# Bond Case Briefs

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

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

Continue Reading

Jan. 9, 2019

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

Read the Criteria.

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## Taking a Tactical Approach to the 2019 Muni Market.

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

Watch video.

**Bloomberg Markets TV Shows**

January 9th, 2019, 9:01 AM MST

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## How a Prolonged Government Shutdown May Ripple Down to States.

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

Almost a third of the $2 trillion that U.S. states spend each year comes from Washington, so the partial shutdown of the federal government would seem to spell major financial trouble in America's

statehouses. So far, the impact has been relatively limited, because only about a quarter of the government has been closed and funding for the biggest state-run program, Medicaid, will continue no matter how long the impasse persists.

While the president has said he'd be willing to keep some of the government shut for months if lawmakers don't agree to fund a wall on the Mexican border, he may seek to circumvent Congress in a bid to end the standoff. But if the closure persists, the impact on states may grow, particularly in those with a large number of federal employees. Here's how:

**Missing Paychecks**

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

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

**Saving Safety Net**

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

**Renters at Risk**

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

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

**Bond Market Spillover**

A standoff that lasts past the end of the debt-ceiling suspension on March 1 could increase the risk of a technical default on the U.S. debt and raise the likelihood of a downgrade, according to some

ratings analysts. A downgrade to the Treasury's rating would likely trigger municipal-bond rating cuts, which happened in 2011, when S&P Global Ratings cut the grades on thousands of state and local securities tied to the federal government.

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

**Subways, Trains, Roads**

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

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

**Bloomberg Business**

By Amanda Albright, Danielle Moran, and Martin Z Braun

January 11, 2019, 5:20 AM MST

*— With assistance by Claire Ballentine*

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

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

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

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

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

Continue reading.

**Bloomberg Markets**

By Amanda Albright

January 8, 2019, 9:00 AM MST

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## Natural Disaster Forces Critical Decisions For Municipalities And Residents.

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

### State and municipal incentives for reconstruction

Shortly after Sandy, Mayor Bloomberg adopted an executive order waiving height restrictions under zoning code so that reconstructed buildings could meet improved flood standards. This executive order was among the first steps in New York City's process to update both its building code and its zoning code for new construction, in light of the damage from Sandy and in anticipation of future weather events including flooding. According to the Bloomberg administration, absent this executive order, existing and newly-constructed buildings would be out of compliance with the Federal Emergency Management Agency ("FEMA") recommended elevations to address flooding concerns. In an attempt to stimulate immediate reconstruction, New York state and New York City announced multiple initiatives, including loans, grants, and tax exemptions for impacted businesses to use to mitigate loss of inventory, physical damage to real property, and loss of revenue stemming from

business closures with a focus on those "directly impacted" by flood waters or power outages. Small businesses within New York City, utilizing its Industrial Development Agency, were also eligible to claim up to $100,000 in sales tax exemptions for purchases of construction and renovation materials along with services necessary for rebuilding. This initiative was limited to the first 250 applicants. New York state, though the Empire State Development Corporation, administered a $10 million loan program for up to $25,000 in loans for small businesses with less than 100 employees in designated disaster areas statewide, and offered similar terms to the emergency loans provided by New York City.

**Addressing future flooding concerns**

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

by David Rothman

January 11, 2019

**Harris Beach PLLC**

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

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

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

The states collectively submitting the comments include:

- California
- Illinois

- Maryland
- New Jersey
- New Mexico
- Oregon
- Pennsylvania
- Rhode Island
- Vermont
- California Air Resources Board

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

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

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

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

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

A copy of the comments can be found here.

by Walter Wright

January 10, 2019

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

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

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

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

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

But a researcher with the Urban-Brookings Tax Policy Center, Richard Auxier, cautioned this week that the wagering may not generate as much tax revenue as some are hoping for.

Continue reading.

**Route Fifty**

By Bill Lucia

JANUARY 12, 2019

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## A Turbulent Stock Market Can Benefit State and Local Borrowers.

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

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

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

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

Continue reading.

**Route Fifty**

by Bill Lucia

JANUARY 9, 2019

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## Municipal Bonds: Great Expectations For 2019

**The Big Picture**

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

After hiking short-term interest rates four times in 2018, the Federal Reserve seems prepared to

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

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

**Supply Is On Our Side**

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

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

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

**Don't Discount Retail Demand**

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

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

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

**Credit Perspectives: What To Watch In 2019**

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

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

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

**Investment Ideas For 2019**

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

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

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

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

FINANCIAL ADVISOR

JANUARY 11, 2019 | SEAN CARNEY, PETER HAYES

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

## What Successful Public-Private Partnerships Do.

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

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

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

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

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

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

### Striking Personal Commitments Far Beyond the Contract

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

Contracts alone can't achieve this. Legal documents can spell out what must go right (e.g., spending, responsibilities, steps, deliverables, and dates) and what happens when things go wrong. But they

cannot anticipate everything that can go wrong, and they don't provide a roadmap of how to right things quickly. That requires leaders from each entity to regularly share their interests and concerns, and to help resolve them. A key part of this is having each party acknowledge interests in the project they may not have stated in the contract, and which may not be interests of the other parties.

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

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

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

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

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

**Hashing Out Differences Authentically**

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

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

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

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

**Admitting to and Correcting Setbacks Quickly**

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

Such psychological safety can only happen when the parties agree at the outset how they will handle the inevitable problems, long before anyone reaches for the contract. We found this to be critical to coaching the two lead contractors on a failing multibillion-dollar offshore drilling project. While this was an entirely private partnership, the lessons hold true for public-private partnerships too. The two contractors had blown through numerous deadlines and disagreed vehemently on how to get the project back on the rails. They blamed each other for project failures and were barely speaking to one another beyond the minimum required to do the work. In addition, a major subcontractor located in a different time zone also complicated things, ignoring requests to work faster.

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

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

**Building Better Partnerships**

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

**Harvard Business Review**

by Elyse Maltin

JANUARY 08, 2019

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## The States That Give and Get the Most Federal Dollars.

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

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

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

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

Continue reading.

**Route Fifty**

By Bill Lucia,
Senior Reporter

JANUARY 8, 2019

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

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

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

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

Continue reading.

**Barron's**

By Alexandra Scaggs

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

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

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

SPEED READ:

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

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

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

Continue reading.

GOVERNING.COM

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

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

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

SPEED READ:

- Ten so-called donor states pay more in taxes to the federal government than they receive back in funding for things like Medicaid or education.
- Connecticut tops the list of donor states. Residents there receive just 74 cents back for every $1 they pay in federal taxes.
- Thanks to 2017’s federal tax overhaul, the number of donor states could grow. That’s because the

amount residents owe in federal taxes will increase now that the state and local tax deduction is capped.

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

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

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

Continue reading.

GOVERNING.COM

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

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## The Tech Companies Helping Government Meet Its Mission.

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

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

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

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

Continue reading.

