But this is a highly unstable form of growth and the cycle ultimately ends in crisis.

Minsky specifies three stages of financial activity, which can apply to the world of municipal finance. The safest liability structure is employed by "hedged" financing units, which honor their outstanding debt, both interest and principal, through normal operating revenues. For cities, this consists of intergovernmental grants, "pay as you go" financing structures, and long-term, low-risk debt vehicles (general obligation bonds).

The second, "speculative," type of debt structure is employed by units whose revenues can pay the interest on outstanding debt, but cannot pay down the principal (which is refinanced or rolled over). This may be the case in cities that make big capital investments in future development (e.g. stadium), but where revenues fail to meet projections. In such cases, officials may float short-term debt, in pseudo-continuous fashion, to meet the operational requirements of the city.

The final category is "Ponzi" financing, in which revenues cannot meet debt obligations, neither interest nor principal. Cities sell assets, or undertake high-risk financing strategies (e.g. derivatives), which seek to leverage municipal debt to pay expenses. The three stages are marked by an increasing reliance on capital markets – while hedge financing is "impervious" to financial volatility, speculative and Ponzi are highly "vulnerable… to changing market conditions."

Minsky believed that this pattern tends to reset and repeat. Depression conditions will persist until they are addressed by monetary intervention from a "lender of last resort." Specifically, it is up to the Federal Reserve to "pick up the pieces when things go wrong," thus punching society's ticket for another boom-bust financial ride. By injecting liquidity into the system, central banks ensure the integrity of "too big to fail" financial institutions and establish a floor under asset prices as institutional investors unwind their leveraged positions.

But here we encounter a core contradiction: every time the central bank intervenes, it legitimizes risky activity. "[B]y validating the past use of an instrument," Minsky explains in Stabilizing an Unstable Economy (1986), "an implicit guarantee of its future value is extended." This creates a moral hazard in which "the protected multibillion-dollar banks… can bias their asset and liability innovations toward instruments that can compromise their liquidity and equity and expect to be protected."

One way in which this central difficulty can be mitigated is through a revitalized regulatory apparatus that sets well-defined limits on the range of acceptable financial activities. "A tighter regulatory regime may be… a way of getting around the moral hazard," argues Minsky, thereby slowing the progression to the next crisis. For this to be achieved, it is necessary to rein in destabilizing financial instruments and liability structures. Ideally, Minsky concludes, regulatory restructuring should entail "the creation of new economic institutions which constrain the impact of uncertainty."

Dodd-Frank and municipal securities

In the case of the municipal securities crisis, the immediate recovery effort was fueled by a broad consensus concerning the need for significant reform, itself unsurprising given the nature and scale of the crash. This effort resulted in the 2010 Dodd-Frank Act, which impacted municipal securities in several key ways.

While the municipal market had been exempted from previous rounds of regulation it now fell largely under the purview of the Securities and Exchange Commission (SEC). Suddenly, the SEC was no longer "toothless" in the municipal arena. Secondly, steps were taken to decrease the number of "unregulated market participants" dealing in municipal securities and derivatives. This involved expanding the regulatory reach of the Municipal Securities Rulemaking Board (MSRB) to include financial advisors. This set industry standards for advisors designed to curb problems associated with "role-switching" and graft that plagued the pre-crisis market.

The Dodd-Frank Act certainly wasn't perfect. According to the SEC itself, the Act spread regulatory responsibility across several agencies rendering enforcement uneven and incomplete. Municipal finance remained a cat-and-mouse game, in which bankers and hedge fund managers try to innovate their way around the latest regulatory standards. On the other hand, however, it has also been said that the 2008 crisis launched a regulatory "revolution" in the municipal bond market. Extensive and ongoing fraud investigations, heightened regulatory scrutiny, new administrative structures, and new transparency, disclosure, and ratings standards represented substantial efforts to regulate municipal capital markets.

The cycle is pivoting

The immediate post-crisis period is a pivotal point in the cycle – the moment when political and economic repair operations are intellectually conceived and institutionally implemented. Ideally, for Minsky, this process results in a reinvigorated regulatory apparatus undergirded by deep political and social-psychological shifts in how we perceive and interact with markets. In a best-case scenario, the cycle is essentially reset to stage one, paving the way for another sustained period of growth. Of course there is no guarantee that repair operations will be successful; numerous obstacles threaten to prevent or pervert the ideal response to crisis.

There is also an important timing aspect at play. Immediately following a crisis, with the memory of lost fortunes still fresh, investors, lenders, and policymakers are cautious. But as those memories fade, the "lure of a bonanza" becomes more enticing and regulations are relaxed. But therein lays the rub. "Unless the regulatory apparatus is extended," warns Minsky, "the success enjoyed by these interventions in preventing a deep depression will be transitory; with a lag, another situation requiring intervention will occur."

In the US, the financial instability cycle has sped up and periods of inter-crisis stability are now fleeting. The Trump administration's dismantling of the Dodd-Frank Act less than seven years after its passage is powerful evidence of this trans-cyclical acceleration. For a time, Wall Street firms and other market participants may indeed get swept up in the exuberance that attends the latter stages of the financial cycle. But this optimism too will be fleeting and the cycle will end, once again, in crisis and despair for US cities.

This article is based on the paper, *"The New Urban Fiscal Crisis: Finance, Democracy and Municipal Debt"* in Politics & Society.

GOP Health Plan: Winners, Losers & Who Knows.

Investors trying to get a handle on how to play the GOP's long-awaited proposal for replacing the **Affordable Care Act** appear to have been left with more questions than answers.

Called the **American Health Care Act**, the legislation unveiled Monday phases out key parts of the 2010 law known unofficially as Obamacare. The legislation ends a requirement to have coverage, but creates a new tax credit aimed at helping Americans buy insurance if they don't get it at work. Meanwhile, the law eliminates many of the taxes used to fund the ACA and winds down the expansion of Medicaid over the next few years, which bodes badly for some hospital chains and small insurer that specialize in that niche market.

In a recent note, analysts at **Morgan Stanley** weighed in on some investment implications surrounding the Medicaid market, medical devices, drug prices, and even the municipal bonds (as both Moody's and S&P recently noted, the bill is a credit negative for hospitals).

> **Munis** – The bills are a credit negative for hospitals. But cheaper valuations means investors may be overestimating the degree of these negatives and the odds of timely implementation. 1) The transition from federal subsidies for the exchanges' insurance plans to tax credits based on age and income potentially increase the out-of-pocket cost of insurance for individuals. 2) The pullback of Medicaid expansion and move to per-capita caps in 2020 are de facto cuts, as we have previously written. However, as the muni hospital spread to the main muni index continues to widen, and with proposed cuts that are not as deep or immediate as some had feared, muni hospitals may look appealing to investors seeing yield.

Continue reading.

Barron's

By Johanna Bennett

March 9, 2017, 11:51 A.M. ET

U.S. Municipal Bond Market Ticks Up to $3.8337 trillion in Q4, Fed Says.

The U.S. municipal bond market grew slightly to $3.8337 trillion in the fourth quarter of 2016 from a revised $3.8334 trillion in the third quarter, according to a quarterly report from the Federal Reserve released on Thursday.

Households, or retail investors, held $1.644 trillion of muni bonds compared to $1.588 trillion the previous quarter.

Property and casualty insurance companies bought $10.8 billion of munis in the fourth quarter after $19 billion of acquisitions in the third quarter. Life insurance companies added $5.4 billion to their muni holdings, while U.S. banks picked up $53.4 billion.

U.S. mutual funds shed $88.5 billion of munis in the fourth quarter, the funds' biggest reduction of the asset class in at least five quarters. Exchange traded funds added $4.9 billion.

Foreign buyers purchased $21 billion of munis. Their fourth-quarter holdings were $106.4 billion, their highest on record.

Thursday, 9 Mar 2017 | 12:29 PM ET

Reuters

[The Week in Public Finance: Paying for Repeal and Replace, SEC's New Disclosure Rule and the Online Sales Tax Fight.]()

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

GOVERNING.COM

BY LIZ FARMER | MARCH 10, 2017

[How Refinancing Debt Can Help Pensions.]()

North Carolina wants to use existing low rates to shore up retiree pensions and health-care debt.

In the low interest rate environment, states and localities have been saving billions by refinancing old debt. In most cases, the savings have benefited the general fund balance. But in North Carolina, State Treasurer Dale Folwell is making a push to instead use those savings to pay down pension and retiree health-care debt.

Starting this spring, Folwell plans to refinance "every dollar we possibly can." He'll ask the General Assembly to divert the savings to the treasurer's office, where he'll then divvy up the extra dollars: 15 percent goes into the pension fund and 85 percent goes toward retiree health-care debt, which has a larger unfunded liability.

The approach has garnered rave reviews, but some question just how big a dent any such savings can make in an unfunded liability that in North Carolina totals nearly $38 billion between retiree pensions and health care.

It's true the money can add up. Since 2009, North Carolina has refinanced roughly $4 billion in debt, amounting to savings of nearly $289 million, according to the state's most recent debt affordability study.

Nationwide, more than half of the total bonds issued in the municipal market since 2009 have been to refinance deals. Last year, roughly $275 billion of the nearly $450 billion in total bond issuance was to refinance existing debt. Refinancing deals are still expected to drive issuance this year, even with the Federal Reserve slated to raise short-term interest rates.

The savings per deal can vary. Connecticut saved nearly $76 million last year when it refinanced $501 million in general obligation bonds. In 2015, Washington state refinanced $421 million and saved $32 million in debt costs.

Municipal bond expert Matt Fabian also notes that savings from refinancing debt aren't immediate. Similar to refinancing a home, the debtor makes lower payments on the debt going forward, meaning the total savings are realized over time. For instance, Connecticut in 2014 refinanced $822 million in general obligation bonds and saved $94.8 million over the next 11 years."So the savings are real but it's on paper," says Fabian, a partner at Municipal Market Analytics. "In effect, it's a promise to pay [over time] from the general fund the savings they just generated."

Still, Fabian praises North Carolina because refinancing essentially produces "found" money. "Any time you can start paying down a debt without raising taxes or cutting spending, that's a good thing," agrees Donald Boyd, director of fiscal studies at the Nelson A. Rockefeller Institute of Government. He adds that it's also better fiscal policy to put found money into a one-time use, rather than into recurring expenses like the current year's budget.

Folwell thinks that credit ratings agencies will look favorably upon the tactic. North Carolina already has a top AAA rating, but he thinks that by urging local governments to follow the state's lead, it will strengthen their credit ratings as well. "If you take a portion — if not all – of those interest savings and put it toward another liability," says Folwell, "it is a win-win in the eyes of the community, the state and the rating agency."

GOVERNING.COM

BY LIZ FARMER | MARCH 8, 2017

States and Cities May Need Shelter From the Storm Brewing in U.S. Housing Policy.

Changes are likely on the way, and they could damage budgets.

The direction set by Ben Carson, the new Department of Housing and Urban Development secretary, will have immense impacts on localities. For starters, federal housing programs make up 40 percent of federal transfers to local governments. That's a big chunk of change even as federal transfers overall have been in a long-term decline.

Before we go on, here are some key numbers: Since 1977, the share of local government revenue from non-tax sources has remained fairly steady at 60 percent of general revenue. But the composition of non-tax revenue has changed. The portion from intergovernmental transfers declined from 43 percent of general revenue in 1977 to 36 percent in 2013, while revenue from charges and fees increased from 15 percent to 23 percent. Likewise, while the share of general revenue from local taxes has remained at about 40 percent, the composition of tax revenue has changed. The contribution of property taxes to general revenue declined from 34 percent in 1977 to 30 percent in 2013, while revenue from sales taxes increased from 5 percent to 7 percent.

Bottom line: Whether or not Carson makes any changes to federal transfer monies, the pressure on local taxes is real. On property taxes, the least popular of the three possible local taxes, the pressure is especially immense.

Consider Pennsylvania. In January, Gov. Tom Wolf recommended a three-pronged approach to helping distressed cities. Along with state economic aid and easing municipal pension debt, he suggested providing property tax relief. If his plan is successful — and legislators in Harrisburg seem open to it — it would help city residents by cutting the biggest single local tax bill they pay. “Places like Scranton would see a big drop in the tax bill and a big increase in property values,” the governor told The Scranton Times-Tribune. His January comments came in the wake of action taken by the Pennsylvania House, which passed a bill to replace nearly $5 billion worth of property taxes with higher state income and sales taxes. The state Senate narrowly rejected a bill to mostly eliminate property taxes with that same combination of higher state taxes.

Once localities are dependent on state taxes — rather than property tax revenue — they are at greater peril. The property tax may have its up and downs, but it is by and large a fairly steady income stream and one that’s under a locality’s control. State payouts are prey to budget cuts when there’s a downturn in the economy.

The affordability of housing, which also has a huge impact on localities, is spiraling in an unfortunate direction. Mortgage rates have been on the rise and are likely to continue to inch up. Federal policy could be a further threat. Both the mortgage-interest deduction from federal income taxes and tax-exempt housing bonds are at risk in the new Congress. Meanwhile, the nation’s housing inventory is nearly 10 percent below a year ago, and the homeownership rate has fallen close to a 51-year low.

Rental affordability is an even bigger problem. Between 2001 and 2013, we lost 2.4 million rental housing units (both market-rate and subsidized) that were affordable to people making less than 50 percent of area median income. In addition, 106,000 public housing units and 146,000 project-based rental assistance units were lost, according to an Urban Institute report, which also noted that some 450,000 more units are at risk of disappearing or deteriorating.

Building more units or preserving existing ones would help, but with a very large federal deficit, and proposed steep federal tax cuts, it appears unlikely that traditional HUD programs will be able to fill the gap. Chances are that HUD will experience significant budget cuts, which means both Community Development block grants and housing assistance to states and localities will be diminished.

That’s not a pretty housing picture for cities, their pocketbooks and their housing stock.

GOVERNING.COM

BY FRANK SHAFROTH | MARCH 2017

S&P: The Common Credit Characteristics of Highly Rated U.S. Municipal Water and Sewer Utilities.

The credit quality of U.S. municipal water and sewer utilities is generally strong, with almost half of the sector considered highly rated with debt ratings of ‘AA-‘ or higher. In our analysis of the group according to our criteria, S&P Global Ratings found that highly rated utilities have in common certain credit characteristics.

Broadly, the sub-group stands out for having:

- A consistent financial performance;
- Assets that already functioning at high level, or a clear plan and funding to develop their assets; and
- An overall alignment of strategic goals among management, elected officials, and customers.

Continue reading.

S&P: Proposed ACA Replacement Would Pressure Hospital Revenues And Margins

A replacement for the Affordable Care Act (ACA)—promised by Donald Trump and Republican leaders–has now been put forth for Congressional consideration. There had been much speculation about the details, but the main provisions of the proposed American Health Care Act (AHCA) are not a surprise.

Continue reading.

Mar. 8, 2017

How Healthy Are Your Hospital Bonds?

Bonds for health care systems have long been a staple of the high-yield municipal bond market. I believe that they are closer to low-risk tax-backed and utility revenue bonds, which have extremely low default rates which approximate .5% an issue over the entire life of those bonds.

Bonds for senior living communities, development district "dirt bonds", tobacco bonds and corporate "industrial development bonds can have default rates over the life of those bonds that range from 8%-15%. It is estimated that hospital bond defaults in range between 3%-4% over their life.

There is a wide spectrum of health care bonds. Bonds issued by large multi-state issuers have the lowest risk, because no single hospital default would drag down the rest of the system. Lower risk however means lower yields. Then then there is an array of single site hospitals, with varying degrees of risk. I prefer hospitals that have national or international demand, perhaps because of the specialty they may offer such as state-of the art pediatric, heart and/or cancer services. I also look for balance sheets containing at least 150-200 days of cash on hand to meet recurring monthly expenses, and cash equaling or exceeding outstanding debt.

Finally, there are "Critical Access Hospitals", small units in rural areas where patients cannot reach acute care facilities within driving distance. These hospitals obtain special subsidies to allow for their operation under sparse resources.

Risks in this sector are considerable because competition from new hospitals can drain resources from older hospitals. However, health care represents a vital public service, and will continue unless technology provides an alternative. At this point, it is fruitless to ascertain changes to ObamaCare until the President and Congress "show their cards."

Dick Larkin, Credit Analyst for Stoever Glass
March 6, 2017

Dick Larkin is a former Chief Municipal Rating Officer for S&P. Stoever Glass is a 54 year-old Investment firm specializing in Municipal Bonds located in New York & Florida. A registered Broker/Dealer, Member FINRA, SIFMA, & SIPC. Advisory Services through Stoever Glass Wealth Management, Inc., a registered advisory firm.

Fitch: Medicaid Changes in ACA Repeal Bill Pose Risks for States and Hospitals.

Fitch Ratings-New York-07 March 2017: The congressional bill released yesterday by House Republicans to repeal and replace the Affordable Care Act (ACA) includes significant changes to Medicaid that expose states to new fiscal and policy risks, says Fitch Ratings. States generally maintain significant flexibility to deal with fiscal challenges, including shifts in federal funding, while maintaining fundamental credit quality. As Medicaid represents approximately one-third of state budgets, the fundamental changes proposed could challenge that flexibility. Implications for lower levels of government including school districts, cities, counties, and public higher education institutions that rely on state support could be more significant given their generally more constrained budgetary flexibility. Hospital and skilled nursing home providers would be at risk of reduced coverage eligibility, reduced reimbursement for services provided or both.

First, the House Republican American Health Care Act (AHA) proposes ending Medicaid's entitlement structure and moving states to a per capita cap system on Jan. 1, 2020. The per capita cap structure proposed in AHA is intended to slow the growth in federal Medicaid spending by limiting increases in federal spending to a measure of medical inflation and shifting risk for higher costs to states, providers and enrollees. The Kaiser Commission on Medicaid and the Uninsured estimates that the March 2016 House Budget Resolution (which included the option of per capita caps or block grants for Medicaid) would reduce federal spending on traditional Medicaid by $1 trillion (or 26%) over 10 years. The Congressional Budget Office (CBO) has not yet released its official estimates of AHA's effect on the federal budget.

Reducing federal Medicaid funding anywhere near 26% over 10 years would require states to make significant budgetary changes. Without CBO estimates of the full magnitude of the AHA's proposed reductions in federal spending, it is difficult to assess how effectively states could prepare for these changes. Effects for each state will also vary, depending on their per capita spending levels for Medicaid in the fiscal 2016 base year under AHA. House Republicans and the President have previously indicated states could utilize unspecified new flexibility to offset the reduced funding. Fitch notes that current law already offers states discretion to implement Medicaid within federal statutes and rules, and also creates a waiver process for additional flexibility. Currently, every state has at least one waiver in place. And during the last two recessions, the states implemented a wide range of changes in Medicaid operations and financing (with and without waivers), including a pronounced shift to managed care. As such, it is unclear that any additional flexibility provided by the federal government would be sufficient to offset the funding cuts.

Second, the AHA ends new enrollment in the Medicaid expansion and the enhanced federal match that 31 states and the District of Columbia have opted into, on Dec. 31, 2019. Under AHA, states that expand before that date will continue to receive the enhanced federal funding envisioned under current law for the newly eligible population under the expansion. But the enhanced funding would only apply to those individuals who were enrolled prior to Dec. 31, 2019. Over time, the newly eligible population would roll off, as would the associated enhanced federal funding. The federal Department of Health and Human Services (HHS) estimated 9.1 million people received insurance coverage under state Medicaid expansions in federal fiscal year 2015. With the enhanced matching rate (100% in 2015 and phasing down to 90% by 2020 under current law), HHS estimates the states received $58.1 billion in federal funding to provide that coverage in 2015.

Under AHA, expansion states would not risk immediately losing the billions in federal funding for the newly eligible. But they will be faced with a unique policy predicament of denying Medicaid access to individuals who would otherwise qualify beginning in 2020, or taking on significant costs they had anticipated would be borne largely by the federal government.

The 19 non-expansion states, and health care providers operating within them, could see short-term benefits under AHA. The bill establishes a $2 billion annual pool of federal funding available from 2018 to 2021 to states that do not expand to offset their payments to Medicaid providers, presumably because of higher uncompensated care levels. Similarly, AHA limits planned reductions in Medicaid's disproportionate share (DSH) funding provided to states for safety-net providers to $3 billion annually instead of $8 billion under current law. Under AHA, non-expansion states are exempt from even these more limited DSH cuts. All states, and the District of Columbia, would be subject to the more long-term and consequential implications of the AHA's per capita cap system for Medicaid financing described above.

The AHA released yesterday is the first public draft of major legislation that will likely be the subject of intensive lobbying efforts and potentially significant revisions. Beyond the Medicaid provisions noted above, the legislation also includes wide-ranging changes to other aspects of the healthcare industry that could directly or indirectly affect state and local governments including public health funding, the individual marketplace, and related tax provisions. But the House Republican leadership has laid out an aggressive timeline with the first committee hearings scheduled for Wednesday. The bill appears broadly in line with the President's healthcare goals outlined in his recent address to Congress and he released a brief statement indicating his support for the AHA.

Fitch will continue to closely monitor legislative developments around the AHA, which could have implications for states' credit quality as well as for related public finance entities and healthcare providers. Medicaid changes that significantly reduce federal funding will cause states to consider a broad mix of revenue increases or spending cuts to maintain long-term fiscal balance. Local governments, school districts and higher education institutions could face fiscal stress in adjusting to reduced state support. In a time of already muted revenue growth, spending cuts could affect K-12 and higher education the most, as those are the other largest areas of state spending outside of Medicaid. Similarly, changes that result in rising uninsured and uncompensated care levels and reduced reimbursement to hospitals, health systems and long term care providers would be a negative credit development and likely pressure healthcare provider performance over the longer term.

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GASB 2017 Request for Research.

Gil Crain Memorial Research Grant

Since its formation in 1984, the Governmental Accounting Standards Board (GASB) has encouraged academics and other researchers to conduct studies that would be relevant to the GASB's standards-setting activities. For more than 30 years, such research efforts have resulted in publishing their research in peer-reviewed journal articles, GASB research briefs, and occasionally in GASB research reports.

The GASB hopes to encourage more collaborative research efforts with academics by offering one or two $5,000 research grants, to be awarded by the end of June 2017.

Topics include:

- Related Party Transactions;
- Subsequent Events;
- Present Value;
- Public-Private Partnerships;
- Interfund Transactions;
- Chapter 9 Bankruptcies;
- Derivative Instruments; and
- Distributed Water Management Programs.

Read the full GASB Request for Research.

Sector Specific Infrastructure Bills Better Way to Go, Fischer Says.

DALLAS – Congress needs to craft sector-specific legislation to fund the renewal of U.S. highways, airports, and other infrastructure rather than a single, all-encompassing measure for all, Sen. Deb Fischer, R-Neb., suggested to state highway officials meeting in Washington.

Finding the federal funding needed for President Donald Trump's $1 trillion infrastructure renewal program would be easier if the problem were to be broken down into its various components, Fischer said Thursday in her keynote address to the annual winter gathering of the American Association of State Highway and Transportation Officials.

“I think it would be very difficult to have one big, huge, comprehensive infrastructure bill dealing with roads and bridges, ports, airports, broadband, pipelines, all of these items,” Fischer said. “We would end up with better policy if we would take each section of our infrastructure needs and address them with specific pay-fors but also to meet the different needs of all the separate sectors.”

Funding the five-year, $305 billion Fixing America’s Surface Transportation Act passed in late 2015 required almost $70 billion of general fund transfers to support the declining federal gasoline tax and other revenues dedicated to the Highway Trust Fund, Fisher noted.

“Finding pay-fors for a trillion dollars is difficult,” she said.

Fischer’s proposal for a number of sector-specific funding measures would conflict with the aspirations for a single infrastructure funding bill outlined to the same group on Wednesday by Rep. Bill Shuster, R-Pa., chairman of the House Transportation and Infrastructure Committee.

“The main thing is going to be an infrastructure package, and it will cover everything—rail, transit, highways, aviation, and pipelines,” Shuster said during his remarks. “We’re going to have a big, broad bill.”

Fischer said she is optimistic that infrastructure renewal will be the prime focus of the Trump administration.

“President Trump has spoken frequently about the need to invest in our transportation infrastructure,” she said. “It is not stimulus, it is an investment in our economy and in our national security.”

The measure she introduced last month to divert $21.4 billion per year of fees, duties, and taxes collected at U.S. borders and entry points by Customs and Border Patrol to transportation projects would solve the most immediate problems facing the HTF, Fischer said.

The border fee revenues totaled $46 billion in fiscal 2015 but the agency uses only $2 billion of the collections for operational needs, she said.

The diversion that would be authorized by her Build the USA Infrastructure Act (S. 271) would begin when the FAST Act expires at the end of fiscal 2020 and continue for five years, Fischer said.

The bill would extend the solvency of the HTF and restore the purchasing power of the 18.4 cent per gallon federal gasoline tax that has been lost to inflation since the tax’s last increase in 1993, she said.

“America needs a new plan,” Fischer said. “By using this existing revenue stream we will provide stability to the Highway Trust Fund. We can do that without increasing taxes or fees.”

Rep. Peter DeFazio, D-Ore., the top Democrat on the House transportation panel, told the state officials earlier that his three-part infrastructure proposal would provide up to $60 billion per year of additional funding for roads, airports, and seaports. The first of the three bills, the one on airports (H.R. 1265), was introduced Wednesday.

The plan includes indexing federal fuel taxes to the wholesale price of gasoline and diesel, dedicating an existing federal harbor tax strictly to port maintenance, and allowing airports to raise their passenger facility charge to support additional bonds for terminal projects and other related infrastructure, he said.

The indexing proposal would raise the gasoline tax by about 1.2 cents per year to support up to $33 billion of road bonds per year for 15 years, DeFazio said.

"We need more substantial federal funding," he said.

The Bond Buyer

By Jim Watts

March 3, 2017

Dollar Volume of Muni Trades Last Year at $3.14T, Highest Since 2012.

WASHINGTON – The dollar volume of municipal bond trading soared higher last year than in any year since 2012, the Municipal Securities Rulemaking Board found in its 2016 Fact Book released Monday.

The total par amount traded reached $3.14 trillion, almost 30% higher than in 2015. The last time that amount was surpassed was 2012, when it reached almost $3.23 trillion, according to the statistics book.

Of that amount, customers bought a total par amount of $1.58 trillion, sold $947.08 billion, with interdealer trades totaling $609.52 billion.

By tax status, almost $2.71 trillion of the par amount traded was tax-exempt, $256.21 billion was taxable, $136.64 billion of securities traded were subject to alternative minimum tax and $32.67 billion was other.

By coupon type, the largest par amount traded was fixed rate, at $1.78 trillion, followed by variable rate, at $1.01 trillion, zero coupon securities, at $107.34 billion, and other, at $230.52 billion.

The total number of trades last year was almost 9.36 million, only about 1.1% above the 9.26 million trades in 2015. The highest total number of trades over the past five years was 10.63 million in 2013. The vast amount of the number of trades last year was tax-exempt, at almost 8.60 million, and fixed rate, at 8.81 million.

The top most actively traded securities by par amount of trades last year were $7.31 billion of the Industrial Development Board of the Parish of East Baton Rouge, La, Inc. revenue bonds for an ExxonMobil project. The bonds were issued in 2010 and are slated to mature in 2035. That was followed by $5.64 billion of Puerto Rico Sales Tax Financing Corp. sales tax revenue bonds sold in July 2007 with a maturity of 2054.

The top most actively traded securities by number of trades was St. John Baptist Parish La.'s fixed revenue bonds for a Marathon Oil Corp. project issued in 2007 with a 2037 maturity. There were 8,092 trades of these bonds last year. The second highest was 4,205 trades of Illinois State taxable general obligation pension bonds issued in 2003 with a 2033 maturity. Following that was 4,093 of trades of Commonwealth of Puerto Rico public improvement refunding bonds issued in 2012 with a 2041 maturity.