GOVTECH

BY PAUL W. TAYLOR / JANUARY 8, 2019

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

- **‘Almost a perfect storm for municipals to perform well’**

- **Equity-market turmoil has fueled drive into safe havens**

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

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

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

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

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

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

**Bloomberg Markets**

By Danielle Moran

December 28, 2018, 10:16 AM MST

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## Fitch Launches ESG Scoring System to Show Effect on Ratings.

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

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

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

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

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

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

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

PENSIONS & INVESTMENTS

BY JAMES COMTOIS · JANUARY 7, 2019

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## Fitch Ratings Focuses on ESG Standards with New Scoring System.

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

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

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

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

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

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

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

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

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

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

CHIEF INVESTMENT OFFICER

January 7, 2019

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

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

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

Download Full Working Paper Text.

**Harvard Business School**

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

January 3, 2019

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## Retiree Health Care Liabilities Keep Stacking Up For States.

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

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

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

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

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

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

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

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

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

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

Pew suggests that one option for managing growing OPEB liabilities is pre-funding the benefits. Another possibility they offer is adjusting benefit levels, like deductibles, or co-payments, or the years of service required to qualify for a retiree health care plan.

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

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

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

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

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

**Route Fifty**

By Bill Lucia,
Senior Reporter

JANUARY 3, 2019

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## Sports Betting Will Be No Home Run for State Budgets.

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

difference for schools, roads or pension debt?

Don’t bet on it.

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

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

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

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

Lawmakers in Kentucky, Missouri, Ohio, Tennessee and Virginia already have filed bills to allow sports betting, and those who track the industry expect a total of 30 states to consider similar ones this year.

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

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

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

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

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

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

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

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

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

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

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

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

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

The states that have launched sports betting this year expect they will bring in tax revenue that ranges from about $5 million in Mississippi and West Virginia to $25 million in New Jersey. In each state, hitting those targets would account for just a fraction of 1 percent of state spending.

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

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

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

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

**By The Associated Press**

Jan. 2, 2019

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

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## Should Pensions Own Utilities? Congress Has Considered It Before.

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

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

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

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

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

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

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

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

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

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

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

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

GOVERNING.COM

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

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## The Federal Shutdown's Impact on States and Localities.

**SPEED READ:**

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

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

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

The impact of a federal shutdown on other governments is all about duration. Now that the stalemate is approaching the two-week mark, states and localities — and the economy at large — could start to encounter serious challenges. S&P Global Ratings estimates that the shutdown could shave $1.2 billion off real GDP for each week that part of the government is closed.
"A protracted federal shutdown," it warns "would compound the effects of fading fiscal stimulus and act as a drag on an economy already experiencing decelerating growth."

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

**The Cost of Covering Services During a Shutdown**

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

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

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

**What's Impacted by the Shutdown and What's Not**

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

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

Furthermore, a fair amount of discretionary programs are safe because of previously passed measures that cover a full year of funding. That means programs funded through the departments of

Defense, Education, Health and Human Services, Labor, and Veterans Affairs should not be affected. Therefore, programs like the Low Income Home Energy Assistance Program or Head Start preschool — which have ran out of funds in previous shutdowns — will be able to stay open. The Children's Health Insurance Program — a victim of previous shutdowns — is also safe thanks to a six-year funding deal reached last year.

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

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

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

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

Meanwhile, furloughed workers are starting to file for unemployment.

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

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

GOVERNING.COM

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

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## USDA Announced $600 Million for Rural Broadband.

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

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

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

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

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

Continue reading.

**efficientgov.com**

by Rachel Engel

January 4, 2019

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## Muni Market Looks to Taiwan Where Insurers Welcome New Options.

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

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

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

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

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

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

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

Revenue bonds from active issuers, and those that are frequently traded and with ratings in the A category or higher are likely to be the focus of Taiwanese insurers, McGowan said. Specifically, they may prefer taxable munis sold by essential service providers such as utilities, nonprofit hospitals and

higher-education institutions, said Matt Caggiano, who helps oversee more than $7 billion of municipal holdings mostly for insurance clients at DWS Group.

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

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

**Bloomberg Business**

By Romy Varghese and Miaojung Lin

December 21, 2018, 7:51 AM MST

*— With assistance by Sophia Sung*

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

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

**Equitable Mootness**

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

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

The doctrine of equitable mootness is sometimes criticized as an abrogation of federal courts' "virtually unflagging obligation" to hear appeals within their jurisdiction. *In re City of Detroit, Michigan*, 838 F.3d 792, 805 (6th Cir. 2016) (dissenting opinion), *cert. denied sub nom. Ochadleus v.*

*City of Detroit, Mich.*, 137 S. Ct. 1584 (2017), and *cert. denied sub nom. Quinn v. City of Detroit, Mich.*, 137 S. Ct. 2270 (2017); *In re One2One Commc'ns, LLC,* 805 F.3d 428, 433 (3d Cir. 2015) (citing cases); *In re Charter Commc'ns, Inc.*, 691 F.3d 476, 481 (2d Cir. 2012) (same). According to this view, dismissing an appeal on equitable mootness grounds "should be the rare exception." *In re Tribune Media Co.*, 799 F.3d 272, 288 (3d Cir. 2015).

**Standard for Equitable Mootness**

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

Substantially similar tests for equitable mootness have been adopted by several circuits. See *JPMCC 2007-C1 Grasslawn Lodging, LLC v. Transwest Resort Props., Inc. (In re Transwest Resort Props., Inc.)*, 801 F.3d 1161, 1167–68 (9th Cir. 2015) (applying a four-factor test, including whether the court "can fashion effective and equitable relief without completely knocking the props out from under the plan and thereby creating an uncontrollable situation for the bankruptcy court"); *Search Market Direct, Inc. v. Jubber (In re Paige)*, 584 F.3d 1327, 1339 (10th Cir. 2009) (applying a six-factor test, including: (i) whether the public-policy need for reliance on confirmed bankruptcy plans—and the need for creditors generally to be able to rely on bankruptcy court decisions—would be undermined by reversal of the confirmation order; (ii) the likely impact upon a successful reorganization of the debtor if the appellant's challenge is successful; and (iii) whether, on the basis of a brief examination of the merits of the appeal, the challenge is legally meritorious or equitably compelling); *In re United Producers, Inc.*, 526 F.3d 942, 947–48 (6th Cir. 2008) (three-factor test); *Nordhoff Invs., Inc. v. Zenith Elecs. Corp.*, 258 F.3d 180, 185 (3d Cir. 2001) (five-factor test, including whether the relief requested would affect the success of the plan, and the public policy of affording finality to bankruptcy judgments); *TNB Fin., Inc. v. James F. Parker Interests (In re Grimland, Inc.)*, 243 F.3d 228, 231 (5th Cir. 2001) (three-factor test); *see also In re Philadelphia Newspapers, LLC*, 690 F.3d 161, 168–69 (3d Cir. 2012) (holding that the foremost consideration is "whether allowing an appeal to go forward will undermine the plan, and not merely whether the plan has been substantially consummated"); *Frito-Lay, Inc. v. LTV Steel Co.* (*In re Chateaugay Corp.*), 10 F.3d 944, 952–53 (2d Cir. 1993) (noting that substantial consummation will not moot an appeal if: (i) the court can still order some effective relief; (ii) such relief will not affect the emergence of the debtor as a revitalized entity; (iii) such relief will not unravel intricate transactions so as to knock the props out from under the plan; (iv) the parties adversely affected by the modification have notice of the appeal and an opportunity to participate in the proceedings; and (v) the appellant diligently pursued a stay pending appeal).

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

**Application of Equitable Mootness in Chapter 9 Cases**

Prior to *Jefferson County*, a handful of courts ruled that the doctrine of equitable mootness applies in chapter 9 cases. In *City of Detroit*, the Sixth Circuit concluded that "equitable mootness applies to

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

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

***Jefferson County***

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

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

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

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

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

**The District Court's Ruling**

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

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

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

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

**The Eleventh Circuit's Ruling**

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

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

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

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

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

The Eleventh Circuit panel then concluded that equitable mootness barred the ratepayers' appeal because: (i) "critically," the ratepayers never asked any court to stay the implementation of the plan, and seeking a stay or an expedited appeal was not a "fool's errand" because, among other reasons, the bankruptcy court may not have required a bond; (ii) the County and other stakeholders have "taken significant and largely irreversible steps in reliance" on the unstayed confirmation order, including the issuance of more than $1 billion worth of new publicly traded sewer warrants; and (iii)

considering the public interest, the fact "[t]hat a Chapter 9 bankruptcy plan subjects [County] residents . . . to rate increases over time, instead of forcing them to bear the financial pain all at once, does not transmogrify it into one that per se violates the ratepayers' constitutional rights."

**Outlook**

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

**Jones Day**

by Mark Douglas & Thomas (Tom) Wilson

December 24, 2018

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

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

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

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

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

Continue reading.

**The Wall Street Journal**

By Gunjan Banerji and Heather Gillers

Dec. 19, 2018

## A Holiday Municipal Bond Impact Story.

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

**A Long Way From Home**

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

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

Continue reading.

**Forbes**

by Barnet Sherman, Contributor

Dec 21, 2018

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

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

SPEED READ:

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

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

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

"We cannot shirk this, we cannot run from this," House of Representatives Speaker Pro-Tempore David Osborne said in a floor speech Tuesday night. "But this was not a problem that was created

overnight. We cannot solve it within the confines of a five-day session."

Continue reading.

GOVERNING.COM

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

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

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

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

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

Short term municipal bonds should come in at $36.5 billion for the new year compared to $43 billion for the old, according to the poll taken from November 19 to December 17.

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

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

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

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

**Forbes**

by Ted Knutson

Dec 19, 2018

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

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

***State Tax and Economic Review, 2018 Quarter 2***

**Abstract**

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

Economic factors driving state revenue were all positive in the second quarter of 2018. Although the near-term economic outlook is positive and despite the strong state revenue growth in the most recent quarters, states face large fiscal challenges, particularly because of the uncertainties related to the longer-term impact of the TCJA on state economies and budgets. Therefore, state officials would be wise to view recent revenue increases as a one-time windfall and anticipate slower revenue growth in the medium term.

Download the Report.

**The Urban Institute**

by Lucy Dadayan

December 18, 2018

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

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

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

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

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

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

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

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

**Bloomberg Markets**

By Danielle Moran

December 28, 2018, 10:16 AM MST

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## Municipal Bond Market Wraps Up Tough Year of 'Muted' Returns.

R.J. Gallo, senior portfolio manager and head of municipal bond investment group at Federated, examines the issues that impacted the municipal bond market in 2018. He speaks with Bloomberg’s Taylor Riggs in this week’s “Muni Moment” on “Bloomberg Markets.”

Watch video.

**Bloomberg Markets TV Shows**

December 19th, 2018, 9:37 AM MST

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## Muni Market Looks to Next Year for an Infrastructure Bill and Bigger Returns.

- **Banks are expected to continue decreasing municipal holdings**
- **States and cities want Congress to return advance refundings**

The $3.8 trillion municipal-bond market is preparing to close out 2018 with lackluster gains as it looks to next year for better returns and a bi-partisan infrastructure bill from Washington to help boost spending on roads, schools and bridges.

Yields on tax-exempt securities soared this year as the Federal Reserve raised interest rates four times in 2018. That hampered performance, with the broader municipal market gaining nearly 0.9 percent in the year through Dec. 19, after a 5.5 percent advance in 2017, according to Bloomberg Barclays index data.

Along with higher borrowing costs, states and municipalities lost a financing tool that allows them to refund debt earlier than expected and save money.

Continue reading.

**Bloomberg Markets**

By Michelle Kaske

December 20, 2018, 10:00 AM MST

## Two-Month Muni Rally at Risk After Market Wanted More Dovish Fed.

- **Municipal bonds are headed for a 0.8 percent return in 2018**
- **Yield on 30-year top-rated munis has fallen since November**

For the $3.8 trillion municipal-bond market, all eyes were on the Federal Reserve to figure out whether better performance is ahead in 2019.

State and local debt was headed for a two-month rally amid expectations that the central bank was closer than previously thought to pausing its cycle of interest rate hikes. At Wednesday's meeting, Fed policy makers raised interest rates for a fourth time this year but pared projections for hikes in 2019 to two rather than three. Firms like BlackRock Inc. said that could bolster municipal-bond returns. Higher interest rates hurt the price of munis.

The benchmark yield on mid- and long-dated muni bonds declined 2 basis points after the Fed's announcement. Shorter-dated securities fell by 1 basis point.

"We think the Fed is getting closer to a pause or maybe even a peak in rates," RJ Gallo, a senior portfolio manager and head of the municipal-bond investment group at Federated Investors, said during a Bloomberg Television interview on Wednesday before the announcement. "If that's the case, that's constructive for high-quality fixed-income — that's munis. Munis can benefit from an end to the upward rate cycle."

Municipal bonds are headed for a 0.8 percent return in 2018, pressured by both rising interest rates and less buying from banks and insurance companies under a lower tax rate. Yields on 30-year top-rated municipal bonds have fallen since the start of November to 3.1 percent, but they're still over 55 basis points higher than where they started 2018.

If policy makers do limit expected rate increases in 2019, "they're admitting that growth expectations have diminished, which would be positive for bonds," said Patrick Tucci, a fixed-income portfolio manager for Foresters Investment Management Company, Inc., which oversees $1.5 billion in municipals.

The firm is overweight the 20-year part of the curve and is considering opportunities to buy 30-year bonds, he said. "From a muni perspective, this is a positive time to be long," he said.