The Fact Book shows a steady drop in registered dealers in recent years. Last year there were 1,448 registered dealers, down 6% from 1,541 in 2015. The 2015 figure is down 5.2% from 1,625 in 2014. The most dealers – 1,787– were registered in 2012 during the past five years.

Last year the top five dealers accounted for 48% of the par amount of trades, and the top 10 dealers accounted for 69% of them. The top five dealers accounted for 35% of the number of trades last year and the top 10 were responsible for 52% of them.

The MSRB looked at continuing disclosures submitted and found that the number of financial submissions rose to 98,084 in 2016, up slightly from 97,379 in 2015, but below the peak of 101,289 in 2014. Material event submissions dropped to 63,586 last year from 68,309 in 2015 and a peak of 74,340 in 2014.

The Bond Buyer

By Lynn Hume

March 6, 2017

GASB - Postemployment Benefits: Determining the Long-Term Expected Rate of Return.

Calculating an appropriate discount rate to measure the net liability for postemployment benefits is a critical financial accounting and reporting issue for state and local governments. The *long-term expected rate of return* is a fundamental component used in developing the discount rate. As can be seen by the sensitivity disclosures required by the postemployment benefits standards, a change of just 1 percentage point in the discount rate can have for many plans a significant impact on the net liability.

In justifying the *long-term expected rate of return*, one often hears “historical investment performance supports that rate.” The standards, however, address the *long-term **expected** rate of return*. Historical data can be inconsistent with the forward-looking nature of this expectation and is not a complete source for the development of long-term anticipations about future economic phenomena.

The *long-term expected rate of return* should be based upon the nature and mix of current and expected postemployment benefit investments. That means the postemployment benefit investments must be expected to be invested using a strategy to achieve that return.

During the development of the postemployment benefits standards the Board concluded that it was not within the scope of the Board’s activities to set standards that establish a specific ***funding*** method for postemployment benefits–that is a policy decision for government officials or other responsible authorities to make. Accordingly, the postemployment benefits standards set requirements in the context of ***accounting, not funding***. This is a very important distinction, as one also often hears “we will reduce the discount rate gradually over time, that’s all we can afford now.” Affordability is a ***funding*** issue, ***not*** an ***accounting*** issue.

The ***accounting*** standards require the use of the *long-term expected rate of return* to develop the discount rate–***funding*** affordability is ***not*** a component to be considered in determining the *long-term expected rate of return* when developing the discount rate for financial accounting and reporting purposes. To appropriately comply with the postemployment benefits standards for financial reporting purposes, it is critical that governments measure the net liability for postemployment benefits using a discount rate based on an ***accounting*** perspective–one that appropriately incorporates the *long-term expected rate of return*–***not*** a rate based on a ***funding*** affordability perspective.

FROM THE CHAIRMAN
BY DAVID A. VAUDT, GASB CHAIRMAN

Trump Promised $1 trillion for Infrastructure, But the Estimated Need is $4.5 trillion.

The Trump administration promises to pump $1 trillion into improving the country's crumbling infrastructure, but a benchmark report says it will take almost $4.6 trillion over the next eight years to bring all those systems up to an acceptable standard.

The price tag for redemption has grown steadily for 15 years while an expanding country has focused on building new infrastructure rather than maintaining existing systems that were nearing the end of their natural life.

Since 2001, the cost of repairing those systems has mushroomed from $1.3 trillion to the current figure, more than three times as high, according to an assessment released Thursday by the American Society of Civil Engineers (ASCE). The report comes out every four years.

It gave the U.S. infrastructure an overall grade of D-plus, the same grade it received in 2013, "suggesting only incremental progress was made over the last four years."

"President Trump is on to something when he calls for a national rebuilding," ASCE President Norma Jean Mattei said in presenting the study. "But Congress and the American people have to pay for it."

She said lawmakers should raise the federal gas tax by 25 cents and index it to inflation.

Trump reiterated campaign promises on infrastructure in his inaugural address and in his recent address to Congress, but the only supporting detail for that pledge thus far has been an 11-page white paper issued in October. In that document, Trump said the money would be raised by granting private investors an 82 percent tax credit that would encourage them to pump money into infrastructure projects.

"We can use private financing for the major things, but it's a slice of investment," said former Pennsylvania governor Ed Rendell (D), who now co-chairs the advocacy group Building America's Future. "You can't do it on the cheap. It's time for Congress to suck it up and vote for real [federal] investment."

Rendell said the "fix it first" approach that Trump espouses — repairing needy infrastructure before launching new projects — is not likely to draw private investors.

Congressional leaders and state and local officials have made clear that while private investors might put money into select projects in urban areas from which they can expect a return, they would shy away from investment in rural areas and would rather build new infrastructure than repair systems that have deteriorated.

“I think the federal government has to play a larger role,” said Connecticut Gov. Dan Malloy (D).

Infrastructure underpins everyday life in the United States, covering far more than the roads and bridges commonly thought of when the word comes to mind. It includes a vast network of other systems that most people take for granted, including drinking water and sewer service, the delivery of electricity, as well as railroads, transit systems and ports.

The ASCE has been chronicling the decline of infrastructure category by category since 1998, when it took over the task that had been handled for a decade by the National Council on Public Works Improvement.

In recent years, most of the 14 categories the ASCE has assessed have received a D, and hardly any has moved by more than a fraction of a grade. For example, inland waterways were judged to improve from a D-minus to a D, while transit systems declined from a grade of D to a D-minus.

The commentary provided with each grade was revealing:

Airports (D): Congestion at airports is growing, with 24 of the big airports expected to achieve “Thanksgiving-peak traffic volume” at least one day each week.

Bridges (C-plus): Four in 10 of the country’s 614,387 bridges are more than 50 years old and near the end of their designed life span. Nearly 59,000 are structurally deficient.

[Nearly 59,000 bridges in U.S. are structurally deficient]

Dams (D): An estimated 2,170 of the country’s 90,580 dams are considered as “high-hazard potential” because of failed upkeep.

Drinking water (D): There are 240,000 water-main breaks each year, wasting 2 trillion gallons of water.

Electricity (D-plus): Most electrical transmission lines were built in the 1950s and 1960s with a 50-year life expectancy, and they are running at maximum capacity everywhere but Alaska and Hawaii.

Ports (C-plus): Mega-ships now arriving from the Far East and able to transit the newly expanded Panama Canal can call on very few of the 926 U.S. ports unless channels are dredged to accommodate their deeper drafts.

Railroads (B): The private freight railroads that own most U.S. rail track invested $27.1 billion to upgrade systems in 2015 and continue that investment.

Roads (D): Traffic backups cost $160 billion in wasted time and fuel in 2014, and about 20 percent of highway pavement is in poor condition.

Transit systems (D-minus): Though they carried 10.5 billion trips in 2015, chronic underfunding and aging infrastructure have led to a $90 billion repair bill.

ASCE Executive Director Thomas W. Smith III cited an urgent need for the White House to deliver a comprehensive plan for infrastructure restoration.

“Our nation’s infrastructure is making headlines for all the wrong reasons,” Smith said. “While we haven’t seen action [from the White House], we have to hold feet to the fire.”

The Washington Post

By Ashley Halsey III

March 9, 2017

[SIFMA Statement on the ASCE 2017 Infrastructure Report Card.]

Washington, DC, March 9, 2017 – SIFMA today issued the following statement from Michael Decker, managing director and co-head of SIFMA's Municipal Division, on the American Society of Civil Engineers 2017 Infrastructure Report Card:

"While showing some incremental progress towards improving our nation's infrastructure since the 2013 ASCE Report Card, the 2017 ASCE Report Card clearly shows the desperate need for a strong commitment to infrastructure investment, which will help spur job creation and economic growth. SIFMA strongly advocates that the tax exemption for municipal bond interest remain intact, so that it may continue to help America's cities and states boost their local economies through the construction of new projects such as roads, hospitals and schools. Meaningful public-private partnerships should also be a key component of any plan, as they will ease the burden on the cash-strapped federal government by leveraging our capital markets to create expanded financing options."

[Bloomberg Brief Weekly Video - 03/02]

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

[Watch video.]

Bloomberg

March 2, 2017

[Is Trump's Infrastructure Plan Realistic?]

Robert Amodeo, Western Asset Management head of municipal securities, discusses President Donald Trump's infrastructure plan with Bloomberg's Joe Weisenthal and Scarlet Fu on "What'd You Miss?"

[Watch video.]

Bloomberg

February 28, 2017

Municipal Bond Market Disruption Hits Hard in Trump Era.

New York — The disruption in the municipal bond market is punishing some of the most loyal buyers of the debt.

The insurance industry has seen more than $5bn of gains erased on state and local bonds after Donald Trump's victory in the presidential race, with American International Group and Travelers among the hardest-hit companies.

While the yield on state and local debt is typically exempt from federal taxes, that advantage would be diminished if Trump follows through on plans to lower the levy on all corporate profits. Beyond that, investors are concerned that an overhaul of federal laws could end the favourable treatment on so-called munis.

There were "just crazy amounts of 'What ifs?' at this time", said Peter Block, managing director for credit strategy at Ramirez & Co, a New York-based underwriter. Beyond that, he said, the stock rally led to a shift in allocation as some traditional muni investors "saw that equities were just on a tear, and they wanted a part of that".

Travelers, the only property-casualty insurer in the Dow Jones Industrial Average, had unrealised gains on its $32bn municipal portfolio narrow to $360m on December 31 from $1.7bn just three month earlier, according to regulatory filings.

The gain at AIG was just $747m at the end of 2017, about a third of the figure from September 30. CNA Financial, Prudential Financial, Cincinnati Financial and Alleghany also endured declines in their portfolios.

Many types of bonds lost value after the election, as investors bet on economic growth under Trump. In most cases, insurers welcomed the shift because yields climb when the securities lose value. That could help boost investment income on the trillions of dollars in corporate debt, Treasuries and mortgage-backed securities that the industry holds to back obligations to policyholders.

'Less Attractive'

On munis, however, where insurers accepted lower yields in exchange for tax benefits, the changing economics could leave more of a sting. If the corporate tax rate is lowered to 25% from 35%, the benefit of holding municipal debt versus AA-rated corporate debt would diminish substantially, said Matt Caggiano, who helps oversee more than $9bn in insurer municipal holdings at Deutsche Bank.

"Now you have a Republican president and a Republican House and Senate," he said. "They all would like to decrease the corporate tax rate. That could really make munis less attractive to insurance companies."

Municipal debt has trailed a risk-matched basket of US Treasuries by about 16 basis points since Election Day in November, according to the Bank of America Merrill Lynch index data. Still, big insurers pride themselves on being able to hold securities through market fluctuations.

"We do not expect property-and-casualty insurers sell large portions of their municipal portfolio outright, but rather partially redirect proceeds away from tax-exempts as their municipal holdings mature," Barclays analyst Mikhail Foux said in a January note to investors.

The declines in unrealised gains do not count against earnings, but do reduce book value, a measure of financial strength monitored by investors and analysts. P&C insurers account for about 10% of the $3.8-trillion municipal market.

'Non-Trivial'

Investors are still waiting for clarity from Washington, as the Trump administration and Congressional Republicans have sent mixed signals. If legislators reduce rates on corporations and individuals, they could seek to limit tax breaks to help replace the lost revenue.

Trump is unlikely to support the complete elimination of the muni exemption, given that the debt supports infrastructure projects, according to Municipal Markets Analytics. Still, the chance has increased for a "negative adjustment", according to the research firm.

"Obviously, a lot is going to be determined by the shape of any tax legislation," Travelers chief investment officer William Heyman said in the New York-based company's fourth-quarter earnings call when discussing the outlook for as far off as 2019. "At the very extreme, if you needed a revenue-neutral bill, and the municipal exemption itself were affected, that would be non-trivial."

Shares of Travelers and AIG both declined this year through Monday, even as the S& P 500 Financials Index is up about 5.3% since December 31. To be sure, the insurers have been hit by other surprises as well, including higher-than-expected claims costs.

Relative Value

At Chubb, another insurer with significant muni holdings, said this month that it was too early to say whether the company would reduce its exposure. The company hadn't released its 10-K filing for 2016 as of Monday night.

"We're running scenarios at different tax rates to determine the impact of the portfolio," chief financial officer Phil Bancroft said on a February 1 conference call. "So we're evaluating it. And we'll look at it in light of the tax developments that emerge over the next months."

BUSINESS DAY

LISA DU, ROMY VARGHESE AND SONALI BASAK

28 FEBRUARY 2017 – 19:18 PM

U.S. Municipal Debt Sales Jump to $10.4 bln Next Week.

Sales of U.S. municipal bonds and notes will jump to $10.39 billion next week, bolstered by large deals from California, Maryland, and New York City, according to preliminary Thomson Reuters data.

Leading the deals next week is $2.4 billion from California of general obligation various purpose and refunding bonds. The deal is managed by Citigroup Global Markets.

Last year California surpassed France to become the world's sixth-largest economy, after years of robust state revenues and economic growth. In the fiscal year beginning last July, revenues have wavered somewhat, coming in just slightly below projected estimates.

The state of Maryland plans to issue next week almost $1.2 billion of general obligation bonds, state and local facilities loans.

The New York City Transitional Finance Authority plans to issue $800 million of future tax secured tax-exempt subordinate bonds, led by JPMorgan.

U.S. municipal bond funds reported $346.2 million of outflows this week, breaking a seven-week streak of net inflows. Municipals finished weaker on Thursday, following the direction of Treasuries. Uncertainty surrounding the Fed’s next action created some volatility in rates this week, reported Janney Fixed Income Strategies.

Next week’s calendar will be made up of approximately $2.7 billion from the competitive calendar and of roughly $7.7 billion from the negotiated calendar, according to preliminary data.

(Reporting by Robin Respaut; Editing by Phil Berlowitz)

Chao: Solution Elusive for More Infrastructure Funding.

DALLAS — Figuring out how to pay for a massive program to rebuild the national transportation infrastructure is one of the biggest, most complex questions facing the Trump administration and Congress, Transportation Secretary Elaine Chao said Sunday in her first public appearance since taking office on Jan. 31.

There is currently no consensus on Capitol Hill or across the country on the best ways to finance infrastructure renewal, Chao told the state executives at the National Governors Association’s winter meeting in Washington.

“Everybody wants a better transportation system but very few people want to pay for it, so that’s a big conundrum,” she said.

The $305 billion Fixing America’s Surface Transportation Act that passed in late 2015 provided five years of federal transportation funding to the states but that required the infusion of some $70 billion of general fund transfers to the Highway Trust Fund, Chao pointed out.

“There are a number of ways for improving critical infrastructure, but the pay-fors are going to be hard,” she said. “There will be a lot of discussion about pay-fors and that will be a tremendous challenge. I think that if we all decide that there are things that we think are very important, we all need to come to a national consensus about how to do that.”

Chao pushed back on reports last week that Republican leaders in Congress hope to defer the infrastructure funding debate into 2018 as lawmakers deal this year with reforming health care, immigration, and the tax code.

“There seems to be bipartisan support for addressing the infrastructure needs of our country. So if not now, when? I believe the time is now,” she said. “There’s no better time in my recent memory than now for the recognition that the infrastructure of our country is critical.”

Chao provided no additional details on the $1 trillion, 10-year infrastructure program that the Trump campaign unveiled in late October, but said President Trump will discuss the issue when he addresses the NGA on Monday and then again during his speech to a joint session of Congress on Tuesday night.

"The president is very futuristic-looking," Chao said. "He's thinking about a transportation system and an infrastructure system that includes not only transportation but other aspects of critical infrastructure that will make us more competitive internationally."

The president's futuristic outlook includes high-speed rail as a component in a 21st century transportation network, she said.

Chao said she met recently with sponsors of the proposed privately funded HSR system between Dallas and Houston.

"High-speed rail is part of the thinking of the future of transportation systems in our country," she said. "This is not to say they are without problems. Eminent domain is a huge issue with any of high-speed rail projects."

The Trump plan relies on attracting private investments to revenue-generating infrastructure, but public-private partnerships are not the only tool in the president's toolbox, Chao said.

"We do look forward to public-private partnerships but that is not the answer to everything," she said. "There is a lack of consumer acceptance for toll roads in certain areas."

This would be the best time in years for Congress to fix infrastructure funding, said Bud Wright, executive director of the American Association of State Highway and Transportation Officials.

"This is one of those rare times when infrastructure is a principal topic in Washington, D.C.," Wright said. "From the presidential campaign to now, infrastructure seems as though it is going to be at the forefront of [Trump's} policy agenda."

Hundreds of state highway executives will be in Washington this week to lobby their congressional delegations on the need for a long-term, sustainable source of transportation funding, he said.

"We know we have a Highway Trust Fund that's broken," Wright said.

The Bond Buyer

By Jim Watts

February 27, 2017

Shuster Says Infrastructure Plan Won't Be Funded by '$1T Check from Congress'

DALLAS – Administration officials began deliberating with federal agencies over President Trump's $1 trillion infrastructure initiative on Thursday after a key lawmaker said funding is still a question and a Congressional Budget Office report criticized the use of tax exempt bonds.

Congress is not going to write a $1 trillion check to pay for the infrastructure renewal program promoted by President Donald Trump in his address to the joint session of Congress, Rep. Bill Shuster, R-Pa., told a group of state highway officials on Wednesday.

“It’s not going to be a trillion dollars coming out of Washington, D.C.,” Shuster told officials at an American Association of State Highway and Transportation Officials conference.

The bulk of the money is expected to come from private investors but some additional federal funding will be required, said Shuster, chairman of the House Transportation and Infrastructure Committee.

“There obviously has to be more money coming out of Washington, D.C.,” he said. “But there are billions and billions of dollars out there today, private sector dollars that are going to be spent.”

Representatives from at least 15 federal agencies were to meet at the White House on Thursday to begin formulating the administration’s infrastructure proposal. So far the only information comes from a proposal by the Trump campaign in late October that called for $1 trillion of private investments in infrastructure over 10 years.

Thursday’s meeting chaired by Gary Cohn, director of the National Economic Council, was expected to focus on financing and funding options, identifying new projects and those that could be expedited, as well as rules and regulations that hinder infrastructure projects.

Whether Trump’s program calls for more federal funding or providing $137 billion of federal tax credits to leverage more public-private partnerships or both, Congress must find the revenue to support the program, Shuster said.

“How do we get that money?” Shuster said. “That’s the trillion-dollar question.”

The additional funding will likely come from a variety of revenue sources, including repatriation of overseas earnings of U.S. corporations and higher user fees, he said.

“How we are going to get the dollars, I can’t stand up here and tell you,” Shuster said. “But I can say it is an ‘all of the above’ solution.”

Shuster however has ruled out funding infrastructure through an increase in the federal gasoline tax or relaxing the prohibition on the tolling of existing interstate highways.

“It’s going to take an array of things here in Washington,” he said. “There’s not one single silver bullet. Everything has to be on the table.”

Shuster scoffed at reports that lawmakers will defer action on an infrastructure plan until 2018 to work this year on higher-priority issues such as healthcare, tax reform, and immigration.

“We’re going to do a lot of things in committee but the main thing is going to be an infrastructure package, and it will cover everything—rail, transit, highways, aviation, and pipelines,” he said. “We’re going to have a big, broad bill.”

The nonpartisan Congressional Budget Office said in a report released Wednesday that the transportation P3s promoted by the Trump proposal would do little to increase the money available for highway construction.

“Revenues from the users of roads and from taxpayers are the ultimate source of money for highways, regardless of the financing mechanism chosen,” said Chad Shirley, CBO’s deputy assistant director for microeconomic studies. “Most [projects] do not involve tolls or other mechanisms to collect funds directly from their users or beneficiaries.”

Eliminating the tax-exemption from municipal bonds would result in more rational infrastructure spending, Shirley said.

“Tax-exempt bonds are a relatively inefficient way to subsidize state and local governments’ investment in infrastructure, because the revenue cost to the federal government may substantially exceed the interest-cost subsidy provided to the state and local governments,” he said.

The Bond Buyer

By Jim Watts

March 2, 2017

[Mission, Money & Markets: Municipal Bonds and the Trend Toward Social Justice.]

Editor’s note: This is the second in the Mission, Money & Markets article series by the Kresge Social Investment Practice team. See all articles at http://www.kresge.org/mission-money-markets.

Back in 1812, the municipal bond market was born when the City of New York issued the first recorded municipal bond for a public purpose canal. Since this first issuance, community impact has been central to this market.

This is the Kresge Foundation’s Mission, Money & Markets Social Investment logo
Municipal bonds are debt securities issued by a state, county, city or municipal district to finance capital expenditures – from the canals of the past to the schools, public facilities, mass transit systems and affordable housing developments of today. This market issues more than 13,000 bonds annually to undergird the operations and infrastructure of nearly 44,000 municipalities and other districts. Together, it accounts for $3.7 trillion in total debt and more than $400 billion flowing into American communities each year, according to Bond Buyer.

The scale, scope, and public focus of this market has led us to ask: How does the municipal bond market intersect with The Kresge Foundation’s mission to create opportunities for low-income people in American’s cities? And how might we influence the market to put greater consideration on the long-term impact of socioeconomic characteristics, such as income inequality, on the fiscal outcomes of cities?

Continue reading.

February 27, 2017 3:00 PM EST

By Kimberlee Cornett and Napoleon Wallace

The Kresge Foundation

[With Pressure and Data, Muni Bond Market Could Drive Racial Justice.]

In the days of civil unrest following the fatal shooting of unarmed black teenager Michael Brown by a police officer in Ferguson, Missouri, a few foundations asked Ryan Bowers and his co-founders of Frontline Solutions consultancy for advice on how to do some rapid response grantmaking in and around the city. As natural conveners, Bowers and his colleagues' first instincts were to arrange a series of site visits with activists and national funders. The experience brought attention to an existing connection between the foundations and the structural violence that served to fuel that same unrest.

"In looking at how to get philanthropic capital on the ground, we started to look up and see how foundations' invested endowment capital was also playing a role in all that," Bowers says.

The U.S. Department of Justice's report on Ferguson connected the dots, Bowers remembers. It documents how Ferguson's police enforcement focused on revenue generation instead of public safety. It details tactics used to boost fines and fees to become the city's second-largest source of revenue. The report cited a 2014 Bloomberg story that put the connection in plain sight: Without those revenues, the article outlined, Ferguson's municipal bond ratings would have dipped, severely limiting the city's ability to finance infrastructure, public building construction and other long-term needs.

Investors, including most typical foundation endowments, hold $3.8 trillion in municipal bonds issued across the United States, and there are more than $400 billion in new municipal bonds issued annually. They're an attractive investment, given that the interest earned from them is federal tax exempt. For foundations that generally have to disburse 5 percent of the value of their endowments annually, municipal bonds, or muni bonds as they're known, are a no-brainer asset to hold.

After credit rating company Moody's eventually downgraded Ferguson's municipal bond rating, things clicked for Bowers and company. Even while the community knew what was happening, with regard to fees and fines, "ratings agencies hadn't yet incorporated that into their methodology," Bowers says.

"We knew there were tons of other Fergusons out there that just hadn't blown up yet to become a national story, just below the surface," he adds. "This was an opportunity to get this on the radar of the ratings agencies, investors and municipalities themselves."

That spark led to the creation of Activest, a platform to drive "financial, structural and community change" through the municipal bond market. Bowers and Activest co-founders want to mobilize people around the idea that racially and socially unjust policies aren't just immoral, they're also terrible fiscal policy, as they sow the seeds of civil unrest and stalled economies.

In the era of President Donald Trump, that notion may be more important than ever. So-called "sanctuary" cities face possible federal penalties if local police don't enforce federal immigration policy. Put that in the context of large-scale funding sources that have been drying up for years: Funding for HUD's community development block grants peaked in 1995, and has fallen nearly every year since.

"Our thinking is that cities are more desperate for money, you're going to see more desperate policies at the local level to raise revenues and that's going to hurt poor families," Bowers says.

Bowers thinks there will be opportunities for municipal bond holders to be more like activist shareholders, reinforcing positive behaviors like sanctuary cities and pushing back against bad behaviors like over-reliance on fees and fines, or maybe even racial segregation in housing and schools. It's a carrot-and-stick approach, with the added benefit of putting at least some large-dollar investors on the same side as movements like Black Lives Matter and the fight against the Dakota Access Pipeline.

"We think we can start to create a municipal justice index, and give cities a score on how their social impact practices compare to each other," Bowers says. "We want cities to take credit for the things they're doing really well but also put pressure on the things they're really bad at."

"Among investors committed to social justice, such as our members, Activest provides a unique opportunity to be more thoughtful about the structural and systemic impacts of municipal finance allocations," says Andrea Armeni, executive director of Transform Finance Network of investors, which includes foundations as well as high net-worth families, investment asset managers and other like-minded investment groups oriented around social justice.

"Not all municipal finance is created equal," Armeni adds, pointing to the example of Chicago's municipal bonds issued to raise funds for payment of legal settlements in police brutality cases.

In its ultimate incarnation, Activest will help ratings agencies and investors incorporate racial and social justice metrics into the predictive models they use to judge financial health of investments, starting with municipal bonds — and they hope that communities can help shape such predictive models at the grassroots level.

The first step in that direction is figuring out what data is already out there or what data communities could produce that would display a correlation, positive or negative, between racial or social justice and long-term fiscal health. Bowers and his colleagues have been looking at dependency on fees and fines for municipal revenue, data on civil forfeiture (the confiscation of cash or sellable assets even without a trial), average bail or bond amounts, or legal financial obligations — fines and fees in the justice system that gather and sometimes accumulate interest while one is incarcerated.

"And we're also working with some data scientists to do some predictable statistical modeling to get ahead of the Fergusons before they bubble over," Bowers says. "We're also looking for some more nuanced social indicators that are correlated to financial outcomes, including indicators sourced through local partners in place to gather data and funnel it up to us."

Unfortunately, it's not entirely certain any of the above will matter at all. Trump has not quite publicly ruled out removing the tax exempt status of municipal bonds as part of anticipated comprehensive tax reform. The municipal bond market has already seen prices dip as a result of the uncertainty.

"If you remove that status, it will dry up this market," says Bowers.

EQUITY FACTOR

BY OSCAR PERRY ABELLO | MARCH 2, 2017

The Equity Factor is made possible with the support of the Surdna Foundation.

White House Says It Will Kick Off Infrastructure Planning Thursday.

- Meeting of 15 agencies is initial step in developing proposals
- No decisions have been made on funding or financing options

President Donald Trump's administration will convene a meeting of at least 15 federal agencies Thursday as a first government-wide step toward crafting the president's $1 trillion infrastructure initiative, a senior White House official said.

Gary Cohn, director of the National Economic Council, will lead the meeting, which will focus on identifying new projects that would boost the economy; finding existing projects, such as the Keystone XL pipeline, that could be expedited; targeting policies, outdated rules and laws that could delay projects; and developing funding and financing options, the official said.

The meeting follows Trump's speech to a joint session of Congress on Tuesday, when he said he wants to leverage public-private partnerships and public capital to upgrade crumbling roads, bridges, ports and other infrastructure. The official, who spoke on condition of anonymity, said that all funding options are currently on the table. Lawmakers and policy experts have floated ideas that include taxing corporate profits that are parked overseas and creating an infrastructure bank.

The official said that a proposal will be developed and presented to Trump, but the timing is uncertain.

Most U.S. infrastructure is owned and controlled by states and municipalities, so the federal government's role is more regulatory. Trump has already issued an executive order to expedite environmental reviews and permitting for high-priority projects.

'Percolate Up'

The National Governors Association provided to the White House a list of 428 priority projects from 49 states and territories on Feb. 8 that it had solicited from the states. How projects will be selected for funding has yet to be determined, the White House official said.

Governors from both political parties, interviewed at their annual winter meeting in Washington last weekend, said they expect to play a key role in those decisions.