Jason Appleson, a portfolio manager at PT Asset Management LLC, said the municipal market also faces other potential tailwinds at the start of 2019, such as seasonally light supply in January. "If rates come in as expected and we don't see a considerable amount of rate volatility, I absolutely think munis could do well relative to Treasuries," he said.

**Bloomberg Markets**

By Amanda Albright

December 19, 2018

*— With assistance by Taylor Riggs*

## S&P U.S. Public Finance 2018 Year In Review.

The economic recovery in the U.S. hit a turning point in 2018, starting its tenth year and becoming the second longest on record. The recovery has not broken any records for speed, however, and the slow pace has been a significant factor for credit conditions in U.S. public finance.

Continue Reading

Dec. 17, 2018

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## From Union Ballots To Election Ballots: A Look Back At The Top 10 S&P Credit Stories Affecting U.S. Charter Schools In 2018.

It's been an eventful year for the U.S. charter school sector. Some schools edge closer to possible defaults, some have dealt with striking workers, and many lost some allies at multiple levels of government following the midterm elections.

Continue Reading

Dec. 20, 2018

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## Creative Partnerships, Transformative Gifts, And Headline Risks: The Top 10 S&P Credit Stories Affecting U.S. Not-For-Profit Higher Education In 2018.

The U.S. not-for-profit higher education sector has had an eventful year. As revenues remain constrained and many schools continue to struggle with enrollment, institutions have been focused on cost-cutting and containment, while some have battled significant headline risk.

Continue Reading

Dec. 20, 2018

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## The Trickle-Down Impacts of the Federal Shutdown on States and Localities.

**The disruption in Washington, D.C. "could have a significant impact," if there is a protracted partial shutdown, according to Steve Benjamin, the president of the U.S. Conference of Mayors.**

While some states are already ponying up to keep national parks open during the partial government shutdown, the trickle-down effect on local and state governments could be felt more intensely in the days to come if federal agencies remain closed for an extended period of time.

The first few days of the latest shutdown—prompted by President Trump's insistence that a

temporary budget deal passed by Congress contain funding for a wall on the Mexico border—occurred during the weekend and Christmas holiday. For some states where national parks are major tourist attractions, this closure during a family vacation time meant the need to cover for the absence of park employees, as the Department of the Interior is one of the agencies closed in the shutdown.

Arizona Gov. Doug Ducey last week announced that his office would put into action a plan—finalized after the last shutdown earlier this year—to keep the Grand Canyon open, ensuring trash pickup, bathroom access and shuttles, along with other services. New York Gov. Andrew Cuomo said the state would spend $65,000 a day to keep open the Statue of Liberty and Ellis Island, while Utah Gov. Gary Herbert also said that parks would be open, although staffing could be limited.

Continue reading.

**Route Fifty**

By Laura Maggi,
Managing Editor

DECEMBER 26, 2018

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## Broad Coalition of Local Government Organizations Applaud Passage of Water Infrastructure Improvement Act.

**Coalition Members Include The United States Conference of Mayors, National Association of Counties, National League of Cities, American Public Works Association, National Association of Regional Councils, National Association of Clean Water Agencies**

Washington, D.C. – A broad coalition of local government organizations applaud Congress for passage of the Water Infrastructure Improvement Act (H.R. 7279), a much-needed update to the Clean Water Act (CWA).

Cities, counties and public utilities are on the front lines of environmental protection and support clean and safe water. The Water Infrastructure Improvement Act gives much-needed flexibility to local governments, who are currently facing huge unfunded mandates, in meeting the requirements of the CWA more affordably. The legislation codifies the U.S. Environmental Protection Agency (EPA) Integrated Planning framework, which allows communities to negotiate with EPA to better prioritize their most pressing public health and environmental concerns efficiently and cost-effectively. Since water and wastewater systems are paid for by ratepayers, the bill will help stabilize or reduce costs for a substantial number of low- and fixed-income citizens who spend a significant portion of their income on water and wastewater bills.

Cities and counties invest over $123 billion per year to provide safe, reliable, water and sewer services, and maintain a vast physical infrastructure of pipes, pumps, and plants. EPA estimates local governments will have to invest more than $700 billion over the next 20 years, in addition to current spending, to comply with current drinking water and clean water laws. These figures do not include additional spending by local governments, our residents, and businesses to comply with other environmental and non-environmental federal and state unfunded mandates, which further limit the money available for water infrastructure.

Coalition members include: The U.S. Conference of Mayors (USCM), the National Association of Counties (NACo), the National League of Cities (NLC), the National Association of Regional Councils (NARC), the National Association of Clean Water Agencies (NACWA), and the American Public Works Association (APWA).

This coalition has been working for years with House and Senate members to pass this legislation, which will dramatically help local governments comply with CWA mandates.

The coalition would like to thank key leaders in the House and Senate including: Representatives Bob Gibbs (OH), Grace Napolitano (CA), Bill Shuster (PA), Peter DeFazio (OR), Bob Latta (OH), Steve Chabot (OH), and Senators Deb Fischer (NE), Sherrod Brown (OH), Ben Cardin (MD), John Barrasso (WY), and Tom Carper (DE) for their support.

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## President Signs Five-Year Farm Bill Reauthorization Containing Several Key Wins for Counties.

KEY TAKEAWAYS

- **NACo applauds Congressional approval of 2018 farm bill, which preserves many key county priorities**
- **Newly-passed farm bill includes several key wins for counties**

On December 20, President Trump signed into law a five-year reauthorization of the farm bill. The president's signature comes after a bipartisan group of legislators worked for months to resolve disagreements between the two farm bills passed by the U.S. House and the U.S. Senate earlier this year. The five-year, $867 billion reauthorization will help support county economies and provide critical investments to rural and underserved communities.

Throughout the farm bill process, NACo helped draft bill text and amendments to preserve and promote key county priorities. Specifically, the final package creates a new Rural Innovation Stronger Economy (RISE) grant program, reinstates the Undersecretary for Rural Development and codifies the interagency Council on Rural Community Innovation and Economic Development.

Additional provisions include language that would allow counties with regional jails to exclude incarcerated individuals from population caps for funding eligibility under USDA Rural Development programs and a provision that allows counties to use USDA broadband loans and grants for middle-mile projects, which is prohibited under current law.

The final package also excluded several provisions that could have adversely impacted county governments, including a provision that would have prevented local governments from enforcing local food product regulations, language to prevent states and local governments from implementing pesticide permit programs and verbiage that would have made some counties ineligible for broadband funding under USDA's Rural Utilities Service programs.

Additionally, the nutrition title of the conferenced farm bill – which accounts for roughly 75 percent of overall spending within the package – did not include proposed cuts to the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps), which could have resulted in more than two million individuals losing or seeing a reduction in their SNAP benefits.

NACo applauds the Farm Bill Conference Committee and leadership for their bipartisan commitment

to key county priorities in this farm bill and thanks the president for signing the reauthorization package into law.

Key provisions included in the final farm bill of importance to counties are listed below:

TITLE II – CONSERVATION

- **Sec. 2401. Watershed Protection and Flood Prevention.** The farm bill maintains the current authorization level of the Small Watershed Rehabilitation Program at $85 million through FY 2023. The Small Watershed Rehabilitation Program was created in the 2014 Farm Bill to assist communities with rehabilitating watershed dams.
- **Sec. 2201. Conservation Reserve.** The farm bill increases the acreage limit of the Conservation Reserve Program (CRP) to 27 million by FY 2023. CRP provides annual rental payments to producers to place crops on highly erodible and environmentally sensitive land and with long-term resources-conserving plantings.
- **Sec. 2308. Conservation Stewardship Program (CSP).** The farm bill establishes a new Grassland Conservation Initiative within the Conservation Stewardship Program. The bill requires the USDA to establish this initiative beginning in FY 2019. CSP provides financial and technical assistance to agricultural producers wishing to maintain and improve their existing conservation systems and adopt additional conservation activities to address priority resource concerns.
- **Sec. 2703. Regional Conservation Partnerships Program (RCPP).** The farm bill streamlines the operation of the RCPP to increase program adoption by eligible partners and producers. RCPP furthers conservation, restoration and sustainability efforts on regional or watershed scales, and encourages partners to cooperate with producers in meeting or avoiding regulatory requirements and implementing projects.

TITLE IV – NUTRITION

- **Sec. 4005. Employment and Training for Supplemental Nutrition Assistance Program.** The farm bill conference agreement protects the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps) by maintaining existing eligibility and work requirements for SNAP recipients. The farm bill conference agreement contains reforms that encourage and prioritize approaches to job training and other employment-related activities that are proven to be effective by the SNAP Employment and Training (SNAP E&T) pilot programs authorized under the 2014 Farm Bill.
- **Sec. 4011. Interstate Data Matching to Prevent Multiple Issuances.** The farm bill conference agreement would establish a new National Accuracy Clearinghouse, which is designed prevent individuals from simultaneously receiving SNAP benefits in multiple states.
- **Sec. 4013. Quality Control Improvements.** The farm bill conference agreement would eliminate an awards program that gave states up to $48 million a year in federal funding for high performances related to program access and payment accuracy. The projected savings from these changes will be reinvested into food banks and other nutrition assistance programs.

TITLE VI – RURAL DEVELOPMENT

- **Sec. 6101. Combating substance use disorder in rural America.** This section creates a 20 percent set-aside of financial assistance for telemedicine projects aimed at addressing the opioid crisis.
  Sec. 6102. Distance learning and telemedicine. The farm bill increases annual authorizations for the Distance Learning and Telemedicine Program from $75 million a year to $82 million a year.
- **Sec. 6201. Access to broadband telecommunications services in rural areas.** This section expands the federal resources for broadband investments to include grants (in addition to the loan

and loan guarantee programs already available).

- **Sec. 6202. Expansion of middle mile infrastructure into rural areas.** This section allows counties to use USDA broadband loans and grants for middle-mile projects – prohibited under current law.
- **Sec. 6214. Rural broadband integration working group.** This section creates a federal advisory committee that is required to work with state, local, tribal and territorial governments, telecommunications companies, utilities, trade associations, philanthropic entities, policy experts and other interested parties to identify, assess and determine possible actions relating to barriers and opportunities for broadband deployment in rural areas.
- **Sec. 6301. Exclusion of Certain Populations from Definition of Rural Area.** This section would allow counties with regional jails to exclude incarcerated individuals from population caps for funding eligibility under USDA Rural Development programs.
- **Sec. 6306. Council on Rural Community Innovation and Economic Development.** Much like the previous administration's White House Rural Council, this section creates a federal interagency council to coordinate the development of policy recommendations, maximize the impact of federal investment on rural communities, promote economic prosperity and quality of life in rural communities and use innovation to resolve local and regional challenges faced by rural communities.
- **Sec. 6401. Strategic economic and community development.** This section of the package expands the Strategic Economic and Community Development program to allow the U.S. Secretary of Agriculture to prioritize funding for projects that support the implementation of a strategic community development plan that encompasses two or more jurisdictions.
- **Sec. 6403. Water, waste disposal and wastewater facility grants.** This section doubles the size of allowable grant awards from $100,000 to $200,000, but cuts the authorization in half from $30 million to $15 million each year.
- **Sec. 6424. Rural innovation stronger economy grant program.** This section creates a new Rural Innovation Stronger Economy (RISE) grant program, which would help counties strengthen local economies through job accelerator partnerships with the private sector and institutions of higher education.
- **Sec. 6507. Cybersecurity and grid security improvements.** This section of the package authorizes the Secretary of Agriculture to make loans or loan guarantees available to communities for cybersecurity and grid security improvements.

TITLE VIII – FORESTRY

- **Sec. 8624. Good Neighbor Authority.** The bill reauthorizes Good Neighbor Authority and expands it to allow counties and tribes to enter into agreements with the U.S. Forest Service to assist in forest restoration activities. Further, the bill ensures that any payments made by the county to the Secretary under a good neighbor agreement are not considered to be funds received from National Forest System land or Bureau of Land Management land, ensuring counties continue to receive their fair share of revenues from forest management activities.
- **Sec. 8702. Resource Advisory Committees.** The bill would reduce the mandatory minimum size of USDA Resource Advisory Committees (RAC) from 15 to 9 and reduce the minimum number of members that must be "representative of community interests" from 5 to 3. The bill also creates a pilot program under which regional foresters, as designated by the Secretary, may approve RAC appointments in certain areas.
- **Sec. 8611. Categorical Exclusions to Expedite Forest Management Activities.** The farm bill would establish new categorical exclusions (CE) for critical forest management activities. The bill would create a new CE of up to 4,500 acres for certain forest management activities for the purpose of protecting, restoring or improving habitat for the greater sage-grouse or mule deer.
- **Sec. 8401. Promoting Cross-Boundary Wildfire Mitigation.** The farm bill authorizes $20

million per year through FY 2023 for cross-boundary hazardous fuel projects. The package also authorizes grants to state foresters to support hazardous fuels reduction projects that include both federal and non-federal land and authorizes the Secretary to use other related authorities relating to cooperation and technical assistance – including good neighbor authority – to fund and conduct projects. Further, the bill requires state foresters to consult with non-federal land owners for all projects conducted on non-federal land. Lastly, the bill reauthorizes the hazardous fuel reduction on federal land program at $660 million per year through FY 2023.

TITLE XII – MISC.

- **Sec. 12407. Under Secretary for Agriculture and Rural Development.** This section requires the Department of Agriculture to reestablish the position of Under Secretary for Rural Development. The bill outlines a permanent, mandatory position that is not subject to any administrative reorganizations.

**National Association of Counties**

By Austin Igleheart & Arthur Scott

Dec. 20, 2018

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## Partners or Pirates? Collaboration and Competition in Local Economic Development.