"At the end of the day, I think it's going to percolate up from the governors,'' said Virginia Governor Terry McAuliffe, a Democrat and president of the National Governors Association. "They can't get this done in Congress without us.''

Republican Governor Mary Fallin of Oklahoma, a former member of the House Transportation and Infrastructure Committee, echoed McAuliffe's concern. "It's important to have that state input into what is a national priority,'' she said.

Trump, meanwhile, has been building his team to work on the plan. The White House announced on Tuesday that DJ Gribbin will serve as a special assistant to the president for infrastructure policy, under Cohn. Gribbin, a former chief counsel for the Federal Highway Administration and general counsel for the U.S. Department of Transportation, has worked on public-private partnership deals for Macquarie Capital USA Inc.

'Every State'

During his speech to Congress, Trump called for “a new program of national rebuilding,” likening the initiative to President Dwight D. Eisenhower’s construction of the interstate highway system across the U.S.

Lawmakers are anxious for details. Representative Peter DeFazio of Oregon, the top Democrat on the House Transportation and Infrastructure Committee, said it’s “time to put some flesh” on Trump’s proposal. “What’s missing is a real plan and the money,” DeFazio said after Trump’s speech on Tuesday.

Representative Bill Shuster of Pennsylvania, the Republican chairman of the House Transportation and Infrastructure Committee, said he’s met with Trump and his policy staff and told them there have to be projects in all states.

“We should look at every state and say what are the projects that are going to bring the states along,” Shuster said Wednesday at a meeting of the American Association of State Highway and Transportation Officials in Washington.

Democrats including DeFazio and even some Republicans have argued that trying to rely on the private sector alone won’t generate $1 trillion of investment or allow projects in all parts of the U.S. Deals involving private investment require a revenue stream such as tolls, which aren’t popular or even practical in rural or thinly populated areas.

Spurring Investment

Democratic congressional leaders support more spending on infrastructure but say that the proposed mechanisms to spur private investment — such as a tax credit — would only benefit the wealthy. Republican congressional leaders have made it clear they won’t support a significant increase in spending that isn’t offset by cuts so that it doesn’t add to the debt or deficit.

The White House official said it’s premature to speculate what the mix of private and public funding and financing might be.

U.S. Transportation Secretary Elaine Chao said her office was exploring new ways to finance infrastructure, including through public-private partnerships, to attract private investment and remove barriers.

“Business as usual is just not an option anymore,” Chao said Wednesday at the transportation officials’ gathering in Washington. “Everyone can agree that our country can no longer take decades to build a new bridge or a new road, a new highway or airport.”

Bloomberg Politics

by Mark Niquette

March 1, 2017, 2:00 PM PST

The Week in Public Finance: Oil State Woes, Why 401(k)s Might Not Be For All and More.

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

GOVERNING.COM

BY LIZ FARMER | MARCH 3, 2017

Evidence-Based Programs Risk Losing Funding Under Trump.

A federal fund that supports evidence-based social programs in state and local government may end under President Donald Trump.

The Social Innovation Fund, an Obama-era initiative, has issued nearly $300 million in government grants since its inception in 2009. The money has gone to projects aimed at housing the chronically homeless, employing jobless adults and providing health care to the uninsured, among other things. Because the program requires grantees to seek additional matching dollars, it has generated more than $1 billion in combined public and private investment.

But late last month, *The New York Times* reported that a memo from the White House Office of Management and Budget recommended the elimination of nine federal agencies. Among them was the Corporation for National and Community Service, which is best known for running AmeriCorps but also operates the Social Innovation Fund.

The Trump administration has not commented on the report, but the president's budget blueprint calls for roughly $54 billion in cuts to nondefense programs.

Under the Social Innovation Fund, proposals can't receive funding unless research suggests they would work, and every project must undergo evaluation to see if it gets the intended result. It's a radical change in how federal dollars are spent.

"Success has often been determined by how much money did we spend or how many people did we serve instead of the outcomes that we got," says Jeremy Ayers, vice president of policy for Results for America, a nonprofit that promotes the use of evidence in government.

If Trump's budget does call for the elimination of the Social Innovation Fund, Congress could ignore his recommendation, and there are reasons to think that might happen. Past efforts to discontinue the fund failed, and Republicans, including House Speaker Paul Ryan, have championed the broad idea of evidence-based policy.

Still, the fund's advocates are working to protect it.

"We're rallying the troops to show Congress that there is support for this work and also there is a real impact and consequences if this work does not continue to be funded," says Ayers.

Results for America has sent a letter in support of the fund — as well as several other evidence-based programs — to the ranking members of the House and Senate appropriations committees. Most of the 187 signatories are nonprofits and academic groups, but the list includes the mayors of Philadelphia and Salt Lake County, several public school districts, the chief of performance improvement for Louisville, Ky.; the cities of Boise, Idaho, and Menlo Park, Calif.; and Cook County, Ill. A number of former federal officials also signed the letter, including former directors of the White House Domestic Policy Council under presidents George W. Bush and Barack Obama.

A long list of state and local governments have benefited from the fund, particularly in getting "pay-for-success" programs up and running. Pay-for-success programs minimize the government's risk by leveraging private funding for evidence-based experiments aimed at solving public problems. If the project works — for example, if prisoner recidivism is reduced — then outside funders get reimbursed for their investment. The arrangements are still new and complex, requiring nonprofits and academic centers with experience in the field to assist government partners.

Not all of the recipients have been for pay-for-success projects though.

The Mayor's Fund to Advance New York City, a nonprofit started by then-New York City Mayor Rudy Giuliani, has been awarded $34.5 million from the federal fund for a range of antipoverty initiatives. One such program, Family Rewards, provided cash assistance to low-income families in exchange for fulfilling certain tasks, such as having the children score proficient on standardized tests, attend school regularly and stay up-to-date on health and dental checkups.

GOVERNING.COM

BY J.B. WOGAN | MARCH 1, 2017

Trump Wipes Out $5 Billion of Muni Gains at Top U.S. Insurers.

- Market has many 'what ifs' as Washington mulls tax shifts
- Travelers, AIG among insurers hit by municipal bond slump

The disruption in the municipal bond market is punishing some of the most loyal buyers of the debt.

The insurance industry has seen more than $5 billion of gains erased on state and local bonds after Donald Trump's victory in the presidential race, with American International Group Inc. and Travelers Cos. among the hardest-hit companies. While the yield on state and local debt is typically exempt from federal taxes, that advantage would be diminished if Trump follows through on plans to lower the levy on all corporate profits. Beyond that, investors are concerned that an overhaul of federal laws could end the favorable treatment on munis.

There are "just crazy amounts of 'What ifs?' at this time," said Peter Block, managing director for credit strategy at Ramirez & Co., a New York-based underwriter. Beyond that, he said, the stock rally led to a shift in allocation as some traditional muni investors "saw that equities were just on a tear, and they wanted a part of that."

Travelers, the only property-casualty insurer in the Dow Jones Industrial Average, had unrealized gains on its $32 billion municipal portfolio narrow to $360 million on Dec. 31 from $1.7 billion just three month earlier, according to regulatory filings. The gain at AIG was just $747 million at the end of 2017, about a third of the figure from Sept. 30. CNA Financial Corp., Prudential Financial Inc., Cincinnati Financial Corp. and Alleghany Corp. also endured declines in their portfolios.

Many types of bonds lost value after the election, as investors bet on economic growth under Trump. In most cases, insurers welcomed the shift because yields climb when the securities lose value. That could help boost investment income on the trillions of dollars in corporate debt, Treasuries and mortgage-backed securities that the industry holds to back obligations to policyholders.

'Less Attractive'

On munis, however, where insurers accepted lower yields in exchange for tax benefits, the changing economics could leave more of a sting. If the corporate tax rate is lowered to 25 percent from 35 percent, the benefit of holding municipal debt versus AA-rated corporate debt would diminish substantially, said Matt Caggiano, who helps oversee more than $9 billion in insurer municipal holdings at Deutsche Bank AG.

"Now you have a Republican president and a Republican House and Senate," he said. "They all would like to decrease the corporate tax rate. That could really make munis less attractive to insurance companies."

Municipal debt has trailed a risk-matched basket of U.S. Treasuries by about 16 basis points since Election Day in November, according to the Bank of America Merrill Lynch index data. Still, big insurers pride themselves on being able to hold securities through market fluctuations.

"We do not expect property-and-casualty insurers sell large portions of their municipal portfolio outright, but rather partially redirect proceeds away from tax-exempts as their municipal holdings mature," Barclays Plc analyst Mikhail Foux said in a January note to investors.

The declines in unrealized gains don't count against earnings, but do reduce book value, a measure of financial strength monitored by investors and analysts. P&C insurers account for about 10 percent of the $3.8 trillion municipal market.

'Non-Trivial'

Investors are still waiting for clarity from Washington, as the Trump administration and Congressional Republicans have sent mixed signals. If lawmakers reduce rates on corporations and individuals, they could seek to limit tax breaks to help replace the lost revenue.

Trump is unlikely to support the complete elimination of the muni exemption, given that the debt supports infrastructure projects, according to Municipal Markets Analytics. Still, the chance has increased for a "negative adjustment," according to the research firm.

"Obviously, a lot is going to be determined by the shape of any tax legislation," Travelers Chief Investment Officer William Heyman said in the New York-based company's fourth-quarter earnings call when discussing the outlook for as far off as 2019. "At the very extreme, if you needed a revenue-neutral bill, and the municipal exemption itself were affected, that would be non-trivial."

Shares of Travelers and AIG both declined this year through Monday, even as the S&P 500 Financials Index is up about 5.3 percent since Dec. 31. To be sure, the insurers have been hit by other surprises as well, including higher-than-expected claims costs.

Relative Value

At Chubb Ltd., another insurer with significant muni holdings, said this month that it was too early to say whether the company would reduce its exposure. The company hadn't released its 10-K filing for 2016 as of Monday night.

"We're running scenarios at different tax rates to determine the impact of the portfolio," Chief Financial Officer Phil Bancroft said on a Feb. 1 conference call. "So we're evaluating it. And we'll look at it in light of the tax developments that emerge over the next months."

Bloomberg Politics

by Lisa Du, Romy Varghese, and Sonali Basak

February 28, 2017, 5:01 AM PST

Fitch: Federal Questions Linger for State and Local Governments Following President Trump's Speech.

Fitch Ratings-New York-01 March 2017: In the president's speech to Congress last night and in details of a budget plan disclosed on Monday, the administration proposed and affirmed broad policy goals that could significantly affect state and local governments, but essential details remain unknown. The future of the Affordable Care Act, Medicaid financing, an infrastructure plan, and even federal education funding were all topics in the speech or budget proposal – but state and local governments remain without clear guidance on how possible changes will affect them.

On the Affordable Care Act (ACA) and Medicaid, President Trump's speech listed five principles to guide legislative deliberations. These principles were broad in scope, but generally consistent with the recently released House Republican Obamacare Repeal and Replace Plan from House Speaker Paul Ryan. Other than an explicit statement supporting the use of tax credits, the president's speech added no new clarity on the administration's view for the role of the federal government in healthcare.

The federal Department of Health and Human Services (HHS) estimated that in federal fiscal year 2015, 9.1 million people received insurance coverage under state Medicaid expansions authorized under the ACA. With the ACA's enhanced matching rate (100% in 2015 and phasing down to 90% by 2020), HHS estimates the states received $58.1 billion in federal funding to provide that coverage in 2015. The Ryan plan phases down that ACA funding significantly over an unspecified transition period. The president's speech was not clear on the administration's view of that decrease.

Medicaid represents approximately one-third of state budgets so changes to the program, such as ending the open-ended federal commitment, could have material effects on state fiscal conditions. The president's healthcare principles included a statement to provide governors "the resources and flexibility they need with Medicaid to make sure no one is left out." Regarding the ACA Medicaid expansion, the speech hinted at some support for continued federal funding for the newly eligible. But the reference to flexibility implies support for a block grant or per capita cap program as envisioned under the Ryan plan, to trade limits on federal spending for unspecified new flexibility for states on implementation. Fitch anticipates states would likely respond with health care spending cuts, cuts to other programs such as education, and revenue measures.

In his speech, President Trump reiterated his support for legislation to support new infrastructure investment of up to $1 trillion. The president's statement on infrastructure did not include a specific commitment of federal direct funding and instead referenced creating a legislative structure to support a mix of public and private investment. This aligns with President Trump's campaign proposal (co-authored by the incoming Secretary of Commerce and head of the White House's new National Trade Council) to use tax credits, rather than direct federal funding, to encourage private investment. More clarity is still needed on how non-revenue-generating projects will be financed as the opportunities for investment in user-fee-supported infrastructure will be only a limited subset of the overall need.

The president's speech also included an educational legislative priority that could affect state and local governments, urging congress to enact legislation that provides federal funding to support school choice, including for charter and private schools. Fitch notes that expansion of charter schools has generally been neutral to negative for competing public school districts' fiscal conditions. Any proposals to provide new federal aid to charter schools, or redirect existing traditional public school aid, could exacerbate challenges for school districts, such as Philadelphia and Los Angeles Unified, already struggling to adjust to ongoing enrollment shifts. School districts would need to address any reduced federal aid through spending cuts or additional revenue sources. As the current situation in Chicago demonstrates, urban school districts can be challenged to find additional room for cuts and have limited independent revenue raising capacity in many states.

Monday's disclosure of details on the president's upcoming budget proposal also leaves open questions for state and local government. The proposal reportedly includes an additional $54 billion in defense spending, offset with a commensurate reduction in federal discretionary funding. For state and local governments, 70% (approximately $400 to $500 billion) of federal aid comes for mandatory programs (primarily Medicaid), which are reportedly not subject to cuts in this proposal.

The largest single discretionary program potentially subject to the $54 billion reduction is federal highway aid ($40 billion). Given the president's repeated statements on infrastructure investment, Fitch views cuts in federal highway aid as unlikely. Absent highway aid cuts, it remains unclear how the president's budget plan would affect state and local governments. The administration has indicated changes to mandatory programs (which include Medicaid) will follow after the administration formally releases the budget plan in mid-March.

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Second Circuit Court Rules EPA's Water Transfers Rule Allowed Under Chevron.

In a major water rights case that pits the practical needs of drinking water system operators against environmentalists, conservationists, and some state and tribal governments, the Court of Appeals for the Second Circuit decided recently that water transfers for drinking water systems are exempt from the Clean Water Act pollution permitting program.

In upholding the 2008 Water Transfers Rule, the Second Circuit Court of Appeals held that the U.S. Environmental Protection Agency was entitled to exclude water system transfers from the National Pollutant Discharge Elimination System (NPDES) permitting requirements. The plaintiffs argued that such water transfers could move harmful pollutants from one body of water to another. Catskill Mountains Chapter of Trout Unlimited, Inc. v. EPA (Catskill III), 14-1823, (2d Cir., 2017).

The dispute bears the hallmark of a case bound for the U.S. Supreme Court, as national environmental organizations, led by Trout Unlimited, Inc., fishermen, sportsmen, Riverkeeper, Inc. and northeastern states, including New York, Connecticut, Delaware, Illinois and Maine, line up against the EPA, western states, and water districts and utilities from San Francisco to New York City and South Florida.

"Because New York City cannot tap the rivers, bays, and ocean that inhabit, surround, or, on occasion, inundate it to slake the thirst of its millions of residents, it must instead draw water primarily from remote areas north of the City, mainly the Catskill Mountain/Delaware River watershed west of the Hudson River, and the Croton Watershed east of the Hudson River and closer to New York City," Judge Sack waxed poetically in a lengthy opinion that even starts out quoting poetry.1

Water transfers, which drinking water systems have been conducting for decades, connect and convey water supplies between two water bodies before any end user, such as an industrial, commercial or municipal consumer, uses the water. While EPA had never required such water transfers to become subject to the NPDES permitting requirements of the Clean Water Act, it ultimately enacted the Water Transfer Rule to respond to a growing chorus from environmental and conservation groups that claimed water transfers can move harmful pollutants from one water body to another.

The court analyzed the case using the classic two-step analysis set forth by the U.S. Supreme Court in Chevron v. Natural Resources Defense Council (referred to as "Chevron deference"), pursuant to which the Court first determines if the language of the statute at issue clearly proscribes the matter and, if not, whether the agency's interpretation of the statute is reasonable. After concluding that the Clean Water Act does not expressly address water transfers and, therefore, inferring that Congress must have decided to defer to the EPA the interpretation of the statute to water transfers, the Court examined the reasonableness of EPA's judgment. "The agency provided a sufficiently reasoned explanation for its interpretation of the Clean Water Act in the Water Transfers Rule," the Court explained.

Among the justifications for EPA's reasoning, the Court relied on the longstanding practice of and Congress's acquiescence to water transfers, practical concerns regarding compliance costs (the defendants' arguments in the case indicated compliance costs could exceed $4.2 billion), and the existence of alternative means for regulating pollution resulting from water transfers. New York City argued that it would be required to construct an expensive water treatment plant if an NPDES permit were required for its transfers. Other federal statutes, including the Safe Drinking Water Act, provided an acceptable alternative to regulation, the Court concluded.

Footnote

1."Water, water, everywhere/Nor any drop to drink," by Samuel Taylor Coleridge's The Rime of the Ancient Mariner (1798).

Last Updated: February 16 2017

Article by Stephen J. Humes

Holland & Knight

Stephen J. Humes is a Partner in our New York office.

[U.S. Municipal Debt Sales to Total $4.48 bln Next Week.]

A wave of water debt will hit the U.S. municipal bond market next week as part of $4.48 billion in bond and note sales by states, cities, schools and other issuers, according to Thomson Reuters estimates on Friday.

The California Infrastructure and Economic Development Bank will issue $450 million of top-rated clean water state revolving fund revenue bonds.

The debt is structured with serial maturities from 2018 through 2036, according to the preliminary official statement.

Underwriter Morgan Stanley has scheduled a Tuesday retail order period for the so-called green bonds ahead of formal pricing on Wednesday.

New York City's Municipal Water Finance Authority will sell $375 million of water and sewer second general resolution revenue bonds. Senior underwriter Siebert Cisneros Shank & Co will hold a retail presale period for the bonds on Monday with formal pricing on Tuesday.

Among competitive offerings, Maryland's Baltimore County will sell $199.1 million of bonds and $121 million of bond anticipation notes on Wednesday. Clark County, Nevada, has set a $317.78 million general obligation bond bank refunding bond sale for Wednesday.

Meanwhile, U.S. municipal bond funds reported a seventh-straight week of net inflows. The week ended Feb. 22 had $149.3 million of net inflows, down from $480 million in the previous week, according to Lipper, a unit of Thomson Reuters.

(Reporting by Karen Pierog; Editing by James Dalgleish)

GFOA Approves New Best Practices.

GFOA's Executive Board recently approved five best practices in the areas of treasury and investment management, retirement and benefits, and municipal debt. GFOA best practices identify specific policies and procedures that contribute to improved government management. They aim to promote and facilitate positive change rather than merely to codify current accepted practice. GFOA has emphasized that these practices be proactive steps that a government should be taking. Best practices are applicable to all governments (both large and small), are approved by the GFOA executive board, and represent the official position of the organization.

New best practices include:

- Procurement of Financial Services, recommends that governments review their financial services contracts every five years and use a competitive process for the procurement of financial services.
- Investment Program for Public Funds, recommends that all governments establish a public funds investment program by completing several steps: developing an investment leadership team, identifying the funds being invested and their cash flow characteristics, reviewing all applicable laws and regulations, establishing a risk profile, determining the portfolio management team, and creating an investment policy.
- Defined Contribution Retirement Plan Design, clarifies and updates the design elements governments should include if they choose to provide a defined contribution (DC) plan as a primary retirement vehicle. These include analysis to determine the cost of providing the benefit and determining whether employees are eligible for a federal insurance program that provides benefits

to retired people (e.g., Social Security).
- Electronic Payments, recommends that governments use electronic payments for all payments.
- Refunding Municipal Bonds recommends that issuers include guidelines in their debt management policies that address preservation of future refunding flexibility. Issuers should also analyze their refunding objectives, the efficiency of any related escrow, and the unique aspects of executing the refunding transaction.

To help governments understand and implement the best practices, GFOA will be holding an internet training seminar on April 20, 2017 title New GFOA Best Practices.

Wednesday, February 15, 2017

Kroll: Mixing Oil and Water – A Credit Short Story.

Kroll Bond Rating Agency (KBRA) has released a new research report entitled "Mixing Oil and Water – A Credit Short Story." This report makes the following key points:

- The large water discharge at the Oroville Dam has highlighted a commodity that is crucial to California's economic viability and has provided an opportunity for KBRA to shine a light on another globally important commodity—oil—that also is produced on a large scale on a daily basis.
- KBRA believes that investors need to pay close attention to the percentage change in oil prices as it results in exaggerated moves, in terms of spread performance, on the energy securities that they hold.
- There is more corporate credit quality destruction, larger spread widening, and an increase in energy company defaults when oil prices move from $50 to $25 because pricing at this level undermines the breakeven level of oil producers lifting costs.

GFOA OKs Best Practices on Refundings, Investing, and Financial Services.

WASHINGTON – The Government Finance Officers Association's executive board has approved a series of new and revised best practices that make recommendations to issuers about refundings, investing their public funds, and procuring financial services.

The best practices also touched on issuers' use of electronic payments and designs for defined contribution retirement plans.

Kenton Tsoodle, vice chair of GFOA's debt committee, said the recommendations are the result of the committee's annual reviews to update or add best practices. The one on refundings of munis is a revision that recommends issuers establish guidelines to preserve future flexibility and set formal objectives as well as monitor refunding opportunities. It also urges issuers that do not have a dedicated debt management staff or expertise in analyzing refunding opportunities to engage a municipal advisor.

Tsoodle said the revisions center on urging issuers to consider more than the net present value savings they want to see from refundings. It suggests issuers also consider negative arbitrage efficiency, which takes into account an issuer having to pay back bonds up to the call date after a refunding.

The recommended practice also tells issuers to consider how much interest rates would have to rise by the call date to produce savings matching those that could be realized with an advance refunding as well as how much value there is in a call feature.

Tsoodle said the debt committee felt they should expand on this guidance even though it was previously discussed.

“One of the biggest things was trying to emphasize that net present value savings is not the only metric that issuers should be looking at,” Tsoodle said. “The typical 35% savings that a lot of people look at is absolutely something issuers should consider but the best practice is also pointing out that there are some other metrics to look at as well.”

He added that the committee recognizes these are “very complex topics.”

“We were trying to just mention them in a brief way so that issuers, especially new [issuers] or issuers that are unfamiliar with these topics, could at least get mildly educated enough … to ask a municipal advisor about them,” Tsoodle said.

The best practice also encourages issuers to identify and monitor potential refunding opportunities through a combination of spreadsheet-based debt tracking and analysis of current interest rates. Issuers should additionally analyze their decisions about investing proceeds of advanced refundings and be sure to explain the purpose of a refunding if it is not to produce debt service savings, GFOA said.

When it comes time to move forward with a refunding, GFOA recommends an issuer meet with its bond counsel and MA and, when hiring an outside bond financing team, use a competitive process.

The committee’s new best practice on creating an investment program for public funds notes that governments have a fiduciary responsibility in managing their funds. An investment program for public funds will help issuers meet that duty, GFOA said. Issuers should establish such a program by: developing an investment leadership team; identifying the funds being invested and their cash flow characteristics; reviewing all applicable laws and regulations; establishing a risk profile; determining the portfolio management team; and creating an investment policy. The best practice on financial services contracts urges issuers to review them every five years and use a competitive hiring process that includes criteria like quality of servicing staff and regulatory standing.

Governments should also use electronic payments for all payments, in part to prevent fraud.

Issuers should consider a list of design elements GFOA included in a separate best practice if they choose to provide a defined benefit contribution plan, GFOA said.

The Bond Buyer

By Jack Casey

February 16, 2017

Bloomberg Brief Weekly Video - 02/23

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

Watch video.

Bloomberg

February 23, 2017

CUSIP: Fiduciary Rule Drives Surge in New Equity Instrument Creation.

“At least for the immediate future, all signs appear to be pointing to a slowdown in corporate and municipal debt issuance,” said Richard Peterson, Senior Director, S&P Global Market Intelligence. “While that sentiment is reflected in current investor behaviour, it will be instructive to watch the CUSIP issuance dataset for any signs of a potential change in the coming weeks and months.”

Read the press release.

MAMBA Introduced in House as HR 1115.

Read the CDFA press release.

How Cities Should Take Care of Their Housing Problems.

While President Trump talks repeatedly about fixing America’s inner cities, it’s a good bet that in the coming years, New York and other large metropolitan areas will need to be more self-reliant in solving pressing problems, especially low-income housing.

After all, many big cities face a triple threat: Mr. Trump wants to cut funding to sanctuary cities; his nominee to run the Department of Housing and Urban Development, Ben Carson, is unlikely to be a strong and creative leader; and the Republican Congress is eager to chip away at federal housing programs. In response, cities need local financing initiatives that make up for the coming reduction in federal assistance.

Fortunately, there’s an already tested alternative: an annual luxury housing tax, levied on new high-end condos and rentals, which would feed a self-sustaining fund dedicated to develop truly affordable units.

While no city has such a plan in place, this strategy has been tried right here in New York. The city has already channeled approximately $1 billion from luxury development for affordable housing into communities like Harlem and the South Bronx.

The history of this financing dates back three decades, when the Battery Park City development in Lower Manhattan was in its nascent stages. Planners intended to include low-income housing with the offices and luxury apartments and condos.

But when Sandy Frucher, the head of the Battery Park City Authority, asked leaders of poor and minority communities if they would prefer a few apartments in this new neighborhood or money to fix up far more housing in their own, he says they chose the latter.

As part of this strategy, the authority dropped most of its affordable housing plans, which helped jump-start high-end development in this once isolated part of the city. It then took a slice of the "excess profits" the authority generated from expanding ground rents and real estate taxes it collected from new buildings and directed them to finance low-income projects in distressed areas.

These recurrent flows backed a $150 million bond, issued in 1987. Use of debt expedited renovation. Improved units, which were designated rent stabilized, remain affordable to this day.

This highly rated, triple-tax-free issuance enabled reasonable interest costs. The same thing could happen today with similarly structured bonds, likely paying less than 1 percent.

Gov. Mario M. Cuomo, who approved the deal, felt it gave Battery Park City a soul. Today, a similar plan would also give the city a hand up in dealing with Washington.

Levying a luxury-housing tax citywide is straightforward; the trick is justly defining what price makes a rental or condo "luxury," then determining an appropriate annual tax rate.

Targeting properties for improvement is another challenge. Back when the Battery Park City program started, the city regularly took ownership of rundown buildings for failure to pay property taxes, then used the program's money to fix them up.

Abandoned buildings have largely disappeared in a booming real estate market, but there's still tax-delinquent and bank-foreclosed inventory available on the cheap. Slum landlords in litigation could be forced to turn over their properties. These properties could be handed to nonprofit groups that would undertake renovations, ensuring adequate maintenance and responsible tenancy.

According to Carol Lamberg, who was executive director of one such organization, the Settlement Housing Fund, from 1983 to 2014, there are dozens of well-run nonprofit housing and community development operations in the city that could manage the entire process, from site identification and redevelopment to tenant selection and property management.

The money could finance new construction over municipal parking lots and abandoned industrial areas and along coastlines in the Bronx, in Brooklyn and on Staten Island.

But this luxury housing tax diverges from Mayor Bill de Blasio's "inclusive" strategy of mixing struggling tenants in with affluent occupants, for which developers get a tax credit. But that approach has problems: Low-income residents often can't afford daily living expenses in affluent neighborhoods; it drains municipal finances; and a substantial number of affordable units revert to market price within 30 years.

An affordable-housing tax, in contrast, would exploit development forces without dampening them or draining public budgets and borrowing capacity. It would fund improvement where it's not happening and aid households the market has left behind.