**Abstract**

In this report, we explore how and why local governments have turned to cooperation to boost economic development. We synthesize highlights from the literature, explore program features from two regional case studies, and share findings from interviews with local practitioners. Although research on the effectiveness of current practices is limited, we identify themes that can inform cooperative economic development.

Download the Report.

**The Urban Institute**

by Megan Randall, Kim S. Rueben, Brett Theodos, and Aravind Boddupalli

December 20, 2018

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## Current Issues in Community Solar Projects.

The community solar business model is still relatively new. The developer of a small utility-scale solar project signs up customers who pay it subscription fees. The electricity goes to the local utility. The customers receive bill credits for the electricity from the utility. Projects are getting financed, but usually in portfolios of multiple projects. Most of the activity to date has been in Colorado, Minnesota and Massachusetts, but the model is expanding to other states.

Three community solar developers and one aggregator of community solar customers talked at the Infocast Community Solar 2.0 conference in New Orleans in November about the how the basic business model is evolving and current issues in the market.

The panelists are Rick Hunter, CEO of Pivot Energy Solutions, Joel Thomas, manager of community solar for independent power developer Community Energy, Inc., Jesse Grossman, CEO of Soltage, and Laura Pagliarulo, senior vice president for community solar and commercial sales at CleanChoice Energy. The moderator is Keith Martin with Norton Rose Fulbright in Washington.

Continue reading.

**Norton Rose Fulbright**

December 18, 2018 | By Keith Martin in Washington, DC

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## Municipal Solid Waste Landfills/Clean Air Act: Federal Court Addresses States of California/New Mexico Action Alleging EPA Failure to Implement Emission Guidelines.

The United States District Court (Northern District California) ("Court") addressed in a December 21st Order an issue involving the Clean Air Act Municipal Solid Waste ("MSW") Landfill Emission Guidelines. See *State of California, et al., v. United States Environmental Protection Agency*, 2018 WL 6728009.

> The states of California and New Mexico filed an action against the United States Environmental Protection Agency ("EPA") seeking to have the Court:
>
> . . . issue a declaratory judgment that, by failing to implement and enforce the Emission Guidelines, EPA has violated the Clean Air Act; and issue a mandatory injunction compelling EPA to implement and enforce the Emission Guidelines.

As the Court notes, in 2016 EPA promulgated a final rule related to MSW landfills. See Emission Guidelines and Compliance Times for Municipal Solid Waste Landfills, 81 Fed. Reg. 59,276 (Aug. 29, 2016) ("Landfill Emission Guidelines"). The rule was promulgated pursuant to Section 7411 of the Clean Air Act in which EPA sets standards of performance for emissions of pollutants from new or modified sources within certain categories. Further, Section 7411 also requires the regulation of existing sources that fall within the same category if such emissions are not already covered by certain other Clean Air programs. The Court notes that the federal statute provides that:

> . . . the Administrator shall prescribe regulations which shall establish a procedure similar to that provided by Section 7410 of this title under which each State shall submit to the Administrator a plan that establishes standards of performance, and provides for the implementation and enforcement of such standards of performance.

The promulgation of this rule is then stated to have required that:

1. States were required to submit implementation plans by a certain date
2. EPA approve or disapprove submitted plans by a certain date
3. If either (i) states to which the guideline pertained did not submit implementation plans, or (ii) EPA disapproved a submitted plan, then EPA was required to promulgate a federal plan by a certain date

California and New Mexico submitted implementation plans. EPA is stated to have neither approved or disapproved the plans nor promulgated a federal plan.

EPA filed a Motion to Dismiss arguing:

1. There has been no unequivocal waiver of sovereign immunity
2. Plaintiffs failed to identify any specific state that should have submitted plans, which would have triggered EPA's duty to promulgate a federal plan under the relevant regulations.

The Court first rejects EPA's argument that dismissal is warranted because the citizen suit provision of the Clean Air Act does not unequivocally waive the sovereign immunity of the United States for duties imposed by the agency's regulations. It reviews the relevant case law and holds that the phrase "under this chapter" as used in 42 U.S.C. § 7604(a)(2) waives sovereign immunity for EPA's failure to perform nondiscretionary duties mandated by regulations promulgated in furtherance of the Clean Air Act.

As to EPA's argument that the plaintiffs failed to adequately state a claim, it concludes that the federal agency was provided "more than fair notice of the claim and grounds for relief." It rejects the argument that the plaintiffs fall short of the pleading requirements of Rule 8(a)(2) because they did not identify any particular state that failed to submit an implementation plan. The Court states that Rule 8(a)(2) does not require that level of particularity (instead simply requiring a short and plain statement of the claim showing that the pleader is entitled to relief).

Finally, the Court rejected a request by EPA to stay the case pending conclusion of a rulemaking that EPA has initiated. EPA proposed rules that are stated to amend the regulations involved in the litigation. The Court states that:

Even if EPA exercises complete diligence in passing the proposed regulation, that diligence does not eliminate the ordinary uncertainly in the rulemaking process, which creates at least a fair possibility of harm.

A copy of the Order can be found here.

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

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## Towns Move to Build Municipal Broadband Connections.

**A New Hampshire town is building the infrastructure to support its own municipal broadband network.**

BRISTOL, N.H. (AP) — A New Hampshire town is building the infrastructure to support its own municipal broadband network.

The Concord Monitor reports Bristol residents voted to pass a measure providing nearly $100,000

for a three-mile fiber connection through the town's business district. Officials expect another $33,000 next year along with a grant to complete the project.

Gov. Chris Sununu passed legislation last summer that allows municipalities to post bonds to build broadband connections.

**U.S. News & World Report**

Dec. 26, 2018, at 4:18 p.m.

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## This 'Insanity' May Be the Muni-Bond Market's Next Big Thing.

- **City bets investment profits from bonds will fund health care**
- **Tactic has been used widely for pensions, with mixed results**

It's a "considerable risk," a "bad idea," or, as one expert put it, "insanity." And it may be the next big pitch Wall Street bond underwriters make to states and cities desperate to cover ballooning health-care costs.

Dearborn, Michigan, the 94,000-resident city that's home to Ford Motor Co., tested the waters this week by selling $35 million of bonds to chip away at the $161 million it needs to cover the medical bills of workers who will retire in the years ahead. The city is betting that by investing the proceeds it will earn more than it will pay in interest, with the profits helping to cover health-care expenses.

Many states and cities have used the same strategy for their pensions, and Chicago Mayor Rahm Emanuel Wednesday proposed a $10 billion debt sale for the city's ailing retirement system. Some have came out ahead. Others were burned by stock market losses or because the temporary boost allowed governments to cut their annual pension payments. Illinois, New Jersey and Puerto Rico borrowed billions only to see the large shortfalls reappear.

Continue reading.