Providing safe, clean homes for those who can't afford them is key to helping needy citizens become more productive and independent citizens — a concept lost on President Trump.

This approach is applicable countrywide, where there are strong luxury housing markets and low-income working residents who can't afford permanent shelter.

We need to start responding to President Trump's new reality. One way to do this is to restart this proven form of local revenue sharing.

THE NEW YORK TIMES

By ERIC UHLFELDER

FEB. 21, 2017

U.S. Governors Prepare Wish Lists for Trump Infrastructure Promise.

WASHINGTON — President Donald Trump's campaign promise for a $1 trillion infrastructure program will be in focus when U.S. governors gather on Friday in Washington, D.C., with some states making wish lists of projects ranging from a bullet train to statewide broadband internet service.

The winter meeting of the National Governors Association running through Monday is expected to showcase rare bipartisan agreement on the need for more federal help in upgrading roads, bridges and airports, said Scott Pattison, the group's executive director.

"There's just this pent-up demand to deal with, whether it's a crack in a dam, a bridge, whatever it is," Pattison said in a telephone interview.

Although there is little movement on Capitol Hill to make Trump's infrastructure vow a reality, governors have sent the White House a list of 428 projects they say are ready to go with some extra federal spending.

The National Governors Association has not released the list but checks with some states hinted at the projects.

Democratic California Governor Jerry Brown has asked for $120 billion, saying that since the state made up 12 percent of the U.S. economy it deserves 12 percent of Trump's $1 trillion package.

"We're not talking about a few million, we're talking about tens of billions," Brown said of the infrastructure proposal this month as he sought federal aid to deal with a leaking dam and flooding.

Among California's big-ticket items is construction of a high-speed rail system linking San Francisco and Los Angeles.

Colorado and Minnesota want help building statewide broadband systems, with Minnesota Governor Mark Dayton, a Democrat, saying his state needs $150 million for its broadband grid.

Republican Kansas Governor Sam Brownback's top priority is $122 million for interstate highway repairs. South Carolina and Virginia want federal aid to deepen ports, among other projects.

In a letter to Trump, Republican Governor Henry McMaster said South Carolina also needed help replacing roads and bridges. "An appropriation of $5 billion from your infrastructure plan will help us bridge this economic gap," he wrote.

Pattison said governors wanted a "toolbox" of financing options, including municipal bonds, cash, public-private partnerships and federal matching funds.

The governors are scheduled to meet with Trump on Sunday evening and again on Monday morning.

One of the speakers at the governors' conference, Leo Hindery, a managing partner at New York's InterMedia Partners, will tell state executives that creating a federal infrastructure bank is the only way to fund the hundreds of billions of dollars needed for public works.

The United States has long been criticized for its lagging public works spending. The American Society of Civil Engineers has graded U.S. infrastructure at D+ and estimated the country needs to invest $3.6 trillion by 2020.

During his campaign, Trump said he wanted action on infrastructure in his first 100 days as president. That now seems unlikely. He also talked about creating a tax credit to encourage private sector investment.

Trump's plans to create an infrastructure council have yet to get started. Republican lawmakers have said they expect to get White House infrastructure proposals but have given no details or timing.

By REUTERS

FEB. 24, 2017, 6:12 A.M. E.S.T.

(Editing by Kevin Drawbaugh and James Dalgleish)

Fitch: Recent Actions Highlight Consistent Approach to Default Risk.

Fitch Ratings-New York-17 February 2017: Fitch Ratings' recent ratings on the Port of Seattle and Santa Clara Valley Water District (SCVWD) demonstrate the uniquely rigorous approach towards assessing the legal basis for rating securities distinct from the Issuer Default Rating (IDR) under the new Tax-Supported Rating Criteria, according to a new Fitch report.

"Using the same methodology that resulted in several California school district security ratings distinct from the IDR, the Port of Seattle and SCVWD's ratings underscore Fitch's holistic, consistent approach to rating across the portfolio," said Amy Laskey, Managing Director.

Fitch assigned an IDR of 'AA-' to the Port of Seattle using our Global Infrastructure Airport and Seaport Rating Criteria with a variation to consider the strength and value of the tax revenues that could be made available to support operations. Similarly, Fitch assigned an IDR of 'AA+' to SCVWD using our Water and Sewer Revenue Bond Rating Criteria with a variation to consider tax revenue support.

Fitch upgraded the Port of Seattle's intermediate and subordinate lien revenue bond ratings from 'A+' to be on par with the new IDR of 'AA-', while the rating on outstanding LTGO bonds was downgraded to the level of the IDR from 'AAA'. Similarly, for SCVWD, the district's water revenue bonds and revenue certificates of participation were upgraded to the new 'AA+' IDR from 'AA', while the district's flood control system COPs were downgraded one notch to the level of the IDR.

Security ratings are capped at the IDR unless Fitch believes there is a strong legal basis for concluding that bondholders are protected from operating risk. Fitch's high bar for rating tax-supported bonds distinct from the IDR applies to enterprises, general governments, school districts, and other special districts.

For more information, a special report titled ‘Special Revenues, Bankruptcy and Default Risk’ is available on the Fitch Ratings web site at www.fitchratings.com.

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[From $37 to $339,000: Why the Price of Public Records Requests Varies So Much.]

The laws about public records differ from one government to the next and are further complicated by some technologies, like police body cameras.

In 2015, the editor of a newspaper in Florida filed a public records request with the Broward County Sheriff’s Office asking for the email of every employee during a five-month period to be searched for specific gay slurs.

In response, the *South Florida Gay News* received a $339,000 bill.

The office said fulfilling the request would take four years and require hiring a dedicated staffer. The exorbitant charge set off a year-long legal battle that attracted the Associated Press and its lofty resources. To show how arbitrary the number was, the AP and *South Florida Gay News* filed a similar request to the sheriff’s office in other Florida counties. They were quoted fees ranging from as little as $37 to more than $44,000.

Why then is there such a big range of costs for similar information?

Local and state laws regarding what constitutes the public’s domain are about as uniform as a patchwork quilt. And technology — or a lack thereof — further contributes to the increasing cost variance between jurisdictions.

New IT software, for the governments that can afford it, has certainly sped up the time it takes to fulfill requests and thus lowered the price of information. But in some cases, technology can complicate matters. This issue is particularly heightened when privacy concerns require time-consuming redaction work.

Take the emerging issue of police body cameras. People caught on video in homes or hospitals have a reasonable expectation of privacy, so faces need to be blurred or redacted — a process that some say requires a painstaking number of manhours. The New York City Police Department made news last year for charging a local TV station $36,000 for access to 190 hours of body camera footage.

Partially in an attempt to avoid the labor, some governments have limited the public's access to police videos. So far, jurisdictions in 21 states have passed laws regarding body camera footage — most of them restricting it. The state of South Carolina has exempted the footage from public records requests altogether.

After receiving an imposing public records request for footage, the Seattle Police Department decided to hold a hackathon. The winner created software that automated some of the redaction process and now the police department uploads redacted body camera clips to YouTube for anyone to see.

Meanwhile, watchdog groups and media organizations that push for more transparency argue that redaction technology has evolved in recent years. Companies like MotionDSP are retooling their software to work faster, while companies like PRI Management will redact videos for agencies either for a per-video or annual fee.

Body cameras are a new technology, so inconsistency is understandable. Emails, on the other hand, aren't so new and yet the cost of fulfilling a records request for them still varies greatly.

According to Frederic Smalkin Jr., a Baltimore City Law Department attorney, new software has easily cut down on the e-discovery process in his agency by half. Meanwhile, Andy Wilson, CEO of the data management company Logikcull, said he regularly speaks with governments that are still printing out emails and redacting by hand.

As new types of electronic records pop up — like text messages and Snapchats — governments will have to consider whether they apply to the public domain. The landscape will likely continue to be inconsistent from one jurisdiction to the next. But in the meantime, Adam Marshall of the Reporters Committee for Freedom of the Press, thinks governments could be doing better.

"The tools already exist for these types of records requests to be complied with," he said. "The agencies need to be thinking about ensuring compliance with existing law when they adopt new technology."

GOVERNING.COM

BY LIZ FARMER | FEBRUARY 14, 2017

County Recoveries Coincide With Political Shifts.

The nation's economic recovery accelerated in 2016, with more than 1 in 4 counties reporting a full recovery to pre-recession levels on four key economic indicators. That portion is a huge jump from last year when 1 in 10 reported fully recovering counties, according to the National Association of Counties (NACo).

The four indicators are: job totals, unemployment rates, economic output (GDP) and median home prices. Two-thirds of the nation's more than 3,000 counties have recovered on at least three of the economic indicators.

Most of the counties that have fully recovered are in Kentucky, Iowa, Minnesota, Missouri, Nebraska, South Dakota, Texas and Wisconsin. In addition, the mid-Atlantic, the Northeast and the West Coast have many nearly-to-fully recovered counties. Large counties (more than 500,000 residents) had the highest rate of full recovery at 41 percent. In contrast, more than three-quarters of small counties (fewer than 50,000 residents) still had not reached their pre-recession peaks in any of the indicators by the close of 2016.

The Takeaway: Both the acceleration of the economic recovery and the fact that it's mostly happening in very populated areas is widening the gap between the municipal haves and have nots. It also partly explains shifting political allegiances in some mid-sized counties in 2016.

Many of the approximately 200 mostly Midwestern mid-sized counties that voted for President Obama in 2008 and 2012, voted for President Trump in 2016. According to NACo's analysis, these swing counties have experienced weaker job recoveries compared to the national average with more than half of them still below their pre-recession job peaks.

"While there's a national storyline on the economy, it often plays out differently at the local level," says lead report author Emilia Istrate, managing director of NACo Counties Futures Lab. "The wide variation in local conditions underlines the need for a strong federal-state-local partnership on providing economic opportunity for residents of communities of all stripes."

GOVERNING.COM

BY LIZ FARMER | FEBRUARY 17, 2017

More Pressure on Sanctuary Cities.

A debate in Texas could prove a greater threat to sanctuary city funding than Trump's executive order denying federal funding to such cities. The Texas House of Representatives is taking up a bill already passed by the state Senate that aims to ban sanctuary cities. In Austin, for example, newly elected Travis County Sheriff Sally Hernandez has been in a standoff with Gov. Greg Abbott over her decision not to detain any unauthorized immigrants.

The bill, which is largely expected to pass, would fine jurisdictions and college campuses that don't comply with federal immigration law, allow for criminal charges on elected or appointed officials who knowingly violate these rules, and deny state grant funds (except for grants involving money for body armor) to the jurisdiction.

The Takeaway: While state aid to cities is declining, many jurisdictions are vulnerable to significant changes. And, whereas there are many questions over the legality of a federal intervention into sanctuary cities, there are none in states. They can preempt local actions. So a defunding threat on the state level could make cities more inclined to buckle.

A lot depends on how reliant cities are financially on their states. Municipal analyst Matt Fabian notes that local aid levels are generally low in Texas, so the impact may be minimal. Austin, for instance, reported to the Senate that it has received $9.8 million in state grants in 2017 — a small portion of the city's $1 billion general fund budget. Still, Fabian writes, "the net effect of state bans like these are likely to worsen state-local relations. In the context of near-certain federal aid cutbacks to the states over the next 10 years, a higher level of antipathy now only implies deeper pain to locals when cuts arrive."

GOVERNING.COM

BY LIZ FARMER | FEBRUARY 17, 2017

A Tried and Trusted Way to Finance America's Infrastructure Projects.

Infrastructure may be the only area where bipartisan action by this Congress predictably can create large numbers of solid jobs, enhance growth and income opportunities for American investors, and help invigorate our economy. Our country needs it.

Yet with proposals starting at $150 billion and climbing quickly above $1 trillion (and then some), the government is burdened at all levels across the country with massive debt and unfunded liabilities may be unable to finance large projects without private money. Moreover, projects must be productive, locally-needed winners. No one wants more bridges to nowhere.

Fortunately, infrastructure is also popular outside Washington, both with voters and investors. Many investors are looking for long term, low risk, high quality investments. As a result, demand for infrastructure is pent up. A national initiative to repair and replace our crumbling highways, bridges, tunnels, ports, and railways (possibly adding schools, utilities, water and Internet, among others) will create top-shelf investment opportunities. This will benefit financial companies, but promises to help Main Street a great deal more.

Much is made of attracting new private funding, and with Congress sure to enforce geographic and other balancing factors to spread the wealth around, the primary financing option is likely to be tried and true municipal bonds. Many are low risk, offer attractive returns, and carry tax advantages. Municipal bonds paid for most of the iconic infrastructure that made America great.

The first option floated, the private-financing "Ross-Navarro plan" laid out by the Trump administration is unlikely to succeed. With Wilbur Ross and Peter Navarro joining President Trump's economic and trade teams, the plan will get air time, but the idea of offering tax credits to attract private investors is unnecessary. Depending on how the plan is executed, it could prove inefficient or even unproductive.

The money is already there. Private equity firms have raised large amounts of capital for infrastructure, with some funds raising as much as $16 billion. Much of it sits idle, waiting for attractive projects. When good investment opportunities are presented, that money will move fast, with more behind. Investors will gladly accept tax credits but they do not need these subsidies. What they want are projects that make sense.

Congress and the executive branch can do something that would cost the U.S. Treasury nothing but would dramatically increase the odds of success: formulate a predictable, streamlined, regulatory permitting process. President Trump has vowed to kill "burdensome regulations," and there are few areas where they have run more amok than infrastructure.

Take the New NY Bridge Project to replace the Tappan Zee Bridge across the Hudson River. It was proposed in 1999, but thanks to multiple agencies and jurisdictions throwing up a byzantine gauntlet of conflicting rules and regulation, it only became shovel-ready more than a decade later in 2013. Thus, the new bridge will cost many billions of dollars more than it would have in 1999.

Protecting the public good requires that federal, state, and local governments all be involved. That's the American way. But it would be beneficial for projects to have coordinators, someone with the power to enforce an agreed-upon framework across the parties in the public and private sectors. The challenge will be to imbue the role with authority enough to keep projects on budget and on track.

Of course, with private money comes a desire for private proprietorship, which is accepted in Australia and Europe but relatively new to the United States. There is resistance here to selling ownership of what the American people believe should be assets in trust for the public benefit.

Chicago learned that the hard way when it privatized its parking meters. Meter prices doubled overnight. Thanks to a transaction poorly negotiated by the city fathers, private owners were rewarded handsomely while returning dubious long-term value to the city. Earning an attractive return is critical to attracting private money, but local authorities must ensure that each deal also serves the public good.

True top-dollar return projects will never lack for money—and that's a good thing. We want to encourage as much private investment in public works as possible, but the solution will not be "new."

Municipal bonds will continue to lead the financing effort. With them, we can build exciting projects, but equally important, the mundane, necessary projects that raise the quality of life for so many Americans. Tried and trusted remains the best choice.

THE HILL

BY ROBERT AMODEO, OPINION CONTRIBUTOR – 02/14/17 04:00 PM EST

Robert Amodeo, CFA, is head of municipal investments and portfolio manager at Western Asset Management, a California-based subsidiary of Legg Mason that manages more than $400 billion in assets.

House Votes to Block Labor Department Rules on State Retirement Programs for Private Sector.

Resolutions to block Department of Labor rules allowing states and large political subdivisions to set up private-sector retirement savings programs were passed by the U.S. House of Representatives Wednesday.

The resolution on state programs was approved by a vote of 231-193 and the political subdivision vote was 234-191. The Senate has not scheduled action.

The rules finalized in August for states and December for cities and other large political subdivisions, provide a safe harbor to allay concern that state and local programs would be pre-empted by federal regulators.

So far, 30 states and municipalities are implementing or considering state-facilitated, private-sector retirement programs, and eight of those states have passed legislation to set up programs. On Tuesday, 15 Treasury officials from Democratic and Republican states wrote to leaders of the House and Senate urging them to oppose the legislation. The rules, they said, provide “important flexibility to states and large municipalities as they seek to address the growing retirement crisis facing this country. We insist that states be allowed to maintain their constitutional rights to implement such legislation.” Their counterparts in New York City, Philadelphia and Seattle wrote a similar letter to House Speaker Paul Ryan, R-Wis.

Employer groups are worried about how each program will regulate employers that already offer retirement plans. “While well intentioned, the rules could hurt retirement savings and participants by discouraging plan sponsorship and limiting protections for workers,” Lynn Dudley, American Benefits Council senior vice president for global retirement and compensation policy, said in a letter to House leaders.

“If Republicans succeed in rolling back DOL regulations, they will destroy the best chance 63 million American workers have of getting access to a retirement plan,” said Teresa Ghilarducci, director of the Retirement Equity Lab at The New School in New York.

PENSIONS & INVESTMENTS

BY HAZEL BRADFORD | FEBRUARY 15, 2017 5:37 PM

— Contact Hazel Bradford at hbradford@pionline.com | @Bradford_PI

Caucus Asks to Work With Trump on Infrastructure, Tax Reform Legislation.

DALLAS – A bipartisan group of lawmakers is asking President Trump for a meeting to discuss how they can work together to build consensus on infrastructure investment and tax reform legislation.

“With a new president and Congress, Washington has the opportunity to show the American people that we understand their frustration and are committed to addressing their concerns,” the 35-member Problem Solvers Coalition said. “We are Democrats and Republicans who are eager to accomplish this task.”

The letter was sent just before an analysis of federal highway data by the American Road & Transportation Builders Association found that cars, trucks, and school buses cross almost 56,000 structurally compromised bridges some 185 million times each day.

The ARTBA review of data provided to the Federal Highway Administration by state transportation departments show that 28% of U.S. highway bridges are at least 50 years old and have never had any major reconstruction work.

The report showed Iowa has the largest number or structurally deficient bridges, at 4,968 –20.5% of its total inventory of bridges. Rhode Island’s 192 structurally deficient bridges had the highest percentage, 24.9%, of a state’s total bridges. California’s problem bridges were the most traveled, with Interstate 110 in Los Angeles logging 273,760 daily crossings.

“America’s highway network is woefully underperforming,” said Alison Premo Black, ARTBA’s chief economist who conducted the analysis. “It is outdated, overused, underfunded and in desperate need of modernization.”

ARTBA’s analysis came as President Trump discussed tax reform and infrastructure on Wednesday with executives from eight major retailers, including Target, Walgreens, J.C. Penney, and Best Buy.

The Problem Solvers Caucus, led by Rep. Tom Reed, R-NY, and Josh Gottheimer, D-N.J., wrote in their letter, “We are willing to work with you to find the issues ripe for bipartisan agreement and to turn them into law …. History shows that the most consequential and long-lasting reforms are usually bipartisan.” The group was founded just before the midterm elections in November 2014.

Addressing infrastructure investments and tax reform on a broad bipartisan basis “could give a significant boost to our economy and provide Americans with confidence that government can work for them,” they wrote.

The $1 trillion, 10-year infrastructure plan proposed by Trump before the election would provide no new federal funding. Instead, it calls for $137 billion of federal tax credits designed to spur private investments in roads, bridges, and other infrastructure with a revenue stream.

The linking of tax reform with infrastructure investments could be an “immediate win for our country,” the caucus said earlier in a Jan. 8 letter to Trump before the inauguration.

“America’s aging surface, water, and energy infrastructure combining with our complex and non-competitive tax code are huge barriers to investment and to hiring,” the pre-inauguration letter said.

“The logic of combining tax and infrastructure reform in one package is compelling,” the caucus said. “Common sense and comprehensive tax reform could free up significant capital for infrastructure.”

The recent collapse of the spillway at California’s Oroville Dam that forced the evacuation of almost 200,000 residents was cited on Tuesday by Trump press secretary Sean Spicer as an example of the nation’s infrastructure problem.

“The situation is a textbook example of why we need to pursue a major infrastructure package in Congress,” Spicer said at the daily press briefing.

“Dams, bridges, roads and all ports around the country have fallen into disrepair,” he said. “In order to prevent the next disaster, we will pursue the president’s vision for overhaul of our nation’s crumbling infrastructure.”

An “infrastructure czar” is needed to coordinate Trump’s proposed public works program, according to attorney Barry LePatner.

“We lack the political will and the political leadership to address this problem in a comprehensive way,” LePatner said during an interview Tuesday on the CNBC cable channel. “Somebody has to take responsibility at the political level and provide the leadership and the willpower.”

The Bond Buyer

By Jim Watts

February 15, 2017

House Votes to Kill DOL's State, City Auto-IRA Rules.

Some observers believe halting the rules wouldn't stop states from moving forward with auto-IRAs on the books, but would likely halt progress on proposed bills.

The House on Wednesday voted in favor of two resolutions to overturn Labor Department rules issued last year that promote creation of auto-IRA programs by cities and states.

The resolutions to kill the Obama-era rules were introduced last week, on Feb. 8.

One, sponsored by Rep. Tim Walberg, R-Mich., pertains to rules governing state retirement programs; the other, sponsored by Rep. Francis Rooney, R-Fla., pertains to municipalities such as cities and counties.

The House voted 231-193 in favor of the state resolution, and 234-191 in favor of the one governing cities, with both contests largely along party lines.

The DOL regulations encourage states and municipalities to create automatic-enrollment, payroll-deduction IRA programs for private-sector workers by exempting such programs from federal retirement law, the Employee Retirement Income Security Act of 1974, thereby limiting their liability.

Killing the rules would be an attempt to stymie creation of auto-IRA programs, which five states have been developing.

The programs seek to close the retirement-plan coverage gap and boost savings by mandating employers offer a plan to their workers. The auto-IRA would serve as an alternative retirement plan for employers that didn't want to offer a private-sector option such as a 401(k).

The programs have drawn criticism from some groups such as the Financial Services Institute Inc., the Investment Company Institute and the Chamber of Commerce, which say they will create a patchwork of different retirement plans across the country and expose investors to fewer protections.

The resolutions wouldn't be subject to a filibuster in the Senate. Observers say, though, that Senate action on the resolutions is unlikely to be as swift as in the House due to more pressing proceedings in the Senate such as nomination hearings.

Congress has a limited time frame, up until roughly mid-May or mid-June, within which it can pass a resolution overturning the DOL rules governing the state and city rules. The Department of Labor put the rules on the books in August and December last year, respectively.

Observers believe there'd still be a legal basis for states to move forward with their programs even if the rules were killed, but states that haven't yet passed bills to create such programs may adopt a wait-and-see attitude.

Investment News

Feb 15, 2017 @ 5:00 pm

By Greg Iacurci

[President Trump Issues Executive Order To Expedite Approval Process For Certain Pipelines, Other High Priority Infrastructure Projects.]

On January 24, 2017, President Donald Trump issued an Executive Order and two Presidential Memoranda directing relevant federal agencies to take expedited review and approval action on various infrastructure projects, including the Keystone XL and Dakota Access pipeline projects. Additionally, President Trump issued a Presidential Memorandum directing relevant federal agencies to develop a plan under which all new U.S. pipeline projects will use domestically sourced materials and equipment.

In the Executive Order, President Trump stated that "infrastructure projects in the United States have been routinely and excessively delayed by agency processes and procedures." To expedite agency review, President Trump directed the Chairman of the White House Council on Environmental Quality ("CEQ"), upon request or on his or her own initiative, to identify "high priority" infrastructure projects that require federal review and approval. For those infrastructure projects identified as high priority, President Trump directed the Chairman of the CEQ to coordinate with the relevant government agencies to establish expedited review procedures and approval deadlines.

In two related Presidential Memoranda, President Trump directed the relevant government agencies to expedite review of the Keystone XL and Dakota Access pipelines. As to Keystone XL, President Trump invited the pipeline to resubmit its application for a Presidential Permit to the United States Department of State. President Trump also directed the Secretary of State to reach a permitting decision within 60 days of the application being resubmitted. Additionally, President Trump directed the Secretary of the Army to expedite review of requests for approvals related to Keystone XL, including requests under Nationwide Permit 12 to cross bodies of water owned by the U.S. As to Dakota Access, President Trump directed the Secretary of the Army and other relevant department heads to expedite the review of all requests for permits and easements necessary to construct the project.

In a third Presidential Memorandum, President Trump required the Secretary of Commerce to coordinate with other relevant federal agencies to submit a plan within 180 days that ensures that all new pipelines, as well as pipelines that will be expanded, repaired, or retrofitted in the U.S., use domestically sourced materials. More specifically, the Presidential Memorandum states that the plan should require that the manufacturing process for iron and steel products used to construct the pipelines occur in the U.S.

The Executive Order is available here. The Presidential Memoranda are available here.

Last Updated: February 9 2017

Article by Christopher M. Nalls and Daniel Archuleta

Troutman Sanders LLP

[Texas Pipeline Companies Seeking Common-Carrier Status Now Have Additional Guidelines, But Issues Regarding "Public Use" Remain.]

In its blockbuster 2012 opinion *Texas Rice Land Partners, Ltd. v. Denbury Green Pipeline-Texas, LLC (Texas Rice I)*, the Texas Supreme Court upended the way pipeline operators establish common-carrier status to exercise the power of eminent domain. On January 6, 2017, the Court issued a second major decision in the same case, dubbed *Texas Rice II*, finding certain evidence of public use sufficient to establish common-carrier status. While *Texas Rice II* provides some guidance to pipeline operators planning projects post-*Texas Rice I*, it is unlikely to prevent future litigation regarding the level of public use required to support pipeline companies' claims of eminent domain authority.

Texas Rice I: Holding Oneself Out As a Common Carrier Is Not Sufficient for Exercise of Eminent Domain

Under Section 111.019 of the Texas Natural Resources Code, "Common carriers have the right and power of eminent domain." As noted in *Texas Rice II*, before 2012 "a pipeline owner needed to do little more than 'check[] a certain box on a one-page government form' to obtain common-carrier status." In *Texas Rice I*, however, the Court made clear that the Takings Clause of the Texas Constitution requires that to be a common carrier, a pipeline must "serve the public" and not "be built only for the builder's exclusive use." The record before the Court in *Texas Rice I* only included evidence that pipeline-builder Denbury was negotiating with third parties to transport CO2. Absent was evidence that the transported CO2 would remain the property of a third party or would be transported to a third party. The Court thus decided that Denbury did not establish common-carrier status because it only showed the possibility of public use rather than a reasonable probability that public use would result. The Court made clear that post-*Texas Rice I*, "[m]erely holding oneself out [as a common-carrier would be] insufficient under Texas law to thwart judicial review."

In remanding the case for further proceedings, the Court concluded that pipeline companies seeking to condemn property interests for their projects must "present reasonable proof of a future customer, thus demonstrating that the pipeline will indeed transport 'to or for the public for hire' and is not 'limited in [its] use to the wells, stations, plants, and refineries of the owner.'" While the Court made clear that mere "holding out" would not establish common-carrier status, the Court left open the question of what evidence would suffice.

Texas Rice II: Public Use May Be Established By Transport Contracts with Non-Affiliates

In *Texas Rice II*, the Court emphasized that because an essential condition of a lawful exercise of the power of eminent domain "is that the professed use be a public one in truth, . . . mere assertions of the possibility of public use" are not enough to establish common-carrier status. The Court added that, at a minimum, there must be a reasonable probability, meaning "more likely than not," that the pipeline will at some point after construction "serve the public by transporting gas for one or more customers who will either retain ownership of their gas or sell it to parties other than the carrier."

On the evidence adduced on remand, the *Texas Rice II* Court decided that the test set forth in *Texas Rice I* had been met. That evidence included a showing of proximity of the pipeline to potential customers, a transportation contract with a non-affiliate that provides for its retention of title to its CO2, and a contract with a non-affiliate for the purchase and transport of CO2. In conclusion, the Court held that the test was met because the evidence established that the pipeline would serve the public "by transporting CO2 for one or more customers who will either retain ownership of their gas or sell it to parties other than the carrier."