**Bloomberg Markets**

By Amanda Albright

December 13, 2018

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## Fitch Updates U.S. State Housing Finance Agencies: Pooled Multifamily Housing Bonds Rating Criteria

Fitch Ratings-New York-14 December 2018: Fitch Ratings has published an updated criteria report titled 'U.S. State Housing Finance Agencies: Pooled Multifamily Housing Bonds Rating Criteria.' The report replaces Fitch's 'U.S. Pooled Multifamily Housing Bonds Rating Criteria' dated Dec. 13, 2017. No changes to the ratings of existing transactions are anticipated as a result of the application of the updated rating criteria.

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

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Additional information is available on www.fitchratings.com

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## CUSIP Request Volume Mixed in November, Suggesting Possible Divergence in Corporate and Municipal Issuance Activity over Next Quarter.

NEW YORK, NY, December 11, 2018 – CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for November 2018. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found monthly increases in domestic corporate issuance, while requests for municipal and international identifiers declined in November. This is suggestive of a possible slowdown in the pace of new issuance activity in the first quarter of the New Year.

Read Report.

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## State and Local Investment Gets Lift From Rising Revenues.

**Now that coffers are brimming again, infrastructure spending is back on the agenda**

State and local government investment in roads, bridges, buildings and other infrastructure hasn't returned to its previous peak, but it is now showing signs—deep into the expansion—of a real recovery.

Since the 2007-09 recession, slow economic growth and rising expenditures on Medicaid and pensions crowded out infrastructure investment. Spending on school buildings, hospitals and public safety languished.

Now, bigger state and local tax collections, propelled in part by an acceleration in sales-tax receipts from consumer spending, is boosting capital projects and driving a municipal borrowing boom.

Continue reading.

**The Wall Street Journal**

By Sarah Chaney and Heather Gillers

Dec. 15, 2018

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## The Week in Public Finance: With Revenues Soaring, States Are Spending More. But on What?

**The bulk of the funding boosts are going toward education and rainy day savings.**

SPEED READ:

- State revenues are rising, largely because of the strong economy and federal tax reform.
- A total of 40 states beat their revenue projections in fiscal 2018, the highest number to do so since 2006, according to a survey by the National Association of State Budget Officers.
- As a result, states increased their total spending by 4.3 percent to $874.6 billion in fiscal 2019.

A year ago, state budget directors were pumping the breaks on spending amid uncertainty over the economy and how the federal tax overhaul would hit state finances. But after 12 months of revenue growth that has surpassed just about anyone's expectations, states are planning on some of the biggest spending increases since before the Great Recession.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | DECEMBER 14, 2018

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## Pension Politics: Should States Be Investing in Controversial Companies?

**It's an increasingly divisive question. If the goal is to affect change — from gun control to climate change — some argue that to divest is the best, while others believe pensions would have more power keeping their financial stake.**

Earlier this year, even before a gunman killed 12 patrons at a bar in Thousand Oaks, there was a groundswell of calls for California's two largest pension funds to sell off their investments in gun retailers. But Jason Perez, a Southern California cop, balked. As a protest against "politically correct" investing, he decided to run for a seat on the California Public Employee Retirement System's board of directors. And it wasn't just any seat; it was the one held by CalPERS Board President Priya Mathur.

Mathur had been on the board for 15 years. She is a globally recognized leader in the sustainable investment community and holds a seat on the board of the United Nations-supported Principles for Responsible Investment, a network of international investors working to create and promote standards for sustainable investing. She's worked to apply those standards to CalPERS.

Perez and his union, the Corona Police Officers Association, have routinely criticized the board for spending too much time on environmental and social investment programs. Association members regularly attended CalPERS meetings 430 miles away in Sacramento to urge pension officials to focus instead on making money for the $360 billion pension fund. During his campaign, Perez

painted a picture of an investment strategy overrun by politics and emotion, particularly proposals before the board to divest the portfolio of gun manufacturers and retailers and to drop the controversial Dakota Access Pipeline.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | DECEMBER 2018

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## Schumer Wants Infrastructure Bill to Have 'Green' Elements.

After the flurry of post-election talk from Republicans and Democrats about infrastructure legislation in the new Congress, Senate Minority Leader Charles Schumer (D-N.Y.) is staking out a position. Schumer is underscoring what Democrats see as a "must" to include in that bill: major environmental components.

Schumer said in a Dec. 6 letter to President Trump that "any infrastructure package considered in 2019 must include policies and funding to transition to a clean energy economy and mitigate the risks that the United States is already facing due to climate change."

Schumer said the package should including a list of provisions, including investing in "resilient transportation, water, waste and sewer infrastructure." To pay for such work, he proposes "a new resilient communities revolving loan fund."

Some of Schumer's green provisions could gain bipartisan support, such as building in disaster-resilient features and tackling the large maintenance backlog in national parks. But others may well run into opposition from Trump and his Capitol Hill supporters, such as cutting methane emissions from energy production.

An infrastructure bill faces big challenges, especially how to pay for a program that could total hundreds of billions of dollars and reconciling the GOP's desire for private-sector funding and Democrats' focus on federal spending. Brian Deery, senior director of the Associated General Contractors of America's highway and transportation division, says of Schumer's statement, "I think it does complicate the debate on infrastructure."

Still, Deery is optimistic about chances for the legislation. "Both sides have a stake in being successful in this," he says. Deery notes that an infrastructure program was a Trump campaign promise and Democrats, for their part, will want to "demonstrate that they can govern," particularly as they assume the majority in the House in the new Congress.

Schumer's green infrastructure outline is an opening move in a lengthy debate and negotiations with the GOP.

**The Engineering News-Record**

by Tom Ichniowski

December 12, 2018

## State Revolving Loan Fund Gains Momentum in Congress.

**Representative explains why supporting flood mitigation is a bipartisan and national concern**

Representatives Charlie Crist (D-FL) and Roger Williams (R-TX) introduced legislation in October to create a partnership between the federal government and states to reduce flood risk and save lives. The bill – the State Flood Mitigation Revolving Loan Fund Act of 2018 (H.R. 7037) – would provide low-interest loans to help communities, businesses, schools, and families prepare for floods.

The House bill is a companion to a Senate measure, S. 1507, that Senators Jack Reed (D-RI), John Kennedy (R-LA), and Bob Menendez (D-NJ) introduced in June 2017. The state revolving loan program is supported by more than 100 national and local groups from South Carolina to California.

Pew asked Rep. Crist why this new piece of legislation could be a game changer for communities.

**Q: What can be achieved by a loan fund program for flood mitigation?**

**A:** Flooding is the most costly and common natural disaster across the U.S., causing more than $750 billion in losses since 2000 according to the National Oceanic and Atmospheric Administration (NOAA). States need a stable source of funding for more flood mitigation and a state revolving loan program can serve this purpose, enabling more communities to take action. Research shows that these risk-reduction measures are cost-effective, with a return on investment of $6 for every $1 spent. Ultimately, this loan fund proposal would be the first mitigation program on a national scale that truly pays for itself. It would help break the cycle of paying to rebuild properties that flood repeatedly.