In Conclusion: Questions Remain

Before *Texas Rice I*, a company wanting to condemn easements for a common-carrier pipeline needed only to fill out a form to obtain a permit from the Texas Railroad Commission reflecting its status as a common carrier. *Texas Rice I* changed that standard but gave rise to uncertainty regarding how pipeline transactions, planning, and construction must be carried out for pipelines to attain common-carrier status. *Texas Rice II* provides some answers but also suggests that pipeline projects will be scrutinized by courts seeking to strike a balance between "the property rights of Texas landowners [and] our state's robust public policy interest in pipeline developments."

Additional questions remain to be answered. In particular, it remains unclear whether transport or eventual sale of carried materials to indirect affiliates, affiliated joint ventures, or certain categories of customers will constitute "public use." Further litigation regarding these and other issues is likely.

Last Updated: February 9 2017

Article by Andrews Kurth LLP

Andrews Kurth LLP

Delaware Bond Deal Tops Light U.S. Muni Sales Next Week.

The state of Delaware will sell $225 million of general obligation bonds on Feb. 23, the largest offer in a trading week shortened by the Presidents Day holiday on Monday.

Issuers are expected to sell just $3.8 billion of bonds and notes in the U.S. municipal market next week, according to Thomson Reuters estimates.

The subdued level of supply is in line with the low-volume trend that began at the outset of the month, according to Alan Schankel, managing director and municipal strategist at Janney Montgomery Scott.

"February is on track to be among the lightest volume months," he said in a note on Friday. "Our estimate for a sub-$20 billion total places this month as the slowest February since 2014."

Total issuance for January was $33.6 billion, 37.6 percent higher than the same month last year by par amount, with increases in both refundings and new money, according to Thomson Reuters data.

Other notable offers next week include $177 million of transit system sales surtax revenue refunding bonds from Miami-Dade County and $129 million of limited tax general obligation bonds for the Port of Seattle.

Anticipation of tax reform measures, which are expected to come from congressional Republicans in the coming weeks, has fueled speculation in the market about whether the proposals will seek to do away with the tax-exempt status of muni bonds.

“While a reduction in the tax rates threatens to reduce the value of the municipal tax-exemption, its elimination remains highly unlikely, in our view,” Peter Hayes, head of the municipal bond group at BlackRock, said in a monthly research note on Friday.

Public power utilities, which rely on the muni market to finance projects and which have warned lawmakers against eliminating the tax exemption on muni bonds, are not overly concerned about a major overhaul either.

“We’ve not found anyone rushing to market,” John Godfrey, senior government relations director with the American Public Power Association, said on Friday.

“There is some sense that the markets are already pricing tax reform risk into rates,” he said.

Reuters

Fri Feb 17, 2017 | 5:14pm EST

By Rory Carroll

(Reporting by Rory Carroll; Editing by James Dalgleish)

A Trump-Era Strategy for Municipal Bonds.

The Trump administration’s plans to radically overhaul the tax code could weigh on munis—but it could create buying opportunities.

Municipal-bond investors have a lot of reasons to wring their hands in 2017. The Federal Reserve seems intent on hiking rates as many as three times this year, and President Donald Trump is threatening to radically rewrite tax policy, potentially even limiting the tax-exempt status of munis.

Even so, munis have a lot going for them. They provide a low-risk way to diversify when the biggest risk to your portfolio might be from overpriced stocks. Most munis are high-quality, and the asset class has historically had a negative correlation to equities, according to Standard & Poor’s.

Even better, munis are a lot cheaper than they were a year ago, which means they yield more. (Bond yields move inversely to prices.) After a fourth quarter of rising interest rates, the average yield on a 10-year triple-A-rated muni bond rose to 2.4%, equivalent to a 4% taxable yield for individuals in a high tax bracket. That compares to 1.9% a year ago, says James Grabovac, investment strategist at McDonnell Investment Management.

Another sign of value, he notes: The 10-year muni-bond yield is nearly the same as the 10-year Treasury yield, up from just 85% a year ago.

“The psychology of the market is much improved” since late last year, says John Miller, co-head of fixed income at Nuveen Asset Management. “Prices haven’t moved that much, but they are stable with a slight upward bias.” Plus, inflows have been positive for the past five weeks after 10 weeks of sharp postelection outflows.

Though changes to the individual tax code appear to be on the back burner, as the Trump administration attempts to deal with corporate tax reform first, there are two main concerns.

The first—reducing or eliminating munis' tax-exempt status—will likely be floated, but is unlikely to succeed. "It has come up before, and it always dies," says James Kochan, chief fixed-income strategist at Wells Fargo Funds. "Sometimes a fairly quick death." Infrastructure spending, a goal of this administration, is usually funded by states and cities issuing munis, so it seems unlikely Trump would want to disrupt the market, notes Grabovac.

Cutting marginal tax rates could also make munis less attractive, though it has happened before and the asset class held up just fine. BlackRock looked at what would happen if there was a cut in the highest tax rate to 33%, and found it would lead to just a 0.15 to 0.5 percentage-point rise in yields, depending on maturity. That's not such a big penalty.

SUCH TAX PROPOSALS could stoke volatility, which would create buying opportunities for nimble investors prepared to take advantage of a selloff. Sean Carney, who heads municipal strategy at BlackRock, says more investors are already using muni exchange-traded funds, such as his firm's iShares National Muni Bond (ticker: MUB), to buy on weakness and sell on strength. He thinks the approach makes sense now.

Closed-end funds, many of which have been volatile as they have reduced their payouts, are another option. Eaton Vance Municipal Income (EVN), for one, is already selling at a discount, when it usually commands a premium. It yields 5.53%.

Volatility may also come from a surge in new muni-bond supply in March, a typical seasonal pattern, or more credit downgrades in states grappling with budget shortfalls and pension-related costs.

An actively managed fund makes sense for investors who prefer not to trade. The top-performing fund in the past year, up 3.3%, is Nuveen Inflation Protected Municipal Bond (NITAX), which hedges against interest-rate risk. Nuveen All-American Municipal Bond (FLAAX)—the firm's traditional muni offering—has a 4.9% average annual return for the past 10 years, putting it in the top 2% of all national long-term muni funds.

BARRON'S

By AMEY STONE

Updated Feb. 18, 2017 1:26 a.m. ET

Private vs. Public Infrastructure Funding Debate Continues.

Speculation continued this week in Washington, D.C. on infrastructure funding plans, with municipal bonds being discussed during a panel at the National Association of State Treasurers 2017 Legislative Conference, according to The Bond Buyer. While, it will likely take tax reform for bonds to remain a viable resource, the expectation is that there will not be any changes to municipal bond rules until next year.

In the meantime, a local agency's ability to borrow funds for public capital improvements is the most cost-efficient way to finance public infrastructure. Tax-exempt rates remain at historic lows and will always beat the rates provided by public-private partnerships and private equity investment.

However, there is uncertainty whether the current administration and Congress will keep tax-exemption of municipal debt at its current level. Previous administrations have proposed placing limits on the benefits of tax-exemption for those individuals who pay taxes at the highest rates. Additionally, Congress provided rebates to issuers under the Build America Bonds program in 2010, under which rebates were reduced significantly as a result of the federal government's budget crisis in 2011.

Among the many questions being asked in regard to what a federal infrastructure funding plan will look like is whether public-private partnerships or private equity investments will benefit rural areas. The current administration has many members that are pro-public-private partnerships. Last week, at the Senate Environment and Public Works Committee, discussion focused on the need for federal funding when there is no enticement for private involvement. "Funding solutions that involve public-private partnerships, as have been discussed by administration officials, may be innovative solutions for crumbling inner cities, but do not work for rural areas," said Sen. John Barrasso, (R-Wyoming), who chairs the Committee, according to the Albuquerque Journal. Private partners are interested in potential for generating returns, and rural areas often lack the revenue-generating project capacity to be truly enticing to a private partner.

We have no indication at this time whether there will be renewed attempts to reduce the benefits of tax-exemption. Nevertheless, tax-exempt bonds, if left unchanged, will allow local agencies to control their costs of borrowing and they will not have the interference of private parties on the use and operations of the financed facilities.

by Kimberly Byrens | Best Best & Krieger LLP

2/16/2017

Fitch: 'Fair' US Interstate Tolling Can Curb Highway Deficits.

A widening chasm for the US economy – highway, road and bridge funding deficits – can be curbed by establishing interstate US tolling, It's a rather lofty task, however, that would need to be approached fairly and pragmatically.

Continue reading.

Social Finance Launches First-in-the-Nation Outcomes Rate Card Development Competition.

Last week we announced the Outcomes Rate Card Development Competition, which will position governments and nonprofit organizations at the forefront of innovation in outcomes-based policymaking. Outcomes rate cards scale solutions to society's most pressing challenges by standardizing the Pay for Success contracting approach. With one outcomes rate card, governments can launch multiple Pay for Success projects, directing resources towards effective social programs at greater scale.

The Competition is supported by the Social Innovation Fund, a program of the Corporation for National and Community Service. "The Social Innovation Fund is committed to bringing innovative solutions to communities across the country through Pay for Success," said Lois Nembhard, Acting Director of the Social Innovation Fund. "This competition is a great opportunity for more governments and nonprofits to engage in Pay for Success through outcomes rate cards."

To learn more join our webinars on Tuesday, February 21st at 3:00 pm EST and on Wednesday, March 15, 2017 at 3:00 pm EST. Webinar log-in is available on the competition webpage.

Read more.

Social Finance

Trump's Infrastructure Vow Reverses Mutual Fund and ETF Outflows.

- Money poured in since October after months of outflows
- Could take years for funds to profit from new projects

It's not just U.S. President Donald Trump who's bullish on infrastructure investing.

Mutual and exchange-traded funds dedicated to building and upgrading roads, bridges, airports and other projects attracted more than $450 million from November through January, the biggest three-month period in almost two years, according to Morningstar Inc. The inflows reversed redemptions during 15 of the 16 months prior to last year's fourth quarter.

Interest in the funds has increased with Trump proposing $1 trillion in spending during the next decade on crumbling and outdated infrastructure. While investments have historically been concentrated privately, some mutual fund providers are offering access to the industry through bundles of shares concentrated on businesses that run everything from airports to cell phone towers. And the number of offerings is likely to rise, according to Morningstar's Tayfun Icten.

"The new product introduction will be pretty healthy in this particular area going forward," Icten, an analyst who focuses on infrastructure mutual funds, said in a telephone interview.

The Lazard Global Listed Infrastructure Portfolio is the largest mutual fund in Morningstar's infrastructure category and the top performer for the last three- and five-year periods. Inflows from November through January to the $3.6 billion fund exceeded $230 million.

Tollways, Airports

The Lazard fund focuses on stocks in regulated sectors with monopoly-like franchises, such as ports and airports, while avoiding interest rate and commodity-sensitive firms, Icten said. Its biggest holdings include freight-transportation operator CSX Corp., Atlantia SpA, a Rome-based international manager of toll networks and airports; and Vinci SA, a France-based construction and infrastructure concession operator. Lazard portfolio manager John Mulquiney declined to comment.

Investors poured a net $320 million in November and December into BlackRock Inc.'s iShares Global Infrastructure ETF, the largest exchange-traded fund in the category. It tracks the S&P Global Infrastructure Index and has climbed about 19 percent in the past 12 months yet investors pulled almost $100 million in January, according to Morningstar estimates.

Net inflows into the fund category overall slowed in January, after some of the funds trailed the broader market's fourth-quarter gains and hopes dimmed for a quick U.S. stimulus boost under the new administration, Icten said.

Until about a decade ago, U.S. infrastructure investing opportunities were largely limited to private equity funds that were neither liquid nor available to small players. The other alternative was municipal bond funds, which usually offered low returns in exchange for tax benefits.

Rent-Like Revenue

Then money managers took a cue from the real estate industry, assembling retail funds of companies with rent-like revenue streams such as rails, pipelines, utilities or cellphone towers, according to Manoj Patel, co-manager of the $3.5 billion Deutsche Global Infrastructure Fund. The focus on long-term cash flow distinguishes infrastructure from the construction sector, which may benefit more directly from government stimulus spending, but for shorter periods, he said.

Investors who buy mutual funds and ETFs to bet on a surge in U.S. infrastructure spending will probably have to wait to see the benefits of a boom. Any Trump-era projects could take years to construct before revenue flows to popular fund holdings such as CSX or power company NextEra Energy Inc.

“This is a long-term, focused strategy on companies with structurally more stable and predictable cash flows,” Patel said in a telephone interview. The largest holdings in his fund, which averaged annual returns of almost 7 percent as of Feb. 10 since its June 2008 inception, include Kinder Morgan Inc., American Tower Corp. and Sempra Energy.

Though growing, the infrastructure category is small at $14.6 billion compared to the broad array of U.S. mutual funds and ETFs with almost $15 trillion in assets combined, according to Morningstar, which tracks 31 open-end infrastructure mutual funds and ETFs.

The market capitalization of the Guggenheim S&P High Income Infrastructure ETF has jumped more than 350 percent since Trump’s election to almost $29 million as of Feb. 13 as more investors noticed its performance, according to William Belden, head of Guggenheim’s ETFs development. Stocks in the ETF, which are heavily energy and pipeline weighted, did well in 2016 and its returns topped 50 percent over the last year.

The $289 million DoubleLine Infrastructure Income Fund, launched in April, is one of the few in the category that holds fixed-income debt such as asset-backed securities for aircraft and rail cars. It’s returned about 2.2 percent since inception as of Feb. 10. Since the election on Nov. 8 it’s lost about 1.3 percent, as with other intermediate-term bond funds that suffered as interest rates rose. DoubleLine analyst Loren Fleckenstein declined to comment.

Investors betting on the funds should be wary of exposure to interest rate, energy or currency risks that can add volatility, according to Icten. Most publicly-traded infrastructure funds also invest globally, which could limit the potential impact of U.S. stimulus policies to gains.

“It’s a tricky place,” he said.

Bloomberg

by John Gittelsohn

February 14, 2017, 2:00 AM PST

Muni-Bond Buyers Shouldn't Expect Financial Reports Anytime Soon.

- Audited statements arrive an average of 199 days after year
- That's more than three times longer than big corporations

For municipal-bond investors looking for yearly financial updates from the cities and states in their portfolios, the wait times aren't getting any shorter.

It took the debt issuers an average of 199 days last year to file their annual reports with the Municipal Securities Rulemaking Board, according to a report released by the regulator. That's three days longer than it was in 2015 and little changed from the 200-day average during the last seven years. The figures exclude those that were filed after more than a year.

The lag has been a perennial source of complaint to investors in the $3.8 trillion municipal market, where regulations are more relaxed than those imposed on private corporations.

When raising money in the bond market, state and local issuers agree to make annual disclosures, though the timing of those commitments can vary. While about one-third agree to post audited financial statements within 180 days, about one-quarter have nine months to do so, according to the rulemaking board. By comparison, the U.S. Securities and Exchange Commission gives big companies a deadline of two months.

The SEC, which regulates municipal disclosure only indirectly through its power over underwriters, has stepped up enforcement in an effort to improve it. In 2014, it extended an offer of leniency to banks and governments that voluntarily reported misleading investors about their compliance with the disclosure obligations, resulting in settlements with dozens of issuers and underwriters.

That seems to have had an impact on some scofflaws: The MSRB said the SEC initiative led to a spike of disclosures for previous fiscal years. If such catch up submissions are included, the figures look even worse, with financial reports coming an average of 311 days after the close the year in 2016.

Bloomberg

by Jordyn Holman

February 15, 2017, 9:29 AM PST

Bloomberg Brief Weekly Video - 02/17

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

Watch the video.

Bloomberg

February 17, 2017

[Sanctuary Cities May Not See Borrowing Hit From Trump Order.]

The municipal-bond market has an early read on President Donald Trump's executive order threatening sanctuary cities: more bark than bite.

The Jan. 25 order's threat to cut federal funds to cities and counties that decline to cooperate with federal authorities enforcing policies on illegal immigrants is unlikely to hurt the municipalities' credit, at least in the short term, according to credit-ratings firms, analysts and investors.

Two such cities—New York and Philadelphia—are out selling more than $1 billion of bonds but only made brief references to the order in marketing documents.

Officials from cities like Philadelphia and Los Angeles are still trying to figure out how much of their budgets could be on the line. The order directs the Office of Management and Budget to provide details on the federal grant money cities receive, but the White House hasn't yet identified the funds it can shut off.

Matt Szabo, deputy mayor of budget and innovation in Los Angeles, called the presidential order "sufficiently vague," but said he is operating under the assumption the city's roughly $500 million in federal grant money could be at risk. Excluding the city's utility department, airport and seaport, which control their own operating budgets, the city's current budget is about $8.7 billion.

"Any reduction in funding would result in a real cut in service," he said, noting that federal grants help pay for things like housing and economic-development programs administered by hundreds of city workers.

Most federal dollars that go to cities are based on statutory grants that follow a formula and can only be stopped if the funds aren't being spent on the intended purpose, said Linda Bilmes, a senior lecturer in public policy at Harvard University's Kennedy School of government. For example, ignoring federal immigration policy wouldn't justify halting a Head Start grant for early childhood education, said Ms. Bilmes, who has held senior roles in the U.S. Department of Commerce under President Bill Clinton.

Ratings firms said they don't see a major threat in the near future to municipal borrowers' ability to repay their debts.

According to Standard & Poor's, the executive order most likely will jeopardize grants from the Department of Homeland Security and Justice Department that account for less than 1% of municipal budgets that S&P had analyzed.

Grants from all federal agencies and departments comprise 10% of the average municipal budgets in sanctuary jurisdictions, but reach as high as 41%, said the ratings firm, which didn't name the specific cities. S&P said the executive branch has limited power to withhold or defer funds appropriated by Congress.

"The muni market's view on this is it's not good, but it's not necessarily a credit risk," said Guy Davidson, director of municipal investments at AllianceBernstein Holding LP. Lower credit ratings could lead to higher borrowing costs.

Some credit analysts raised concerns the White House order will open gaps in city and county budgets.

Howard Cure, director of municipal-bond research at Evercore Wealth Management, said cutting off federal money flowing to New York City programs such as housing or health care, for example, could pressure finances. "The city would either have to back down on this or find other money, and if they don't, it would put a real strain on their budget," he said.

On Jan. 26, Miami-Dade County Mayor Carlos Gimenez directed jails to comply with federal requests to detain immigrants. The county estimated it will receive $355 million in federal funding in the current fiscal year, including support for affordable housing, transit and battling beach erosion. Some immigration advocacy groups, including the American Civil Liberties Union of Florida, disagreed with the county's analysis of the order and don't believe its prior jail policy put the county at risk.

A Miami-Dade spokesman said, "Faced with the possibility of losing hundreds of millions of dollars in federal funding, much of which is discretionary, the mayor made the responsible decision to protect county government."

Philadelphia City Council President Darrell Clarke said the city should take Mr. Trump's threat seriously, even though he said he believes the order is unconstitutional.

"If there is still room for reasonable compromise with the federal government that preserves our ability to protect residents, including undocumented immigrants, and preserves critical funding for local policing and programs that help low-income people, then that to me is worth exploring," Mr. Clarke said this month.

In its recent bond offering, New York City indicated it sees modest risks saying it believes reductions to federal funding are legally limited and that such grants "comprise a small percentage of the city's total budget."

The city also said it believes most or all of those federal grants would qualify for the exemption in the executive order that said funds "deemed necessary for law enforcement purposes" wouldn't be cut. The city added that there is no guarantee the order won't cause a "significant reduction or delay" in receiving the grant funds, but said it would mount "a vigorous legal challenge" if that happened.

Los Angeles also will head to court if necessary, and the city is "confident that the Constitution and courts will be on our side," a spokesman said.

At least four jurisdictions, including San Francisco, have filed lawsuits alleging the order is unconstitutional. Legal experts say prior Supreme Court rulings could limit the executive order's reach.

THE WALL STREET JOURNAL

By JON KAMP, SCOTT CALVERT and AARON KURILOFF

Feb. 15, 2017 8:00 a.m. ET

Write to Jon Kamp at jon.kamp@wsj.com, Scott Calvert at scott.calvert@wsj.com and Aaron Kuriloff at aaron.kuriloff@wsj.com

[Reports Of Municipal Bonds' Demise Have Been Greatly Exaggerated.]

Top earners have traditionally been attracted to municipal bonds for their tax-exempt status at the federal and often state and local levels. In the wake of President Donald Trump's stunning upset victory, however, muni investors were forced to readjust their expectations of fiscal policy going forward. Because Trump had campaigned on deep cuts to corporate and personal income taxes, equities soared while munis sold off, ending a near-record 54 weeks of net inflows. This appears to have been premature, for a couple of reasons.

Tax Reform Unlikely To Happen Anytime Soon

Trump and congressional Republicans are currently butting heads on how best to handle tax reform, with many lawmakers saying it's unlikely they'll get around to it during the new president's first 100 days, and possibly his first 200 days.

According to House Speaker Paul Ryan, Congress will focus instead on replacing the Affordable Care Act (ACA) and funding Trump's $1 trillion infrastructure spending package before it worries about taxes. With an estimated 30 million Americans enrolled on Obamacare exchanges, finding a suitable replacement is of high importance and might take some time. The same goes with negotiating a costly infrastructure deal, which several fiscally conservative lawmakers are hesitant to support.

Besides, we all know how fast Congress operates, even on a good day. Former President Barack Obama took office in January 2009, and even with a Democratic majority in the House and Senate, his signature health care law didn't reach his desk until March the following year.

All of this is to say that it might be premature to start dumping your munis, or withhold an investment in munis, purely on the notion that income taxes are about to get a haircut. We're probably looking at many more months of Obama-era tax rates, including the 3.8 percent Obamacare surcharge on investment income. Other investors have realized this as well, which is why we're seeing positive net inflows back into muni bond funds.

If enacted as conceived, Trump's tax reform plan would indeed be the most significant in decades, simplifying the number of tax brackets from seven to three, lowering the top rate from 39.6 percent to 33 percent and eliminating personal exemptions and filing status options.

One of the unintended consequences of this is that income taxes could actually go up for certain middle-income filers. According to an analysis of Trump's proposal by the independent Tax Policy Center, as many as 8 million American families, including a majority of single-parent households and large families, could end up paying more than they do now (emphasis mine):

> Increasing the standard deduction would significantly reduce the number of filers who itemize. We estimate that 27 million (60 percent) of the 45 million filers who would otherwise itemize in 2017 would opt for the standard deduction. **Repealing personal exemptions and the head of household filing status, however, would cause many large families and single parents to face tax increases.**

But What About Rising Interest Rates?

In December, the Federal Reserve lifted interest rates for only the second time in nearly a decade, and many expect to see up to three additional increases this year. It's important to be aware that when rates rise, bond prices fall because if newly issued bonds carry a higher yield, the value of existing bonds with lower rates declines. This is why I believe investors should take advantage of short- and intermediate-term munis, which are less sensitive to rate increases than longer-term bonds, whose maturities are further out.

Forbes

Frank Holmes, Contributor

FEB 8, 2017 @ 01:26 PM

Toll Bridge Deals Lead U.S. Municipal Supply Next Week.

A pair of toll bridge deals will lead a U.S. municipal bond calendar next week that features around $5.85 billion in total sales.

California's Bay Area Toll Authority will issue the week's biggest deal, pricing on Tuesday $552 million in negotiated refinancing bonds to reduce borrowing costs.

The Delaware River Joint Toll Bridge Commission, a bi-state agency that operates seven toll bridges in Pennsylvania and New Jersey, will price a $438 million negotiated bond, to fund the bulk of a $512 million reconstruction of the Scudder Falls Bridge.

Both deals are scheduled to price on Tuesday and will be underwritten by Bank of America Merrill Lynch.

The Scudder Falls Bridge, which crosses the Delaware River along Interstate-95 and supports some 60,000 cars a day, will be demolished to address safety concerns, and rebuilt by the Trumbull Corporation, which was awarded the construction contract, according to a road show presentation from the toll bridge commission.

Tree cutting and installation of noise walls are underway, with full construction slated to begin in April and run through August 2021, according to the presentation.

Next week's total muni supply will include $5.575 billion of negotiated and competitive bonds, and another $271 million of notes.

The Long Beach, California, Unified School District will provide the biggest competitive bond deals, issuing $450 million in general obligation bonds, while Rochester, New York, will lead the way in notes, with $72 million in a pair of bond anticipation offerings.

Ongoing political and economic uncertainty could make it difficult for the U.S. Federal Reserve to raise interest rates in the near term, and "lower Treasury rates will certainly help munis," Barclays analysts said in a weekly note on Friday.

Barclays, which projects net negative issuance for February, said "healthy dealer inventories and positive fund flows should also support the market in the coming weeks."

Barclays noted that tax policies of President Donald Trump could also move markets.

Trump on Thursday hinted at an upcoming announcement he said would be "phenomenal in terms of tax," but offered no detail.

Reuters

By Nick Brown

Fri Feb 10, 2017 | 2:31pm EST

(Reporting by Nick Brown; Editing by Bernard Orr)

Policy Uncertainty Is Killing Muni Volume.

After a rough post-election period, municipal bonds are holding up just fine this year. But while index returns are up slightly, volume is way down.

That decline reflects caution among investors about where tax policy is headed. If tax cuts are put in place, munis could become less appealing.

Morgan Stanley muni strategist Michael Zezas writes Monday:

> The tale of the tape, in our view, shows an investor base lacking conviction. Consider, for example, the ratio of bid-wanteds relative to trade volume. While they have recently eased, levels since the beginning of the year are elevated on a combination of lower trade volume and larger bid lists. This suggests an investor base that is testing liquidity and playing it safe.

Zezas says that negative sentiment would normally be a sign to add munis to a portfolio. But in this case he thinks it is appropriate for investors to be cautious.

> We sympathize with the implied caution being expressed for two reasons: 1) policy risks, including existential tax risks, still loom large in the muni market; 2) valuations aren't obviously reflecting that risk.

The benchmark-tracking **iShares National Muni Bond ETF** (MUB) is up 0.1% year to date at $108.34, but is down 3.2% in the past year.

Barron's

By Amey Stone

February 13, 2017, 1:45 P.M. ET

NABL: SLGS Window Likely to Close.

In a little over 4 weeks the federal debt ceiling will return and with it, almost certainly, the SLGS window will close. NABL members who have closings around March 15 should plan for an alternative to purchasing SLGS.

In November of 2015, then-Speaker John Boehner reached an agreement with President Obama that suspended the debt limit through March 15, 2017. This was one of Speaker Boehner's final acts before his resignation.

Absent action by the current Congress and President to increase or further suspend the debt limit before March 15, the Treasury Department can be expected to begin implementation of its "extraordinary measures" to delay the date on which the United States would begin to default on its obligations – not only payments on Treasury bonds but also the federal payroll, payments to contractors, and Social Security benefits, among other things. Generally the first of the extraordinary measures that is implemented is closing the SLGS window.

Continue reading.

What Makes a Bond "Green"?

Most people agree that a "bond" is a financial instrument pursuant to which a creditor (holder of the bond) lends money to a borrower (the issuer of the bond) over a specified period of time in exchange for a periodic interest payment. However, although I occasionally see headlines about green bonds being issued, it was not clear to me what made a bond "green". Since I like to drink clean water and breathe clean air, I thought it would be worth looking into.

Continue reading.

The Public Finance Tax Blog

By Cynthia Mog

February 10, 2017

Squire Patton Boggs

Outlook Dims for Trump Pledge on Infrastructure Funding.

DALLAS – President Trump's pledge of getting Congress to pass a major infrastructure program in his first 100 days is slipping away as lawmakers focus on health care as their top priority, leaving experts to wonder if the initiative will move forward at all this year.

Infrastructure has become tied to tax reform because of the revenues that would be needed to fund it. House Speaker Paul Ryan, R-Wis., said Thursday that Congress will not take up tax reform until it deals with the repeal and replacement of the Affordable Care Act.

Tax reform, ranging from a comprehensive overhaul of the tax code to attempts to repatriate trillions of dollars in overseas corporate profits, has been the preferred main source of additional infrastructure funding for many lawmakers. Trump's promise of a $1 trillion boost to infrastructure spending has buoyed the stock market since his inauguration.

“It’s just the way the budget works that we won’t be able to get the ability to write our tax reform bill until our spring budget passes, and then we write that through the summer,” Ryan said during an interview on Fox News.

“We feel the need to rescue this system here and that’s why we’re going with health care first,” Ryan said. “And then in the spring we’re doing the second budget. That’s where tax reform comes.”

Trump favors a reduction in the corporate tax rate to 15% from the current 35%, while Ryan’s proposal would lower the rate to 20%.

Ryan and Rep. Kevin Brady, R-Texas, chairman of the House Ways and Means Committee, have said that revenue resulting from corporate tax reform should be used for overall tax reforms rather than being dedicated solely to infrastructure.

Rep. Bill Shuster, R-Pa., chairman of the House Transportation and Infrastructure Committee, said last week that Trump’s infrastructure program would likely be funded through an overhaul of the federal tax code that Democrats could support.

Infrastructure funding will probably be linked to tax reform, said Sen. John Thune, R-S.D., chairman of the Senate Commerce Committee and third-ranking Republican in the Senate.

“My guess is if that gets done, it probably hitches a ride on tax reform,” Thune said last week at the Republican legislative retreat in Philadelphia.

“We’ve got a very focused agenda, things that we want to get done in the next 200 days,” Thune said. “How infrastructure plays into that, we’re not sure yet.”

Delaying action on infrastructure funding to take care of other issues could mean farewell to hopes for an infrastructure program this year or next, said Norman Anderson, president of consulting firm CG/LA Infrastructure.

“President Trump’s main promise during the campaign for action on infrastructure in his first 100 days is in danger of not being fulfilled,” Anderson said. “It’s a big mistake and a very, very bad idea, because if infrastructure is the second or third priority in Washington instead of the first, then nothing will get done.”

History has shown that infrastructure programs are passed early in a new administration or not at all, Anderson said.

“It has to be done in the very beginning,” he said. “Nobody’s been able to do it after the first 200 days.”

A bipartisan trio of lawmakers has proposed incentives for corporations to bring an estimated $2 trillion in overseas earnings into the U.S. to spur private sector reinvestment and growth.

Rep. John Delaney, D-Md., one of the sponsors of the Infrastructure 2.0 Act, proposed similar measures in 2014 and again in 2015 with significant bipartisan support, but neither gained traction in Congress.

A Senate bill filed Tuesday by Sen. Deb. Fischer, R-Neb., would provide five years of supplemental federal highway funding, not through tax reform but by diverting Customs and Border Patrol revenues.

Fischer's Build USA Infrastructure Act would move the first $21.4 billion of revenues collected per year from freight and passengers at international borders into the Highway Trust Fund for five years.

The Bond Buyer

By Jim Watts

February 2, 2017

The Week in Public Finance: Battling Over Retirement, Gorsuch on Online Sales Taxes and Fiscal Irresponsibility.

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

GOVERNING.COM

BY LIZ FARMER | FEBRUARY 10, 2017

How a Corporate `War' Over Covenants May Affect Munis.

PHOENIX – New language designed to protect investors appeared last month in the offering documents of a taxable hospital deal, as the ripple effect of a battle in the corporate bond arena spread to the municipal market.

The language, which appeared in offering documents for a $350 million taxable Children's Hospital Corporation (Mass.) issuance, makes clear that investors are due a premium in the event of a default. It specifies that investors are due an amount "equal to the make-whole redemption price." Municipal finance pros said the language appears to have crossed over as a result of a dust-up over corporate bond covenants in late 2016 – though some expressed skepticism that such covenants would take hold in the municipal market.

Adam Cohen, a corporate finance attorney who founded and writes for a research firm called Covenant Review, said the issue arouse in October when corporate borrowers started including provisions in their offering documents that prevented buyers from collecting any kind of premium if the bonds were redeemed early. They started doing so as an effort to "opt out" of court rulings that ordered some corporate borrowers to pay make-whole redemptions after covenant breaches, a move that investors quickly began railing against.

That meant that issuers could voluntarily breach their covenants and only pay out par. An ugly "war" played out over this in the corporate market late last year, Cohen said, leading borrowers to drop their insistence on that provision. The language in the Children's Hospital Corporation deal is the "reverse" of what the corporate borrowers tried to do, Cohen said.

"It's a big deal because this war from corporate bonds leapt over to munis," Cohen said, adding that had personally spoken to some fund managers that said they would want this protective language in future muni deals they bought, but that the majority of the market appears unaware of the issue.

But despite the uproar the deal caused in the corporate world, muni market professionals seem skeptical that the issue is as big in the tax-exempt market. The hospital deal that included the make-whole provision was taxable, and so not representative of the most common type of muni bond issuances.

A bond lawyer who reviewed the offering documents at The Bond Buyer's request but requested anonymity to comment on the deal said he didn't believe that the provision would become commonplace in the muni market, and probably wasn't necessary. The attorney said that taxable deals are generally sold to corporate buyers, and as such reflect the expectations of the corporate market.

"Our clients don't have the same incentives to game the system like corporate players do," the lawyer said. "I'm surprised they had this whole kabuki dance."

Triet Nguyen, managing director and head of public finance credit at NewOak said that he had not seen the provision in a muni deal, and didn't see much utility in including it in a tax-exempt issuance.

"I think it will be hard to enforce in bankruptcy and does not have any direct impact on recovery," said Nguyen. "In a sense, all it does is inflate the bondholders' potential claim."

The Bond Buyer

By Kyle Glazier

February 7, 2017

States, Localities Could Issue $5B of PABs for Public Building P3s.

WASHINGTON – Companion bills introduced in the House and Senate would allow state and local governments to issue up to $5 billion of private activity bonds to finance the repair or construction of public buildings under public-private partnership arrangements.

The "Public Buildings Renewal Act" was introduced in the House on Feb. 7 as H.R. 960 by Rep. Mike Kelly, R-Pa., and eight cosponsors, five of whom besides Kelly are members of the House Ways and Means Committee.

The measure in the Senate, which has not been assigned a number yet, is being introduced by Sens. Dean Heller, R-Nev., and Bill Nelson, D-Fla., both of whom sit on the Senate Finance Committee.

The bills they introduced last session were H.R. 5361 and S. 3177.

The legislation would create a new category of tax-exempt PABs that would allow states and localities to partner with private parties to construct or renovate qualified government buildings, which would be governmentally owned.

These could include public buildings, schools, state colleges or universities, public libraries, and courthouses, according to the bills' text. They could also include government-owned hospital, health care, laboratory or research facilities and public safety facilities such as police stations or firehouses.

The bonds could not be issued to finance buildings or facilities for retail food and beverage services, private golf course or country clubs, or other sports or entertainment facilities, according to the text.

These kinds of projects cannot currently be financed with tax-exempt PABs because there is not a specific qualified PAB category for bonds for public buildings.

Jessica Giroux, Bond Dealers of America's general counsel and managing director, said the bills, "fit the administration's call for more infrastructure spending."

"There has been a fair degree of interest and a few transactions done as P3s for what is called social infrastructure" such as courthouses and government office buildings, Giroux said. "The downside is that it's hard to do these economically if you can't use tax-exempt bonds. So this sort of thing would be a fix for that."

Emily Brock, director of the Government Finance Officer's Association's federal liaison center, said the bills are in line with GFOA policy.

"The GFOA has a long-standing policy that encourages Congress and the Department of the Treasury to consider easing private activity restrictions on public use facilities," she said. "We look forward to working with the bill sponsors to discuss how this concept can augment the financing toolkit for state and local governments, which also must include the full preservation of the municipal bond interest exemption.

Michael Decker, managing director at the Securities Industry and Financial Markets Association and co-head of its muni division, said, "Private activity bonds can provide an efficient mechanism for financing the debt portion of infrastructure projects. It's appropriate for governments who determine that public-private partnerships are the most efficient financing model to be able to tap the tax-exempt, private-activity bond market to finance the project. This principle should apply to public buildings, as Sens. Heller and Nelson and Congressman Kelly have proposed, and other infrastructure projects as well."

Rep. Kelly said in a release on the bill pending in the House, "Our country's public buildings are in a historic state of disrepair and in need of a bold solution. That's where the Public Buildings Renewal Act can come to the rescue."

Blumenauer added, "Congress has failed to display the political courage to adequately invest in infrastructure – from roads to light rail to schools and courthouses. Our nation is literally falling apart and falling behind. We need an 'all of the above' approach to infrastructure funding and simple fixes to lower investment barriers are steps in the right direction."

The other House and Ways and Means Committee members co-sponsoring the bill in the House are: Reps. Carlose Curbelo, R-Fla., Lynn Jenkins, R-Kan., James Renacci, R-Ohio, and Ron Kind, D-Wis. Reps. Lee Zeldin, R-N.Y., Will Hurd, R-Texas, and Scott Perry, R-Pa., are also co-sponsors.

The Bond Buyer

By Lynn Hume

February 9, 2017

House Resolutions Introduced to Undo State, City Secure Choice Rules.

Resolutions to block Department of Labor rules allowing states to set up private-sector retirement savings programs were introduced Wednesday by two members of the House Education and the Workforce Committee.

The Department of Labor issued final rules on Aug. 25 granting states a safe harbor to set up payroll deduction individual retirement accounts for private-sector workers who do not have access to workplace retirement savings programs. On Dec. 19, the DOL issued similar final rules for cities and other large political subdivisions. The rules remove concern over being pre-empted by federal regulators by clarifying that such programs would not be covered by ERISA.

H.J. Res. 66, introduced by Rep. Tim Walberg, R-Mich., who chairs the Subcommittee on Health, Employment, Labor and Pensions, would remove the safe harbor for states, and H.J. Res. 67, introduced by committee member Rep. Francis Rooney, R-Fla., would block the rules for cities.

Both measures, called resolutions of disapproval, take advantage of the Congressional Review Act, which allows Congress to legally prevent a federal agency from implementing a rule or issuing a substantially similar rule without congressional authorization.

"Our nation faces difficult retirement challenges, but more government isn't the solution," Mr. Walberg said in a statement. Mr. Rooney, in the same statement, said the rules would force people into government-run plans with fewer protections and less control, and present employers with "a confusing patchwork of rules" that could result in fewer retirement plans being offered.

In a letter to House Speaker Paul Ryan, R-Wis., the ERISA Industry Committee, which represents large employers on benefits issues, said its members "are discouraged by recent proposals at the state and local level that unnecessarily disrupt active employer-sponsored retirement plans that are already in full compliance with federal law and regulations," particularly those that operate across state lines.

"Rules that are too onerous or restrictive can chill an employer's commitment to offer a retirement plan," the ERIC letter said.

A vote on the joint resolutions has not been scheduled, but is expected to happen as early as next week.

PENSIONS & INVESTMENTS

BY HAZEL BRADFORD | FEBRUARY 8, 2017 3:19 PM | UPDATED 4:47 PM

— Contact Hazel Bradford at hbradford@pionline.com | @Bradford_PI

SIFMA Survey Projects Slip in Long-Term Muni Issuance this Year.

WASHINGTON – Long-term municipal bond issuance is expected to fall to $417.5 billion this year from $423.8 billion last year, according to a survey released by the Securities Industry and Financial Markets Association on Wednesday.

Total muni issuance is expected to rise to $461 billion in 2017, with increases in short-term munis, but a decline in refundings, the survey of six municipal market firms showed.

SIFMA conducted its 2017 Municipal Bond Issuance Survey between Nov. 14 and Feb. 3 based on the median values of figures submitted from: Bank of America-Merrill Lynch; Hilltop Securities; J.P. Morgan Chase & Co.; RBC Capital Markets; Stoever Glass; and Wells Fargo Securities.

The $461 billion of total muni issuance would be up from $459.4 billion in 2016. That increase is tied to an expected jump in short-term issuance to $43.5 billion from $35.6 billion in 2016, according to the survey results. The participating firms said long-term issuance would reach anywhere from $320 billion to $450 billion for 2017, the median of which is $417.5 billion. Long-term tax-exempt muni issuance is expected to reach $375 billion in 2017, a 2.1% drop from the $383.1 billion in 2016. The firms expect taxable issuances to rise to $30 billion in 2017 from $28.5 billion in 2016, a 5.2% increase. Alternative minimum tax issuance is also expected to rise to $12.5 billion in 2017 from $12.2 billion in 2016.

Of the total issuances, only 41% are expected to be refundings in 2017 compared to the 51% in 2016.

Michael Decker, managing director and co-head of munis for SIFMA, said the lower number of refundings is likely due to the expectations of further Federal Reserve Board rate increases and the fact that 2007 was a relatively weak year for issuance. “Many bonds are issued with ten-year par calls so one of the driving factors for refunding volume is … the new money issuance volume ten years ago,” Decker said. “2007 was a relatively weak year so there will be relatively fewer issues that come up for refunding in 2017. That, compounded with the rate increase we saw toward the end of last year and maybe a smaller uptick in rates throughout this year, will together cause refunding volume to be lower than it has been.”

The Fed’s Federal Open Market Committee raised the federal funds target rate to 0.50% to 0.75% in December. The federal funds rate is expected to rise from 0.62% by the end of March 2017 to 0.94% by the end of December 2017, according to the survey. Most survey respondents said the largest sector of new munis would be general purpose for the next year. The balance will be evenly split between transportation, education, and public facilities, they said. General purpose has traditionally been the largest issuing sector by gross amount in past years.

The most likely event that would have the greatest effect on the muni market during the year is the possible curtailment of the tax exemption for municipal bond interest, the survey participants said. Muni groups have been actively lobbying legislators and federal government officials about the importance of maintaining the tax exemption for munis. Regulatory and compliance burdens dealers and others continue to experience will also have a large impact on the market in 2017, according to the surveyed firms.

The firms also said they expect the number of issuers that will default in 2017 to range from 20 to 25, comprising a par value that could range from $400 million to $26 billion. The survey defined default as the occurrence of a missed interest or principal payment or a bankruptcy filing.

The Bond Buyer

By Jack Casey

February 8, 2017

S&P U.S. Public Finance Team Comments On Emerging Trends For 2017.

In January, S&P Global's U.S. Public Finance Ratings team published their 2017 sector outlooks. In this CreditMatters TV segment, Managing Director Robin Prunty provides us with an overview of the key themes, credit risks, and opportunities in the municipal finance sector this year.

Watch video.

Feb. 9, 2017

S&P: Although Risks Remain, Global Toll Road Operators Can Expect Credit Stability In 2017.

S&P Global Ratings' 2017 outlook for business conditions and credit quality for rated toll road facilities around the world is generally stable. The exception is the U.S., where the overall outlook is positive.

Continue Reading

Feb. 8, 2017

Rainy Day Funds Show States Are More Vulnerable to Next Downturn.

- Median reserves of expenses among states slipping in 2017
- Lack of budgetary cushion in past recession heightened woes

More states are failing to sock away cash for the next rainy day.

The number without budget reserves has doubled to four from last year, according to data from the National Association of State Budget Officers. And discipline in building up cushions has slipped, with the median balance 4.9 percent of expenditures in fiscal 2017, down from 5.1 percent, Bank of America Merrill Lynch analysts said in a note to clients.

The number of states with rainy day funds of less than 1 percent of expenses rose to five from three in fiscal 2017, while those with balances of up to 5 percent declined to 17 from 19, the budget officers' report showed.

Skimpier reserves risk exacerbating the effect of a national slowdown, as well as that from federal policies. President Donald Trump has pledged to repeal the Affordable Care Act, which would likely hit state budgets, and any overhaul that reduces taxes may curb demand for tax-free municipal bonds, which could make it more costly for localities to borrow.

Investors have punished states with low reserves. Of the four with none — Illinois, New Jersey, Nevada and North Dakota– Illinois and New Jersey must pay the highest premiums over benchmark debt among 20 states surveyed by Bloomberg. The two, which grapple with chronic budget deficits and elevated pension costs, are also the lowest-ranked U.S. states.

Other states have learned their lessons. California is enjoying its highest credit rating since the turn of the century, thanks partly to bolstering its rainy-day funds.

Lawmakers in California and in capitols across the country weren't prepared for the last recession. In 2009, when it ended, budget gaps totaled $117 billion, about twice the level of reserves, according to Pew Charitable Trusts.

Analysts don't expect a recession soon. The economy will probably expand through at least the first quarter of 2018, according to analysts surveyed by Bloomberg.

Even so, some state officials are girding for the eventual decline. Half of states expect to pad their reserves in fiscal 2017, according to the budget officers' group. That includes California, where Governor Jerry Brown wants to further lift the savings account to $7.9 billion in fiscal 2018 from $6.7 billion this year.

"Saving now would allow the state to spend from its rainy day fund later to soften the magnitude and length of any necessary cuts," California's budget said.

Bloomberg

by Romy Varghese

February 7, 2017, 2:01 AM PST

Universities Found Way to Keep Debt Off Books in Dorm Arms Race.

- Colleges tapping developers to finance, build dormitories
- Partnership with Kean University selling $43 million of bonds

New Jersey's Kean University is joining a growing number of colleges tapping outsiders to finance dorms, a step that holds down debt as they cope with declining state aid and pressure to limit tuition increases.

Kean, the fourth-largest public university in the Garden State, located about 20 miles (32 kilometers) southwest of Manhattan, is working with a Baton Rouge, Louisiana-based non-profit to finance a new 385-bed dorm on campus. Provident Group-Kean Properties LLC is planning to sell $43.3 million municipal bonds Wednesday to pay for the project.

Rendering of new Kean University dorm building.Source: Kean University
"We're able to, rather than tacking on more debt to the university directly, have this partner share in the burden," said Felice Vazquez, Kean's associate vice president for strategic initiatives.

Kean, the University of Massachusetts Boston, and Texas A&M are among universities that in the last year turned to separate non-profits to build dorms backed solely by revenue from the projects. That preserves universities' capacity to borrow for classrooms and labs while reducing the risks of constructing new housing facilities that are a selling point to prospective students.

"Some universities are choosing a strategy of sticking to their knitting and divesting itself of anything that's not purely academic," said Jessica Matsumori, an analyst with S&P Global Ratings. In addition, "developers are seeing quite a bit of opportunity in this space and they're getting much more aggressive in their marketing and pitching to universities."

While such deals don't officially add to a university's debt, Matsumori said the company considers them contingent liabilities, given that administrators may want to spare their schools the stigma of a default.

"We believe if the project were distressed, they would likely be compelled to step in and assist – as it would affect their students, possibly their campus, and potentially their reputation," Matsumori said.

Kean enrolled about 15,500 students for the current academic year, with about 2,000 living on campus. The university, which offers admission to about three-quarters of applicants, has adopted a strategic plan that calls for more rigorous academic programs and decreasing the share of students living off campus.

"When you're here, 7 days a week, 24 hours a day, you do better and you're more likely to graduate in four years," said Vazquez.

With about $340 million in outstanding debt carrying an A- rating, Kean isn't on the hook to pay debt service for the new dorm, which is replacing half-century-old residence halls and will include a 2,000 square foot bistro once it's finished in August 2018.

Kean will treat the new dorm as part of its student housing program and won't build and operate another unless there's demand enough to keep them filled, according to an S&P rating report. In addition, Kean, which is managing the residence hall, agreed to reduce the number of spaces elsewhere so the new project will have enough students to meet debt-service coverage requirements.

S&P rates the bonds BBB-, the lowest investment grade and three steps below the university's bonds.

Kean's partner, Provident Resources Group, was founded in 1999 by a former public finance lawyer. The non-profit owns student housing at Montclair State University in New Jersey, Towson University in Maryland, and North Carolina State University.

In October, Provident partnered with the UMass Boston to finance a 1,080-bed residence hall, the commuter school's first. Provident Commonwealth Education Resources, Inc. priced about $130 million of bonds rated BBB- for yields of as much as 3.74 percent on securities due in 32 years, or about 2 percentage points more than top-rated debt, according to data compiled by Bloomberg. With interest rates having risen since, the bonds traded for an average yield of about 4.4 percent this week.
Provident Commonwealth will own the dorm. Birmingham, Alabama-based Capstone Companies will develop and manage the facility. UMass Boston will get about $1 million per year in rent after bondholders are paid.

"We don't have any housing on the campus right now, so it just really makes sense to bring in a private operator," said Patricia Filippone, executive director of the University of Massachusetts Building Authority. She said the financing will help the university preserve debt capacity for projects that don't directly generate revenue.

The project is being done as a "design-build" in which design and construction are contracted to single entity. Advocates say better coordination allows problems to be solved faster. Governments benefit from contracting with a single entity responsible for guaranteeing price and schedule.

"This is just a more efficient delivery method," said Filippone.

Bloomberg

by Martin Z Braun

February 8, 2017, 2:00 AM PST

[Bloomberg Brief Weekly Video - 02/09]()

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

[Watch video.]()

Bloomberg

February 9, 2017

[Fitch Disagrees with Moody's Legal Analysis on Chicago Public Schools.]()

Fitch Ratings-New York-01 February 2017: Moody's Investor Services (Moody's) has issued a report discussing:

–Legal options available to the Chicago Public Schools (CPS) to address its operating deficit, suggesting CPS can divert state aid to support operations to get around a restriction on a certain tax levy; and
–Bondholder protections provided by CPS' dedicated capital improvement tax bonds series 2016 (CIT bonds), minimizing the special revenue status while crediting a 'lock box' device as a real enhancement.

Fitch Ratings disagrees with Moody's on both points.

State Aid Not Available for Budget Relief

Moody's report "Chicago Public Schools, IL Frequently Asked Questions", released on Jan. 12, states "the district could elect to use unrestricted [general state aid] GSA for operations instead of debt service" on alternate bonds issued under the Illinois Local Government Debt Reform Act (the Act). Unless by 'elect' Moody's is referring to a successful ballot referendum, a plain reading of the Act indicates this is not the case. Section 15(e) of the Act clearly indicates that CPS must apply available alternate revenues {state aid} to debt service. As there is no option in the law to apply alternate revenues to operations, Fitch believes any attempt to do it would draw a successful challenge in litigation opposing an attempt to levy taxes while alternate revenues were available for debt service.

The law (Section 15(e)) is pretty clear in our opinion, as it states: "[t]he …revenue source ..shall be in fact pledged to the payment of the alternate bonds; and the governing body shall covenant, to the extent it is empowered to do so, to provide for, collect AND APPLY [emphasis added] such …revenue source …to the payment of the alternate bonds." It further states "The pledge …as provided in this Section for alternate bonds, shall constitute a continuing obligation of the governmental unit … and a continuing appropriation of the amounts received. All covenants relating to alternate bonds and the conditions and obligations imposed by this Section are enforceable by any bondholder of alternate bonds affected, any taxpayer of the governmental unit, and the People of the State of Illinois acting through the Attorney General … The intent is that such revenue source, shall be …applied to the payment of debt service on such alternate bonds so that taxes need not be levied, or if levied need not be extended, for such payment."

Alternate Bonds Not Same as Other ULTGOs

Fitch believes this constraint on extending property taxes absent a referendum is consistent with the Property Tax Extension Limitation Law (PTELL), which limits growth in the property tax extension to the lesser of 5% or CPI in the prior calendar year unless the increase is approved by voters. Debt service is limited to the "debt service extension base", which is based on the 1994 property tax extension for debt service, increased annually at the lesser of 5% or CPI, unless approved by voters. The Act exempts alternate bonds from this limitation. If an entity could readily opt to extend the property tax instead of paying debt service from the identified revenue source (GSA, in this case) despite the availability of the alternate source, the PTELL's constraint on the rate of property tax growth for debt service would be ineffective. Fitch believes that the only way CPS could extend the ad valorem tax for debt service would be an insufficiency of pledged state aid revenues, which of course would create other serious financial challenges.

Lockbox Does Not Enhance Credit Quality

Unlike Moody's, Fitch does not give rating uplift for the presence of a third-party lockbox structure absent other legal considerations. A lock box is a simple security device that loses its effectiveness upon a bankruptcy filing as a consensual lien on revenues generally does not continue once bankruptcy begins. There are two exceptions: bonds secured by pledged special revenues and bonds secured by a statutory lien. In a Chapter 9 bankruptcy, Fitch does not believe such a structure would insulate ordinary pledged revenues from an automatic stay. Therefore bonds utilizing that structure but not secured by pledged 'special revenues' as defined under section 902(2) of the code or by a statutory lien on pledged revenues could not be rated above the Issuer Default Rating (IDR).

No Statutory Lien Under Bankruptcy Code

Fitch also does not agree that the CIT bonds are secured by a statutory lien, which is defined in Section 101(53) of the Code as a lien arising automatically, by force of statute, on specified circumstances or conditions. This lien is in contrast to a consensual lien (or security interest [defined in Section 101(51) of the Code]), in which a lien is created by agreement, where both parties to a financing agree to a certain security structure and document that agreement in an indenture or loan document. The Debt Reform Act does not provide a statutory lien for bondholders as defined in the bankruptcy code. It gives effect to a consensual lien without any further requirement for filing or notice and is a protection against other lien holders.

Bankruptcy Protection Arises from Special Revenue Designation

Fitch believes that the pledged CIT revenues would be considered 'pledged special revenues' in the event of a CPS bankruptcy. As Moody's points out, one of the differences between the alternate and CIT bond structures is that the former are "ultimately a general obligation of the district, which pledged its full faith and credit to their repayment." The CIT bonds are "payable from the CIT tax levies only." Fitch believes that this distinction is precisely the reason the CIT bonds can be considered to be secured by special revenues under 902(2)(E) of the code. As stated in Fitch's rating action commentary discussing our 'A' rating/Outlook Stable on the bonds: "Fitch sets a high bar for considering local government tax-supported debt to be secured by special revenues, which provide security that survives the filing of a municipal bankruptcy (in preservation of the lien) and benefit from relief from the automatic stay provision of the bankruptcy code. We give credit to special revenue status only if, in our view, the overall legal framework renders remote a successful challenge to the status of the debt as secured by special revenues under Section 902 (2)(E) of the U.S. Bankruptcy Code.

"Fitch has identified a number of elements we consider sufficient to reduce the incentive to challenge the special revenue status given the definitions outlined in the bankruptcy code. These include clear statutory restrictions on the use of pledged revenues to finance identified projects and clear separation from the entity's operations. Fitch has undertaken an extensive review of the statutory provisions that govern the use of the CIT. Those provisions, along with the legal documents governing the bond issuance, and related bankruptcy opinions provide sufficient strength for Fitch to rate the CIT bonds higher than the IDR.

"The bonds are secured by a first priority lien on CIT revenues. The board is authorized under the Illinois School Code to levy the CIT on all taxable property within the district, which is coterminous with the city of Chicago. State statute limits the permitted uses of CIT revenues to include construction, acquisition and equipping of school and administrative buildings, and site improvements. The board has identified specific capital projects in the bond resolution that may be funded either by bond proceeds or by residual CIT revenues. Any amendments to the project list must be passed by board resolution. The revenues legally cannot be used for general operations of the board."

CIT Bonds Not Same as Detroit's DSA Bonds

Revenue ownership is crucial. Moody's likens the CIT bonds to Detroit's distributable state aid (DSA) bonds, as in both cases the trustee receives the pledged revenues directly from a third party. However, Fitch views as a crucial distinction that the DSA revenues were not property of the city of Detroit, thus not included in the city's bankruptcy estate. In the case of CPS, however, the CIT revenues are clearly property of the district. Were they not, Fitch's rating would have been based on the credit quality of Cook County, which collects the revenues and remits them to the trustee. Fitch's IDR on Cook County of 'A'/Stable Outlook, does not cap the CPS rating.

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Fitch Calls Out Moody's on Chicago Schools Analysis.

CHICAGO – Fitch Ratings in a report Wednesday criticized Moody's Investors Services' recent assessment of Chicago Public Schools' new credit structure and the legal options available to ease its distress.

The report titled "Fitch Disagrees With Moody's Legal Analysis On Chicago Public Schools" was published to counter arguments laid out by Moody's in special credit profile reports published Jan. 12 about the city and CPS.

Fitch's public dissection of another rating agency's opinions was described as "highly unusual" by several market participants.

"This is uncharted. Very rarely except on panels at conferences would you have this sort of open debate or defensiveness," said Howard Cure, director of municipal research at Evercore Wealth Management, LLC. Cure worked for Moody's until 1994.

Moody's has not been asked to rate new deals by either issuer, but maintains junk ratings on their older debt.

Some suggested that Fitch's motive for publicly calling out a peer rating agency may stem from market questions received after Moody's released its commentary.

Fitch said that wasn't the case.

"We read it and we didn't feel all the information was correct and felt it would helpful to the market if we posed our reasons as to why we disagreed," said the report's co-author, Amy Laskey, a Fitch managing director.

"Our goal is to clearly articulate an opinion, and often that means openly disagreeing with other market participants. We may publish those comments if there is strong investor interest, or if we feel our view is meaningfully different from another," said Daniel Noonan, Fitch's global head of corporate communications.

Fitch outlines its disagreement with Moody's on several aspects of its legal assessment of CPS' new capital improvement tax-backed bonds. The district used the new property tax levy for the first time on a $730 million sale in December.

The deal garnered an A rating from Fitch based on analysts' confidence in its bankruptcy-remote structure.

CPS asked only Fitch and Kroll Bond Rating Agency to review the bonds. Kroll assigned its BBB rating in line with its GO ratings of BBB and BBB-minus.

Fitch rates CPS GO debt B-plus, with a stable outlook. The other two rating agencies also rate CPS GOs at junk.

Fitch countered Moody's suggestion that triggering the ad valorem tax pledge used on most of its $6 billion of debt offered one option for CPS to free up revenue for operations.

Fitch quoted Moody's report suggesting that the district could elect to use unrestricted general state aid for operations instead of debt service on its alternate bonds issued under the Illinois Local Government Debt Reform Act.

Under the state's alternate revenue structure, an ad valorem tax levy is imposed to repay bonds but it is typically abated as the "alternate" revenues are tapped. About $373 million in CPS state aid will go to such bond repayments this year.

"We believe that the most likely scenario for CPS is that the district will levy for debt service on GO alternate revenue bonds in order to free up state aid for operations," Moody's wrote. "The district could elect to use unrestricted GSA for operations instead of debt service."

"Unless by 'elect' Moody's is referring to a successful ballot referendum, a plain reading of the act indicates this is not the case," Fitch countered, arguing that the act "clearly" indicates that CPS must apply available alternate revenues to debt service.

"As there is no option in the law to apply alternate revenues to operations, Fitch believes any attempt to do it would draw a successful challenge in litigation opposing an attempt to levy taxes while alternate revenues were available for debt service," Fitch wrote in the report, co-authored by Laskey and lead CPS analyst Arlene Bohner.

Fitch also countered Moody's position on various features of the district's capital improvement tax structure. Moody's had written that features like a "lockbox" on revenues helped "lessen but do not eliminate the risk of bondholder impairment in a future bankruptcy."

"Unlike Moody's, Fitch does not give rating uplift for the presence of a third-party lockbox structure absent other legal considerations," its report said.

A lockbox is a security device that loses its effectiveness in bankruptcy, Fitch said, because a consensual lien on revenues generally does not continue unless the bonds are secured by pledged special revenues or they qualify as bonds secured by a statutory lien.

"In a Chapter 9 bankruptcy, Fitch does not believe such a structure would insulate ordinary pledged revenues from an automatic stay," analysts wrote. "Fitch also does not agree that the CIT bonds are secured by a statutory lien."

Fitch's belief that the bonds would be protected in Chapter 9 stems from opinions that they meet the bankruptcy code's designation of "pledged special revenues" which offers some insulation from impairment.

The belief stems from structural features such as the fact that the bonds are payable solely from segregated CIT revenues that can be used only for capital projects or CIT bond repayment and not for operations.

"We give credit to special revenue status only if, in our view, the overall legal framework renders remote a successful challenge to the status of the debt as secured by special revenues," Fitch wrote.

In its January report, Moody's had written that it viewed the new structure "to be at least as strong as, if not modestly stronger than, CPS's GO bonds."

State law would have to change to allow the school district to file for bankruptcy.

Moody's spokesman David Jacobson had no direct response to the Fitch report, saying his agency's Jan. 12 speaks for itself.

Cure said Moody's opinion "carries weight with the market."

He noted that the city of Chicago's recent GO deal priced at junk levels, even though Moody's is the only rating agency to rate Chicago at junk. CPS' 30-year CIT bond – despite the Fitch A rating and BBB from Kroll – landed 309 basis points over the Municipal Market Data's top-rated benchmark, 243 basis points over the single A benchmark, and 207 basis points over the BBB benchmark.

Moody's January reports were released ahead of Chicago's $1.16 billion GO sale and followed the city's disclosure that it had asked Moody's to withdraw all of its city ratings in December. Moody's declined to withdraw.

The Bond Buyer

By Yvette Shields

February 1, 2017

New York City, Other Municipal Bond Issuers Warn Investors on Trump

Policies.

CHICAGO – President Donald Trump’s agenda to repeal the Affordable Care Act and punish ‘sanctuary cities’ for resisting him on immigration is making its presence felt in the $3.8 trillion municipal bond market.

Municipal bond sales next week from New York City, the state of Oregon and a California health care provider worth nearly $1.7 billion include warnings to potential buyers that Trump’s policies could pose a financial risk to these issuers.

The Republican president signed an order on Jan. 25 directing the U.S. attorney general and Homeland Security secretary to withhold federal money from cities that adopted sanctuary policies for undocumented immigrants.

Trump is also pushing to repeal and replace the Affordable Care Act also known as Obamacare, reform the tax code and roll back some or all of the Dodd-Frank financial regulation law.

New York City on Tuesday told potential investors for its upcoming $800 million bond sale that its sanctuary city status should not result in a substantial loss in federal funding due to Trump’s recent executive order.

While sanctuary city is not an official designation, it represents policies adopted by municipalities where local law enforcement refuse to report undocumented immigrants they encounter to federal authorities. Municipalities have said this does not apply in the case of an undocumented immigrant involved in such things as violent crimes.

Self-proclaimed sanctuary cities say they have identified legal holes in the Trump Administration’s arguments saying it cannot cut funding for health care and education.

In the preliminary official statement for the general obligation bonds pricing through Citigroup, New York said federal grants related directly to immigration enforcement comprise a small portion of its budget and that grants supporting law enforcement in general would be exempted from the order.

“If implementation of the executive order results in the reduction of federal aid to the city, the city expects that it would mount a vigorous legal challenge,” the disclosure said. “However, there can be no guarantee that implementation of the executive order will not result in a significant reduction or delay in receiving such aid.”

In addition to New York, other major cities offering some form of protection to illegal immigrants include Los Angeles, Chicago, Philadelphia, Boston, Denver, Washington, and Seattle.

Another sanctuary city, San Francisco, filed a legal challenge to the order this week. Billions of dollars in federal aid to those cities could be at risk.

Trump and the Republican-controlled Congress also have the repeal of the Affordable Care Act on their agenda.

Oregon, which is selling $491 million of general obligation bonds through Citigroup, pointed to uncertainty surrounding the Affordable Care Act and its financial support for expanded numbers of Medicaid recipients. Any kind of repeal or replacement of the act “could have a material adverse effect on the financial condition of the state.”

The California Municipal Finance Authority also warned investors in a $405 million conduit debt offering prospectus for a nonprofit health care provider, Community Medical Centers. The document said federal tax reform, the rollback of Dodd-Frank, or replacing the ACA “could have a material impact on the Obligated Group’s operations and financial results.”

By Karen Pierog and Hilary Russ • Reuters Feb 3, 2017

House Transportation and Infrastructure Committee Hearing: “Building a 21st Century Infrastructure for America”

On February 1, the House Transportation and Infrastructure Committee held a hearing on the future of infrastructure, focused largely on the funding of infrastructure projects.

Ranking Member Peter DeFazio (D-Ore.), as well as numerous members of the committee from both parties, expressed support for user fees and other dedicated revenue streams to pay for certain infrastructure projects. The only mention of municipal bonds came from Ranking Member DeFazio, who suggested that 30-year federal infrastructure bonds should be considered as a possible funding option for infrastructure projects.

Witnesses included Frederick W. Smith, Chairman and Chief Executive Officer of the FedEx Corporation; David W. MacLennan, Chairman and Chief Executive Officer of Cargill; Ludwig Willisch, President and Chief Executive Officer of BMW of North America; Mary V. Andringa, Chair of the Board of the Vermeer Corporation; and Richard L. Trumka, President of the AFL-CIO.

SIFMA’s Hearing Summary

GASB Issues Guidance on Fiduciary Activities.

The Governmental Accounting Standards Board (GASB) has issued guidance for state and local governments regarding what constitutes fiduciary activities for financial reporting purposes, how fiduciary activities should be reported, and when liabilities to beneficiaries should be recognized.

Governments currently are required to report fiduciary activities in fiduciary fund financial statements. Existing standards are not explicit, however, about what constitutes a fiduciary activity for financial reporting purposes. Consequently, there is diversity in practice with regard to identifying and reporting fiduciary activities.

GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The criteria generally focus on:

- Whether a government is controlling the assets of the fiduciary activity, and
- The beneficiaries with whom a fiduciary relationship exists.

Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria in Statement 84 should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

Statement 84 describes four types of fiduciary funds that should be reported, if applicable. The Statement clarifies the definitions of the three existing fiduciary funds associated with trusts that meet specific criteria:

- Pension (and other employee benefit) trust funds
- Investment trust funds
- Private-purpose trust funds, and
- Custodial funds.

Activities now reported in agency funds will be classified as custodial funds when Statement 84 is implemented.

As Gas-Tax Profits Decline, More States May Turn to Tolls.

Some states are seeking to fill funding holes and potholes with toll money. But it's an uphill battle.

Tolls have been a fact of life in Indiana for at least 60 years, but state Rep. Edmond Soliday thinks there will have to be more of them if the state wants to keep its roads in good shape.

Soliday, a Republican who chairs his chamber's transportation committee, said the most expensive part of the state's transportation network are the heavily trafficked interstates that are filled with out-of-state trucks. Federal law, however, prevents states from tolling existing interstates without a waiver.

"I say to citizens and my fellow legislators: How much do the citizens of Indiana owe to provide an infrastructure to folks who don't even stop for a Snickers bar?" said Soliday. "It's irresponsible not to take a look at how much of it are Hoosiers willing to pay so that others can use it."

So Soliday introduced an ambitious road-funding bill earlier this month that would instruct the Indiana Department of Transportation to apply for a federal waiver and to study how tolls could be added.

As traditional sources of transportation revenue, like gas taxes, have declined, tolling has increasingly become a part of everyday life for many Americans.

The miles of managed lanes with tolls on them has quadrupled since 2010. The number of drivers using toll facilities increased by 7 percent in just a single year, from 2014 to 2015. That growth could continue if lawmakers in places like Connecticut or Wisconsin move ahead this year with long-stalled plans to introduce tolling in their states.

There's been a lot of discussion about whether a federal infrastructure stimulus from the Trump administration could help alleviate states' fiscal pressures on transportation. But Soliday said he isn't depending on help from Washington. Besides, he said, the longer the state waits for help from the federal government, the worse its roads get in the meantime and the more expensive they get to fix.

Tolls may be an expedient source of revenue in the near term, but Soliday's real case is that they'll become even more vital in the years ahead.

Thanks to increasing federal fuel standards, auto manufacturers will soon have to start producing more fuel-efficient vehicles. That could lead to an even bigger drop in gas tax revenue. The firm Cambridge Systematics predicted that, after accounting for inflation, the $450 million in revenue that Indiana's gas tax produced in 2015 will bring in only about $300 million a decade from now.

"We have this huge hole starting in 2021," said Soliday. "The issue is: How do you plug the hole if you can't do it with a reasonable amount of gasoline tax? Tolling is clearly how we're filling that gap starting in the 2021 era in the plan."

But tolling existing interstates, as Soliday proposes, won't be easy.

GOP Gov. Eric Holcomb is reportedly against the idea, and the Senate president has called it a "hard sell." The trucking industry, which opposes most toll increases, will also likely push back.

In addition to upping the number of tolls, Soliday's bill would also increase gas taxes, levy new fees for electric vehicles and hike vehicle registration fees. But raising the state's gas tax would be hard, too.

Indiana voters are unlikely to accept a gas tax increase of more than 10 cents per gallon, said Soliday. Even if they did, a hike that size would only make up for the revenue lost to inflation since Indiana last raised its gasoline tax in 2003 and its diesel tax in 1998.

To improve local roads, Soliday's bill would use the revenue raised from higher registration fees to build on a program created by Indiana lawmakers that set up matching grants for localities that would fund 50 percent of a project's costs up to $1 million. According to Purdue researchers, 26 percent of city roads, 29 percent of town roads and 40 percent of county roads are in poor condition — and it would take $773 billion just to keep the road quality the same over the next decade. To make sure no roads were in poor condition, it would cost the state $1.6 trillion.

The bottom line, said Soliday, is that Indiana can't achieve its goals without tolling or something else that will bring in that kind of revenue.

"If you take anything out of the package, then you've got to put something in, or you've got to lower expectations," he said. "It's a closed system."

GOVERNING.COM

BY DANIEL C. VOCK | JANUARY 30, 2017

Breaking Down the Financial Impact of Self-Driving Cars.

They would be mostly — but not all — good for state and local revenues.

The expectations over driverless cars are stratospherically high. For one, there's the fascination with the technology and the presumption of an easier commute: The self-driving car will take us to work while we surf the Internet, read files and review emails. Once it drops us off, it returns home where others in our household can use it — until it's time to call it to pick us up and take us home again.

There's more to this futuristic concept than creature comforts, though. With self-driving cars anticipated to be in wider use on our roads within four years, there are promises of extraordinary impacts on state and local finances — most of them positive; a few not. Several reports from some of the biggest names in banking put startling numbers on the effects wrought by a changeover to driverless driving.

Let's start with Morgan Stanley. Its new report, Autonomous Vehicles & Municipal Bonds, puts the net positive impact on municipal budgets in excess of half a trillion dollars. That number takes into account more efficient roadway use and a dramatic reduction in parking garages and parking spaces. With parking facilities no longer needed, those properties can be turned into higher-level development, which would provide municipalities with a boost in property taxes. Offsetting those gains, Morgan Stanley foresees losses of roughly $1.3 billion from such revenue sources as fuel taxes, license fees, parking fees, speeding tickets and personal property taxes.

Barclays, the British banking and financial services company, notes that transportation in the U.S. is the second highest average household expenditure and that the average car is parked 95 percent of the time. It estimates that the average U.S. household will reduce its car ownership from today's 2.1 vehicles to 1.2. (A figure also cited in a University of Michigan Transportation Research Institute study.) For states and localities, such a reduction could signal an end to what Barclays calls "the fretting" about investing in additional highway lanes or new roads.

That lack of fretting would have quite an effect on infrastructure and the municipal bonds that finance it. The impact starts with this forecast from several researchers: A single self-driving car could replace up to 12 regular vehicles. If that happens, it would affect some of the existing $3 billion in dedicated tax-exempt state and local parking revenue bonds. It would also affect airport revenue bonds. Airports currently generate 28 percent of their operating revenue from rental cars, parking and ground transportation — revenue that could be at risk from the cascading parking effects of self-driving cars.

The influence on general obligation bonds would be significant in a more positive way. The greater efficiency of self-driving cars and the ability to fit triple the amount of traffic in existing lanes could sharply reduce current projected needs for infrastructure and therefore the need to borrow money to build new roads.

There are other revenue savings. Self-driving cars are predicted by the National Transportation Safety Board to save "many, if not most, of the 33,000 lives lost to traffic fatalities every year on our streets and highways." If true, this would lead to a major benefit via the $18 billion annual health-care costs from emergency room visits related to motor vehicle injuries, injuries that currently average 15 percent of hospitalized injuries — not to mention the costs to local emergency responders.

Then there's this: For many police departments, 42 percent of police contacts are initiated during a traffic stop — with driving under the influence of alcohol being the second highest cause. Self-driving cars would render DUIs virtually obsolete. That would be a signal benefit not only — and most important — on innocent lives saved, but also in a diminution of emergency medical and police costs.

No wonder Morgan Stanley came up with a half-a-trillion dollar figure.

GOVERNING.COM

BY FRANK SHAFROTH | JANUARY 2017

Deferred Public Spending: The Credit Card From Hell.

Kicking the can down the road is always tempting. But for infrastructure, innovative public-private partnerships offer a prudent alternative.

When infrastructure maintenance is deferred or a pension contribution is skipped, critics of imprudent public spending are quick to label it as "kicking the can down the road." But that doesn't really capture the essence of the practice. It's a form of borrowing. More cash is available in the current period, but a future obligation in the same amount, plus accrued costs, is created. Just like a loan.

If done infrequently in small amounts and reversed quickly, borrowing by kicking the can is probably benign or even beneficial. State and local governments face many fiscal rules and limits; these constraints impose good discipline in the long run but can make it hard to square the circle when growth is uncertain and revenues are volatile. So a bit of slack can help hard-pressed public-sector officials cope with uncertainty and make better choices.

But the results are far from benign when this tactic morphs into a year-over-year budget gimmick that can accrue large and insidiously expensive liabilities without any plan for paying them. Kicking the can then becomes not a temporary coping strategy but an addictive credit card from hell. Deferred maintenance and underfunded pensions appear to be the high-limit platinum cards of this set, but there are others, including underfunding of future health-care obligations and delaying obviously valuable public-sector investment.

Infrastructure is a sitting duck for fiscal can-kicking. Existing infrastructure bears the brunt of maintenance deferral. New infrastructure projects, no matter how badly they are needed, don't happen because the loss of value in delaying them is rarely as obvious as the cash saved by doing so.

Infrastructure spending is also an impetus for kicking the can, not just a target. The significant fixed and non-delayable obligations of public infrastructure can intensify fiscal constraints and increase pressure to defer critical spending elsewhere in the budget. Spending on an infrastructure asset's basic operations, for example, might crowd out a more-or-less optional police pension contribution when a city's budget is squeezed.

Using credit cards from hell for fiscal management is obviously unwise. But revenue volatility and low growth appear to be the new normal for the public-sector's fiscal environment. The pressure to delay essential spending will remain or even increase. It's easy to criticize poor choices in tough situations, but it's more useful to ask: what better tools are available?

When infrastructure is involved, emerging forms of public-private partnerships (P3s) are a promising answer to that question. Availability-Payment P3s, for example, cut up the deferred-maintenance credit card by requiring adherence to an optimal schedule based on a project's whole-life costing. Design-Build P3s incorporate an efficient project development and completion process that can operate outside the sometimes overly restrictive constraints of traditional procurement.

But using P3s for disciplined maintenance or faster delivery means that fixed-infrastructure payments will be higher and arrive sooner. In effect, current-generation P3s may simply shift the budget pressure away from infrastructure toward crowding out something else. Not much is gained if lower levels of deferred maintenance and delayed investment result in higher levels of underfunded pensions and health-care obligations. And the fear of being put in an even tighter budget corner, combined with the allure of yet another round of can-kicking, may cause public-sector officials to hesitate on P3s, which may be one explanation for their disappointingly slow uptake in the United States.

In this complex and frustrating situation, private-sector innovation could be transformative. The objective should be to improve P3s with respect to real-world fiscal and budget concerns. Achieving this should not be difficult given the high credit quality of most state and local governments and the excellent collateral value of infrastructure assets. For example, an Availability-Payment P3 that permits lower payments when a budget shortfall occurs but requires higher make-up payments when revenues are back to normal is financially feasible.

The value proposition for innovation is straightforward. There's clearly enormous potential for improvement over the public sector's current set of opaque, costly and dangerous credit cards from hell. It's realistic to expect that next-generation P3s could go a long way toward replacing them with transparent, cost-effective and prudent alternatives.

GOVERNING.COM

BY JOHN RYAN | JANUARY 31, 2017

The Week in Public Finance: States Vulnerable to NAFTA Changes, New Amazon Taxes and a Credit Ratings Spat.

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

GOVERNING.COM

BY LIZ FARMER | FEBRUARY 3, 2017

With Less State Aid, Localities Look for Ways to Cope.

In much of the country, states are offering localities less financial help than they were before the recession. That won't change anytime soon.

The fire department in Springfield, Ohio, has grown accustomed to frugal times. Calls for service keep climbing, but staff levels are frozen. Firefighters themselves fix vehicles and breathing equipment in order to save money on repair contracts. Recently, when a fire engine's generator failed and they couldn't afford to replace it, they had to mount a portable generator and rig it to work.

Springfield's revenue is below the levels of a decade ago, not even counting inflation. The city has responded by eliminating administrative staff, deferring maintenance and taking other measures intended to be least burdensome for residents. "The last five or six years has been nothing but one cut after another," says Warren Copeland, the city's mayor. "We've reached the point where any of the cuts we make from here on out are much more noticeable."

Continue reading.

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BY MIKE MACIAG, J.B. WOGAN | FEBRUARY 2017

GFOA: Best Practices in School Budgeting Framework Aligns Resources and Student Outcomes.

GFOA's best practices in school guidelines are centered on a comprehensive budget process framework focused on academic and finance collaboration to best align resources and desired student outcomes. The framework represents the culmination of a multi-year effort led by GFOA, with input from numerous school district officials and other experts in education finance to develop guidelines for better budgeting tailored specifically for school districts.

The recommended framework is not limited to financial topics. A robust budget process should engage and communicate with stakeholders, along with prioritizing goals, allocating resources, and tracking progress. The budget process is a plan, a tool for transparency, and a structure for ensuring accountability.

Budgeting—the process by which programs and services are planned and funds are allocated to accomplish their goals— is crucial to any organization's success. The need for better budgeting is ever more pressing given the constant pressure to provide high-quality services with limited resources. This is especially true in school districts, where budget decisions can affect the education of future generations.

GFOA's best practices in school budgeting framework begins with guidelines for district-wide communication and collaboration, including setting baseline expectations for what the budget process will achieve. The focus then shifts to developing robust goals and integrating the process with the district's strategic plan, including developing a comprehensive package for implementing a district's goals, or instructional priorities. Also included are guidelines on how to develop a strategic financial plan and a budget document that communicates not only the district's financial plan but also student learning objectives. To help assess and improve programs, services, and the budget process, recommendations for incorporating continuous improvement principles are embedded throughout the framework.

The framework is organized around five major steps or phases: 1) plan and prepare; 2) set instructional priorities; 3) pay for priorities; 4) implement plan; and 5) ensure sustainability. Included within each of the five major steps are more specific sub-steps, which provide details on how to implement the best practices, including supporting evidence and research on their effectiveness. Each of the 15 sub-steps include a highlight of recommendations, the key points, and also how the recommendations meet the criteria related to GFOA's Award for Best Practices in School Budgeting.

Districts can find additional resources that complementing the best practices in school budgeting—including tools for implementing recommendations and case studies on districts use of the framework—www.smarterschoolspending.org.

Wednesday, February 1, 2017

Muni Volume Jumped in January.

Municipal bond volume in January jumped ahead of last year's pace, as a spike in new money deals made up for a drop in refinancing transactions.

Monthly Volume

Total volume for the month rose 22.8% to $31.59 billion in 661 transactions from $25.73 billion in 831 transactions in January 2016, according to data from Thomson Reuters. The gain, which followed a record year for issuance in 2016, was due in part to some large transactions, said Natalie Cohen, managing director of municipal securities research at Wells Fargo Securities.

"New issue volume is starting off 2017 strong, with numerous large deals in the market," she said. "We note that the number of transactions is down in January 2017 compared with January 2016, a reflection of these larger deal sizes. This is despite the significant drop in refunding activity following the second Federal Reserve rate hike in December 2016."

Among the month's biggest new money transactions were: Washington State's sale of $473.42 million of various purpose general obligation bonds; the Metropolitan Government of Nashville and Davidson County's $457.25 million of GO improvement bonds; and Los Angeles County Metropolitan Transportation Authority's sale of $455.71 million of Proposition C Sales Tax Revenue Bonds Senior Bonds. Some other of the larger monthly transactions were combined refunding and new money deals, like Chicago's $1.16 billion deal for example.

Refundings, which market participants expected slow primarily due to rising interest rates, slid to $7.44 billion in 223 deals from $10.10 billion in 362 deals in January 2016.

"I was not surprised to see year-over-year volume in January increase, but I do not place much stock in first-month volume," said Alan Schankel, managing director at Janney Capital Markets. "We expect refunding volume to drop by about 10% in 2017, so the large falloff in January is ahead of our expectations," he said. "The sharp rise in rates in the month following the election led to several refinancing deals being placed on day-to-day status. If rates were to fall in coming weeks, opening a refinancing window, I would expect strong refunding volume in February."

New money issuance easily picked up the slack from the lack of refundings, increasing 37% to $14.43 billion in 371 deals to account for almost 50% of the months' issuance. This is up from $10.53 billion of new money volume in 407 deals in January 2016.

Combined new-money and refunding issuance almost doubled to $9.72 billion from $5.09 billion. Issuance of revenue bonds gained 25.7% to $17.71 billion, while general obligation bond sales rose 19.3% to $13.88 billion.

Negotiated deals were up 38.9% to $24.73 billion and competitive sales increased by 2.9% to $6.83 billion.

Taxable bond volume more than doubled to $3.29 billion from $1.42 billion, while tax-exempt issuance increased by 13.5% to $27.49 billion. Minimum tax bonds increased to $816 million from $84 million.

"Taxables have been popular in the higher education and healthcare sectors for a while, but healthcare volume is likely to remain light given the volatility of changes to the Affordable Care Act," said Cohen. "Higher education institutions sold a number of large deals in January, a reflection of relatively tight spreads between taxable and tax exempt, greater flexibility with the use of proceeds in the taxable markets. Also, long-dated high quality higher education issues have appeal to a broad buyer base."

The volume of deals wrapped with bond insurance fell 16% to $1.29 billion in 104 deals from $1.53 billion in 120 deals. The industry expects to see improvement as interest rates continue to climb.

Six of the 10 sectors saw year-over-year increases, as transportation jumped up 161% to $4.83 billion from $1.85, development improved 80.1% to $1.33 billion, public facilities grew 45.9% to $608 million, general purpose increased 43.8% to $6.62 billion, education gained 24.5% to $12.65 billion and housing saw a 7.5% increase to $951 million.

The other four sectors declined at least 5.1% with the biggest drops posted by health care, which was at $1.88 billion compared with $3.66 billion, and utilities which slid to $1.71 billion from $2.29 billion.

As for the different types of entities that issue bonds, five of the seven were in the green. Colleges and Universities improved the most, with volume rising to $3.72 billion from $1.55 billion. Local authorities produced a 127.9% increase, to $5.61 billion.

On the other end of the spectrum, volume for the other six types of entities slid at least 13.8%, led by countries and parishes, with a declined 33.3% to $1.02 billion from $1.53 billion.

Just as it did after the first month of the year in 2016, Texas has the most issuance among states so far in 2017.

The Lone Star State has issued $6.07 billion, getting a decent sized lead ahead of the state which finished 2016 with the most issuance, California.

The Golden State is second with $3.58 billion, while New York State is third with $2.67 billion. Illinois captured the fourth spot with $2.16 billion and Pennsylvania is very close behind with $2.11 billion.

"I expect volume in 2017 to about equal last year's pace," Schankel said. "February volume should be strong, perhaps exceeding last year's $31 billion total. The fly in the ointment is the uncertainty surrounding the administration's plans for infrastructure investment and tax reform. Until more clarity is achieved, many issuers will be cautious about new issuance."

Cohen agreed, saying that going into February, she thinks that volume will continue to be healthy when compared with 2016, given the slow start in 2016. Volume may slow down later in the year, she said. "given the expectation that refunding activity will make up a smaller proportion of total volume in 2017."

The Bond Buyer

By Aaron Weitzman

January 31, 2017

Muni Tobacco Bonds Rally as Buyers Swoop in After Trump Selloff.

- Fundamentals remain solid, according to Barclays strategist
- Cigarette shipments declined 3.5% in 2016, Altria says

State and local government tobacco-settlement bonds are bouncing back from the drubbing they took in November as investors pick up the debt on the cheap and cigarette consumption declines remain moderate.

The securities, which are repaid with payments from tobacco companies under a 1998 settlement, returned 7.7 percent over the past two months, four times more than investment-grade debt, according to Bloomberg Barclays indexes. That rebound pared a 9.2 percent loss in November, when fund managers sold the securities — which are among the most liquid high-yield munis — to meet redemptions during the bond-market rout that erupted after Donald Trump's presidential victory.

"There was really no reason for tobacco to get hammered in November," said Mikhail Foux, head of municipal strategy in New York at Barclays Plc. "People just sell what they can, not what they should."

The settlement payments that back the tobacco bonds are based on cigarette shipments, which have declined at a slower pace as the low price of gasoline leaves consumers with more money to spend.

Altria Group Inc., which sells Marlboro brand cigarettes in the U.S., reported on Feb.1 its domestic shipment volume declined about 3.5 percent in 2016, in line with its competitors. From 2007 to 2014, shipments fell an average of 4.7 percent annually, according to data from the National Association of Attorneys General, which monitors the settlement.

Jeffrey Burger and Dan Barton, who co-manage the Dreyfus High Yield Municipal Bond fund, expect shipments to fall 3.5 percent in 2017. The $162 million fund, the best performing open-end high-yield muni fund this year, had about 13 percent of its assets invested in tobacco bonds as of Dec. 31, according to data compiled by Bloomberg.

One cloud on the horizon: California, which accounts for more than a tenth of the tobacco industry's sales, on April 1 is raising cigarette taxes by $2 per pack, which may crimp sales 0.6 percent or 0.7 percent, Barton said. Dreyfus factors state cigarette-tax increases, including California's, in its financial models, he said.

IHS Global, an econometric consultant, forecasts consumption to decline about 3.5 percent per year through 2020, according to an offering statement for a New York City tobacco bond issue last month.

"We would expect to see more state tax increases going forward as states look to balance their budgets," Barton said. Six states raised cigarette taxes in 2016, while 10 increased their rates in 2015.

A federal excise tax increase, which would have a greater impact on consumption, isn't imminent, given the Trump administration's push to reduce taxes and cut regulation, Burger said. When the federal government raised cigarette taxes 62-cents-a pack in 2009, sales fell 9.2 percent.

"There's no indication that a Trump administration would ever pass through any kind of federal excise tax increase," Burger said.

Moreover, if Trump and the Republican-controlled Congress enact policies to expand manufacturing, lower income taxes and possibly raise the minimum wage, discretionary income and demand for cigarettes should increase, helping to offset the drop in sales anticipated from the California measure, Foux said.

Bloomberg Markets

by Martin Z Braun

February 3, 2017, 8:58 AM PST

[What's Ahead for Munis? Forecasters Who Got It Right Make Calls.]

- MacKay Shields' Loffredo, DiMella offer guidance for 2017
- The muni debt chiefs made prescient predictions for 2015, 2016

John Loffredo and Robert DiMella, co-directors of municipal debt investments for MacKay Shields, have been reliable guides to what the coming year will bring in the state and local government bond market.

The two money managers, whose company oversees about $94.5 billion, have issued annual forecasts for the past two years that largely proved prescient, correctly anticipating that tobacco-settlement bonds would rally, transportation-related debt would outperform and any price drops would be exaggerated by a pullback in money from the market. During the last three years, shares in their MainStay Tax Free Bond Fund have delivered annual returns of about 4.9 percent, beating some 86 percent of their peers, according to data compiled by Bloomberg.

Here's their major market predictions for 2017:

Liquidity Improves

The amount of money flowing in the market is likely to pick up, they say, amid a rollback of financial regulations and oversight. President Donald Trump this week said, "we're going to be doing a big number on Dodd-Frank," the law Congress enacted to prevent a repeat of the 2008 market meltdown. There are signs that liquidity is increasing, with trading volume rising last year and brokerage firms boosting their exposure to the market, according to regulatory data.

High-Tax, High Returns

Loffredo and DiMella predict that debt sold by governments in higher-tax states will outperform those from states where residents' incomes aren't taxed as much. Why? If federal levies are reduced, as Trump plans, those bonds will still be sought out because they're exempt from state income-taxes, too. That would mark a shift from 2016: Debt from California, which has the highest marginal rates, returned 0.28 percent last year, about half as much as those from Texas, which has no income tax at all, according to S&P Global Ratings indexes.

Beating Treasuries

MacKay's money managers say that municipals will outperform Treasuries as uncertainty about the size and scope of Republican tax-cut plans subsides. While lower rates on individuals would decrease the relative value of municipals, Trump has expressed support for keeping intact the federal tax breaks given to buyers of state and local debt, according to mayors who met with him before he took office. If municipals outperform, the yields — which move in the opposite direction as price — would decline relative to Treasuries.

Bloomberg Markets

by Jordyn Holman

February 1, 2017, 8:59 AM PST

Bloomberg Brief Weekly Video - 02/02

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

Watch the video.

Bloomberg

February 2, 2017

Fitch: FACT Shows Improving Enplanements as Leverage Drops for U.S. Airports.

Fitch Ratings-New York-30 January 2017: More travelers are flying, which is good news for U.S. airports, according to Fitch Ratings in its latest interactive peer study for standalone U.S. airport credits.

Large hubs and international gateways were primarily responsible for the steady upward trajectory year-over-year. Median enplanement value for Fitch-rated U.S airports rose over 4% to 4.16 million in 2015 (from 3.99 million in 2014).

"Several airports have sizeable capital programs with additional debt coming online, though median cost per enplanement is still relatively flat at approximately $9," said Senior Director Seth Lehman. "Additionally, both net debt and available cash flow have improved, reflecting the strength of the airports' use and lease agreements to recover costs. It also indicates that increased concession spending has helped build liquidity."

The Fitch Analytical Comparative Tool (FACT) contains key financial information for Fitch-rated standalone airport issuers in the U.S.; a graphical plotting function for four-year annual and median performance; and a radar chart that indicates key risk levels. FACT also features a peer analysis tool, which allows users to review and compare summary credit profiles for selected individual issuers. The median charting tool allows users to generate a graphic representation of how specific metrics for individual airports compare to sector medians.

'Fitch Analytical Comparative Tool – U.S. Airports' is available at 'www.fitchratings.com'. Fitch will also be rolling out an interactive map further detailing the financial profiles of its rated U.S. airports in the coming days.

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Fitch: 2016 U.S. Public Finance Upgrades Were Highest in Over 10 Years.

Fitch Ratings-New York-30 January 2017: For the third time since 2008, 2016 upgrades outpaced downgrades for U.S. public finance, with upgrades at their highest level in over 10 years, according to a new Fitch Ratings report.

Eighty-one percent of 2016 rating actions were affirmations.

“The high level of upgrades and downgrades are largely the result of the new state and local rating criteria implemented in the spring of 2016,” said Jessalynn Moro, Managing Director of the U.S. Public Finance Group. “Credits have clearly benefited from the revised criteria’s more focused concentration on the economy.”

Upgrades totaled 332, a significant increase from 148 in 2015. Upgrades represented 9.6 percent of all rating actions and the par value totaled $211 billion.

Downgrades totaled 153 in 2016 versus 65 in 2015. Downgrades represented 4.4 percent of all rating actions and the par value totaled $141.1 billion.

At year-end, both Negative Rating Outlooks and Watches slightly increased by four to 118 and 20, respectively. Positive Rating Watches remained unchanged, while the number of Positive Rating Outlooks decreased to 91 from 124.

Five states were downgraded, reflecting budget and economic challenges. Three states were upgraded due to fundamental improvement.

The largest downgrade by par amount in the fourth quarter was Trinity Health Credit Group at approximately $5 billion. The downgrade reflects the system’s thinner operating margins in fiscal 2016.

For more information, a special report titled “U.S. Public Finance Annual Rating Actions 2016” is available on the Fitch Ratings web site at www.fitchratings.com.

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S&P: Credit Ratings For Sanctuary Jurisdictions Unlikely to be Affected in the Short Term, Preliminary Analysis Shows.

The president's recent executive order that would make so-called "sanctuary jurisdictions" ineligible for federal funding in certain circumstances is unlikely to result in changes to credit ratings, at least in the near term.

Continue reading.

Feb. 1, 2017

GFOA: Executive Order on Sanctuary Cities Raises Questions and Concerns among Local Governments

On January 25, 2017, President Trump issued the executive order, Enhancing Public Safety in the Interior of the United States. An executive order is an official statement from the president that directs federal agencies as to how they are to expend their resources within the laws that are established by Congress and the Constitution. Technically, while an executive order is considered binding, it is subject to legal review and cannot be used to create new law or appropriate new funding from the U.S. Treasury. And while the use of executive orders is common, this particular executive order has drawn concern from finance officers in various jurisdictions because of a potential loss of federal grant funding for failure to comply with the order. Legal arguments against the executive order have been identified and are in development. As a member of the State and Local Legal Center, GFOA will continue to monitor the implementation of this executive order and will update GFOA members as developments occur.

Almost immediately after its publication, the executive order raised questions and caused confusion as jurisdictions debated on how broadly to interpret its language. Aside from the political debate the order generates on federal immigration policy, most of the remaining concern is because the order threatens to withhold federal funding from so-called "sanctuary cities." Although there is no specific legal definition for a sanctuary city, in general, the term refers to cities, counties, and states that chose not to cooperate with federal efforts to deport undocumented immigrants.

The issues primarily revolve around the extent and scope of the executive order, particularly as it relates to the restriction of federal funding. Sec. 2(c) broadly states that jurisdictions that fail to comply with federal law will not receive federal funds, and Sec. 9(a) seems to narrow the focus of the order to denying federal grant funding to the sanctuary jurisdictions. Even if the restriction just applies to federal grant funding, the language still raises the question of whether the order is imposing new conditions on grants that have already been appropriated or on future grants. In either scenario, some legal scholars are noting this could raise constitutional issues because "new" conditions on federal grant funding fall under the authority of Congress and not the president.

There will likely be a number of legal challenges in the coming weeks and months, as some local government leaders have already declared their intention to fight the order. Some of the current discussion on challenging the executive order has identified previous U.S. Supreme Court decisions as possible defenses. For example, in *South Dakota v. Dole* (1987), the Supreme Court upheld prior case law that restrictions on federal grants would not be valid "if they are unrelated to the federal interest in particular national projects or programs" and must also be to promote "general welfare." And two decisions that will likely receive significant attention are *Nat'l Fed'n of Indep. Bus. v. Sebelius* (2012) and *Printz v. US* (1997). In both cases, the Supreme Court focused on the federal government compelling states to take certain action or administer a federal regulatory program, and the court ruled against the federal government because the actions violated the Tenth Amendment and undermined the principles of federalism.

Wednesday, February 1, 2017

Sanctuary Cities Are Safe From Trump, Fitch Ratings Says.

But not from the new president's promise to repeal Obamacare.

Donald Trump had city dwellers up in arms last week, when he signed an executive order to cut off federal funding to "sanctuary cities," a loosely defined group of municipalities that don't enforce federal immigration law.

Big cities such as Chicago, Los Angeles, and New York, whose mayors have pledged to maintain their sanctuary status in the face of the president's threats, get millions of dollars a year from the federal government, which helps pay for everything from education to law enforcement to public transportation. Small cities get less but can be just as reliant on federal funding to provide such services.

The order to defund sanctuary cities didn't come as a surprise. Trump often targeted them during his campaign for president, arguing that local governments were putting citizens at risk by failing to share information with federal immigration authorities. The cities typically responded that the threat was exaggerated and that their police departments depend on working relationships with immigrant communities marked by trust.

Worries about the executive order are probably misplaced, a note published on Monday by Fitch Ratings said. A lot of the federal money that cities depend on flows through states, counties, and school districts, according to the credit rater, making it harder to cut off. Cities, meanwhile, can be expected to mount constitutional challenges to any attempt to cut funding.

The White House hasn't yet responded to a request for comment.

Fitch didn't expound on potential legal challenges, but there are decades' worth of case law limiting the federal government's ability to make funding contingent on local policy. Congress can make highway dollars dependent on traffic safety laws, for example, but tying school funding to health-care policy would be less likely to pass muster.

In any case, President Trump's executive order is unlikely to affect the bond ratings of sanctuary cities, Fitch said, meaning that a city's immigration policy is unlikely to threaten its ability to borrow.

The new president presents other problems for municipal budget makers, Fitch said. Repealing the Affordable Care Act could heap additional costs on local health care facilities, while changing the way that Medicare funding is dispersed could ultimately reduce the amount of money that local governments receive.

Bloomberg

by Patrick Clark

January 30, 2017, 1:11 PM PST

Sanctuary City Funding Cuts Less of a Concern Than Medicaid: Fitch

SAN FRANCISCO — President Donald Trump's executive order last week to cut federal funding to self-proclaimed sanctuary cities would likely not result in an impact to cities' bond ratings, Fitch Ratings reported on Monday.

Instead, a push to convert Medicaid to a block grant would likely result in a more significant effect on state and local government finances, Fitch noted.

Federal funding represents only a small portion of local revenues and most of the funding is restricted to specific programs, such as Temporary Assistance for Needy Families (TANF) and school lunch subsidies, Fitch reported. In general, federal funding does not support cities' general operations.

Sanctuary status is not an official designation. Still, cities across the country have vowed some sort of protection to undocumented residents, including New York, Los Angeles, San Francisco, Boston and Chicago.

Much of the federal funding spent at the municipal level flows to states, counties and school districts, rather than cities.

A Reuters analysis of the nation's ten largest cities that shield illegal immigrants found that the presidential order could strip municipalities of $2.27 billion annually.

"Direct funding is limited," reported Fitch. "Moreover, civil and constitutional challenges appear likely to impede the implementation of the executive order."

Last week's executive order exempted federal dollars used for law enforcement, sparking opponents to say that a judge could strike down that section of the order as unconstitutional.

Fitch noted that President Trump's push to repeal the Affordable Care Act, also known as Obamacare, without a replacement could have a more meaningful impact on state and local government finances.

The Kaiser Family Foundation estimates a repeal of Obamacare and a cap on federal Medicaid spending, such as through a block grant or a per capita cap, could cut Medicaid funding by 41 percent over the next decade. That would likely handicap states' ability to respond to larger enrollments during recessions.

By REUTERS

JAN. 30, 2017, 4:09 P.M. E.S.T.

(Reporting by Robin Respaut; Editing by Andrew Hay)

[S&P: Oil-Producing States See Deepening Economic Weakness.]

A reliance on oil production remains a key indicator of credit stress in the U.S. state sector as of early 2017. Energy producing states account for five of the 11 states on which S&P Global Ratings maintains negative rating outlooks.

Continue reading.

Jan. 24, 2017

[S&P USPF Housing Enterprise 2017 Outlook: Ratings Remain Stable Despite Economic Challenges And Uncertain National Policy Direction.]

S&P Global Ratings expects ratings in the municipal housing sector to remain stable in 2017, with just a small number of downgrades within the tax-exempt bond ratings universe. Following the downgrades that began in 2008, the sector turned this trend around and has had ongoing stability in the new decade.

Continue reading.

Jan. 24, 2017

Trump Orders Rapid Review for High-Priority Infrastructure.

DALLAS - President Donald Trump's executive order to streamline the environmental permitting process for high-priority infrastructure projects will allow roads and bridges to be built more quickly, according to Rep. Bill Shuster, R-Pa., chairman of the House Transportation and Infrastructure Committee.

Trump signed an executive order this week that requires the chairman of the White House Council on Environmental Quality to coordinate "expedited procedures and deadlines for completion of environmental reviews and approvals" for infrastructure projects designated as a high priority by a governor or the head of a federal department or agency.

"Too often, infrastructure projects in the United States have been routinely and excessively delayed by agency processes and procedures," the order said. "These delays have increased project costs and blocked the American people from the full benefits of increased infrastructure investments."

Shorter delays with a more rapid environmental permit review would result in road and bridge projects being operational years earlier than now and at a lower cost, Shuster said during an interview Wednesday on Fox Business News.

"This is what we need to do with these reforms in Congress," Shuster said. "We need to make sure these projects move faster because time is money."

Once the request for high-priority status is received, the council's staff has 30 days to decide whether the project qualifies for an expedited approval process. If the deadline is missed, the head of the agency must provide a written explanation for the delay to the council chair.

A certified project would go to the top of the priority list of the federal agencies required by law to review and approve it.

Trump said the executive order will help streamline a "cumbersome, long, horrible permitting process" that has held up some infrastructure projects for years.

"We can't be in an environmental process for 15 years if a bridge is going to be falling down or a highway is crumbling," he said during the signing ceremony in the Oval Office.

"If it's a no, we'll give them a quick no, and if it's a yes, it's like 'Let's start building,'" Trump said. "The regulatory process in this country has become a tangledup mess, and very unfair to people."

The order shows that Trump sees infrastructure as an important function of government and that the review process is often too cumbersome, said Nick Goldstein, vice president of regulatory affairs at the American Road and Transportation Builders Association.

"It's certainly a good thing, although we don't know yet who is going to head the environmental council," Goldstein said. "One of our priorities always has been a more rational environmental review process."

Trump’s executive order is an endorsement of the regulatory reforms that construction contractors have been seeking for years, said Brian Turmail, senior executive director of public affairs at the Associated General Contractors of America.

“Despite significant reforms we have helped get enacted in recent surface transportation measures that have cut some time from the federal review process, it still takes too long to get a final decision out of the federal government,” Turmail said.

“These delays needlessly inflate the cost of many infrastructure projects and undermine public confidence in the federal government’s ability to get the job done,” he said.

It’s too early to tell how the order will affect project delivery, said Lloyd Brown, director of communications at the American Association of State Highway and Transportation Officials.

“We’re going to work with federal and state officials to make sure we understand the process and get projects delivered as quickly as possible,” Brown said. “AASHTO supports regulatory streamlining but we also take very seriously our environmental responsibilities.”

The Bond Buyer

By Jim Watts

January 26, 2017

States Add 300 Projects to Trump's Infrastructure Wish List.

DALLAS – More than 300 road, rail, bridge, and port projects have been submitted to the Trump administration by 43 states as prime candidates for funding in the new president’s proposed $1 trillion infrastructure program.

The large list was compiled by the National Governors Association, which asked governors in December to provide information to the Trump team on projects suitable for inclusion in the plan that relies on private investments to help rebuild the nation’s infrastructure.

“They seek examples of priority infrastructure projects that might be incorporated into a future infrastructure investment program,” the NGA said in the letter dated Dec. 16, more than a month before Trump was sworn in. “Specifically, the transition team is looking for three to five project suggestions from each state that they would vet for inclusion in a new program.”

The submissions to the initial information-gathering request are non-binding, the letter noted.

“The initial spend on these projects for 2017 is expected to be $150 billion, and the transition team hopes that this type of project will be continued over the next two years,” NGA said.

The compilation of project information is still going on, said Elena Waskey, a spokeswoman for the NGA.

A preliminary list of 50 high-priority “Emergency & National Security Projects” across the nation includes a high-speed rail line between Dallas and Houston, Maryland’s Purple Line light rail system, airport upgrades, and interstate highway expansions.

Total cost of the 50 projects on the list is $137.5 billion, with 50% of the funding coming from private investors, according to documents obtained by McClatchy's Kansas City Star and The News Tribune.

The origin of the project list is unclear. The 50-project list is almost identical to a spreadsheet circulated in December by the NGA among state officials, with only two projects not found in both.

The McClatchy report said the list was provided to the NGA by the Trump transition team. However, Brigham McCown, chairman of the Alliance for Innovation and Infrastructure and a former member of the Trump transition, has denied that the team developed the project list.

Several of the projects have been completed and others don't meet Trump's criteria for significant private investments, McCown said.

The 50-project list is "not an official White House document," Trump spokeswoman Lindsay Walters said Wednesday.

The first project on the list is the $12 billion Gateway Program to rebuild the rail infrastructure between New York City and Trenton, N.J.

Other projects on the priority list include a $2 billion expansion of Seattle-Tacoma International Airport and a $1 billion redevelopment of Chicago's Union Station.

Texas Central Rail said it is pleased that its 240-mile bullet train system between Houston and Dallas was included in the high-priority list.

"Texans are looking for safe, reliable, and productive transportation options," the company said. "The high-speed train answers that call for the region, state and country."

Trump should reject the Texas Central project, said Kyle Workman of Texans Against High-Speed Rail.

"We are confident that President Trump will identify projects of worth and benefit to America and this will not be one of them," he said.

The list also includes a 68-mile light rail line proposed by Dallas Area Rapid Transit from the far northern suburbs of Dallas to the west side of Fort Worth, with a stop at Dallas-Fort Worth International Airport.

DART has no plans to seek private investment in the $2.8 billion project, said spokesman Morgan Lyons.

"We are always supportive of ways to inject additional federal dollars into long-term transportation infrastructure, but have not been contacted to help develop this list," Lyons said.

The Bond Buyer

By Jim Watts

January 25, 2017

Senate Democrats Challenge Trump with Their Own $1T Infrastructure Plan.

DALLAS — Senate Democrats have countered President Trump with their own 10-year, $1 trillion infrastructure package that calls for more direct federal funding rather than incentives for private investments.

The proposal outlined Tuesday by Senate minority leader Chuck Schumer, D-N.Y., would provide $210 billion for roads and bridges, $180 billion for rail and bus systems, $110 billion for water projects, $75 billion for schools, $65 billion for ports and airports, $20 billion for projects in national parks and tribal lands, $20 billion for expanding wireless broadband service, and $10 billion for Veterans Affairs hospitals.

It would expand the Transportation Investment Generating Economic Recovery (TIGER) grant program by $10 billion and provide major increases in clean water and drinking water state revolving funds.

The proposal also includes a $200 billion Vital Infrastructure Projects (VIP) program that will direct major federal investments to the most critical national projects.

"It's a challenge to the president," Schumer said in an online interview with USA Today. "We're challenging the president — he talked about in his campaign — to join with us. If he does, we'll work with him on this."

Trump's 10-year plan unveiled by his campaign in late October relies on $137 billion of federal tax incentives to leverage private investments in revenue-producing projects.

Public-private partnerships are the wrong approach in most cases, Schumer said.

"Some people have talked about doing this as a tax break for wealthy people. We don't believe that works," he said.

"We would pay for it out of the Treasury," Schumer said. "It's a stimulus program. We need more and better-paying jobs."

The Democrats' proposal would create 15 million jobs, he said.

Democrats will discuss and negotiate with President Trump about how to pay for the infrastructure plan, Schumer said.

"There will be no cuts to education or healthcare programs," Schumer said. "Are the tax cuts for the rich going to be paid for?" he asked, adding, "I doubt it."

Trump's infrastructure program will likely be funded through an overhaul of the federal tax code that Democrats could support, according to Rep. Bill Shuster, R-Pa., chairman of the House Transportation and Infrastructure Committee.

"The bitter pill for Democrats is tax reform," Shuster said at a Tuesday event sponsored by the Republican Main Street Coalition. "But the sweet chaser is infrastructure dollars. So I think they're willing to go along if they're finding those dollars."

Trump would need Democratic support to pass an infrastructure program, Schuster said.

“We Democrats have always been behind this but we’ve been stymied by Republicans in the Senate over and over again,” Schumer said. President Trump “is going to have to work with us. To get this done, Trump may have to break with those doctrinaire people who are out of touch with what Republicans and Democrats in America have always supported: The federal government should assist in building roads and bridges and tunnels.”

Sponsors of the infrastructure legislation include Schumer and Sens. Thomas Carper from Delaware, Bill Nelson from Florida, Ron Wyden from Oregon, Sherrod Brown from Ohio, Bernie Sanders and Patrick Leahy from Vermont, and Maria Cantwell from Washington.

“Senate Democrats have unveiled this blueprint because we need a wide-sweeping infrastructure plan, and we need it now,” Schumer said.

Trump’s infrastructure plan may face resistance from congressional Republicans who are concerned about how to pay for it, said Richard LeFrak, a New York developer appointed by the president to a panel that will oversee it.

Trump “has to come up with a financing plan, and I think there’s going to be a little bit of a tug of war between the conservatives in the Republican party who are concerned about deficits and the president who’s concerned about jobs,” he said Monday on CNBC. “I think [Trump] he will prevail, ultimately, because he wants to put people to work.”

Trump supports a $1 trillion plan but the final price tag may be lower, LeFrak said. “He’d like it to start with a “t,” but I think the number I’ve heard tossed around is about $550 billion,” LeFrak said.

The Bond Buyer

By Jim Watts

January 24, 2017

City Announces First Minibond Issuance, Invites Residents to Directly Invest in Cambridge.

The City of Cambridge is pleased to announce that it intends to offer Cambridge residents the chance to invest directly in Cambridge infrastructure by purchasing minibonds. Minibonds enable residents to earn tax-exempt interest and invest for the future while supporting the Cambridge capital budget.

A minibond is similar to a traditional municipal bond in which investors loan money to a city or public agency for an agreed period of time, receive interest on the investment, and get their loan paid back when the bond matures. The City will use minibond proceeds to support capital projects such as school building renovations, municipal facility upgrades, and implementation of the Complete Streets plan.

All municipal bonds previously sold by the City were sold in denominations of $5,000 or more. Minibonds are different because residents can purchase them for as little as $1,000, making them more accessible than traditional municipal bonds for potential investors.

The City is working with Neighborly Securities* to issue the minibonds. Neighborly is not affiliated with the City of Cambridge in any way, other than as the broker-dealer for this sale of minibonds.

The City expects to sell up to $2 million of minibonds in its first minibond sale, which will take place from February 17-23, 2017. Each Cambridge resident may purchase up to 20 minibonds for a total possible investment of $20,000 (20 x $1,000/minibond). The interest rate on the 2017 minibonds will be determined on February 17, 2017 and interest will be paid semiannually. Principal on the 2017 minibonds will be paid in five years in 2022.

Minibonds will only be offered to investors following release of a Preliminary Official Statement of the City that will describe the terms of the minibonds and provide other financial information concerning the City. The City expects to issue a Preliminary Official Statement by February 13, 2017.

Residents who are interested in buying Cambridge minibonds will need to create an account through Neighborly.com before the order period ends or purchase minibonds through their own broker. Once a minibond order is submitted through Neighborly, Neighborly's investment team reviews it for approval and allocation. If the order is approved, minibonds will then be allotted and filled on a first-come, first-serve basis. Neighborly representatives will be at Cambridge City Hall on Wednesday, February 15 from 6-8pm and Tuesday, February 21 from 6-8pm to provide assistance and discuss the minibond process.

For questions about setting up an account with Neighborly to purchase minibonds, please contact Neighborly at (866) 432-1170, support@neighborly.com, or www.neighborly.com/cambridge.

For general questions about Cambridge minibonds, please visit minibonds.cambridgema.gov or contact the City's Budget Office at minibonds@cambridgema.gov or (617) 349-4270.

[Sign up today.]

**Minibonds will only be ordered through Neighborly Securities, member FINRA, SIPC & registered with MSRB, pursuant to a preliminary and final official statement to be made available during the ordering period. This information does not constitute an order to sell or the solicitation of an order to buy any securities. You will be responsible for making your own independent investigation and appraisal of the risks, benefits, and suitability of any securities to be ordered and neither the City of Cambridge nor Neighborly Securities is making any recommendation or giving any investment advice.*

1/23/2017