**Q: How would the program work?**

**A:** This proposal creates a partnership between the Federal Emergency Management Agency (FEMA) and the states. Each state, territory, or tribal government that chooses to participate would establish a revolving loan fund to give low-interest loans, and in some cases grants, for a range of activities proven to reduce flood risk. Projects to be chosen by the states could involve a variety of flood mitigation efforts, including elevating or floodproofing homes and businesses; conserving and protecting wetlands, dunes, and other natural areas that can absorb floodwaters; purchasing flood-prone properties; and larger-scale projects such as improving stormwater management in neighborhoods and towns.

Each state fund would be seeded with dollars from FEMA and a contribution from the state itself. States would manage their funds under general principles established by FEMA but tailored to the state's flood risks and priorities. As payments on outstanding loans are returned to the state fund, these flood mitigation dollars would "revolve," becoming available for additional projects. Once established, this program would allow each state to be proactive and prepared. Rather than waiting for congressional appropriations or disaster assistance, state officials could make plans and set priorities around a more predictable flow of money to a pipeline of flood mitigation projects. This way, even a modest initial federal expenditure can lead to a larger return on investment. It's how we can foster an enduring commitment to prepare communities before floods strike.

**Q: Why should this approach appeal to all members of Congress?**

**A:** Storms and floods are not confined to any one state or region. Every state in the nation has

suffered flood losses at some level, and we all share an interest in the collective safety of our citizens and protecting taxpayer dollars. The state revolving loan program will save lives and dollars by supporting projects to lower flood risk, making flood risk reduction common practice in building and growing local communities. Flood insurance policyholders will benefit from lower insurance premiums as their risks are reduced, and communities will avoid the loss of business and other economic disruptions associated with flooding. These are benefits everyone can get behind.

**Q: Why start a loan fund for mitigation when federal grants already exist for this purpose?**

**A:** Current programs fall short of our needs. Two key federal grant programs support projects aimed at reducing risk: the Hazard Mitigation Grant Program and the Pre-Disaster Mitigation Grant Program. The first is available only after disaster strikes, and the second has never been funded adequately. Taken together, these existing programs have not been enough to close the nation's flood preparedness gap. The federal government has spent at least $280 billion on disaster assistance in recent years, but far less has gone toward mitigation.

In addition, the revolving loan fund program is a tested model that many states and municipalities have experience using. These programs have been applied to affordable housing, renewable energy, clean water, energy efficiency, and other community interests. For example, the Clean Water State Revolving Fund program finances improvements to wastewater infrastructure. Since its inception in 1987, the program has leveraged $42 billion in federal funds for $126 billion worth of clean water infrastructure. Such a program would offer similar benefits for flood mitigation. While a new flood mitigation fund would likely start with a modest amount of federal funding, the value of those dollars would grow as they are matched by state shares, private investments, and revolving loan payments.

This new program can help stem the increasing pressure of federal disaster spending – not by denying communities help after floods but by helping them to build stronger before disaster strikes and, in turn, making their residents safer.

**The Pew Charitable Trusts**

December 12, 2018

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## Here are Three Ways to Pay for New Investments in Infrastructure and End Partisan Gridlock.

Optimism that America will finally address its massive infrastructure problem is on the rise – and understandably so. The Trump Administration is still attempting to fulfill their infrastructure campaign pledge and Democrats have long supported rebuilding the country's crumbling infrastructure. However, a bipartisan infrastructure overhaul is likely stuck in neutral for the reason we've been in gridlock for decades: how to pay for it.

There are three ways to pay for new infrastructure investment: raise revenue, borrow, or pretend (gimmicks that mask borrowing as being paid for). Infrastructure is generally funded by user fees: the gas tax pays for roads. In the past this has had broad political support. People understand that freeways aren't free and that revenue paid by users for infrastructure are different than generic taxes. Republicans embraced the small 'c' conservative idea that people who used public assets ought to pay for them. Democrats overcame objections regarding the inherently regressive nature of flat consumption taxes and the budgetary policy of segregating infrastructure revenue streams from

other general revenue to support this system.

Continue reading.

**The Brookings Institute**

by Aaron Klein
Fellow – Economic Studies Policy Director – Center on Regulation and Markets

December 12, 2018

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## Federal Watchdog Offers Gloomy Outlook for State and Local Budgets.

**U.S. Government Accountability Office estimates show mounting fiscal pressures over the next 50 years.**

State and local government spending is likely to increasingly outpace revenues over the next half-century, based on projections a federal watchdog issued on Thursday.

Health care costs, in particular Medicaid, which is the health insurance program for poor Americans, along with benefits for public retirees and employees, will be major contributors to the rise in expenditures, according to the Government Accountability Office.

The GAO's findings are based on simulations it has published for about a decade now looking at long-term state and local fiscal trends.

Past reports have also shown that the sector is poised to face budget-related stress over the long term.

Continue reading.

**Route Fifty**

by Bill Lucia

DECEMBER 13, 2018

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## Data Show Sluggish Economic Output in Smaller Counties.

**For the first time, the Bureau of Economic Analysis has released GDP figures for all of the nation's counties.**

Counties with fewer than 100,000 residents were more likely than their larger peers to have seen declines in economic output between two recent years featured in a new federal data set.

The U.S. Bureau of Economic Analysis for the first time last week released gross domestic product, or GDP, data for all of the nation's 3,113 counties. The statistics only cover 2012 through 2015. That makes them somewhat dated. But the share of small counties with falling GDP numbers in 2015 is

one aspect of the statistics that stands out.

BEA describes the figures as “prototype” statistics, and says it’s planning a release with more timely data next December.

In an overview of the data, the bureau breaks counties into three categories, “small,” “medium,” and “large,” based on population.

Continue reading.

**Route Fifty**

By Bill Lucia,
Senior Reporter

DECEMBER 16, 2018

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## Farm Bill Expands Rural Broadband Funding.

**But some remain concerned that the money will not get to many places that need it to expand access.**

The farm bill passed by Congress this week would grant the U.S. Department of Agriculture more authority to create grants and provide loans for local rural broadband projects.

The compromise legislation, which has been worked on for months and was agreed to by House and Senate negotiators on Monday, is expected to be signed by President Trump.

The Agriculture Improvement Act of 2018 makes $350 million a year available for improving broadband access in rural communities, but Community Connect Grant Program money is limited to areas where service speeds are less than 10 Mbps for downloads and 1 Mbps for uploads. That’s a lower broadband standard than the Federal Communications Commission’s 25 Mbps for downloads and 3 Mbps for uploads.

One advocate of expanding access said the standards might be reasonable in the abstract, but maybe not in practice. That’s because many believe the FCC’s maps about people’s current access fail to accurately capture speeds at households across the country.

“We’re concerned about that because of the inaccuracy of the data and the maps,” Deb Socia, executive director of Next Century Cities, told Route Fifty. “Ninety percent of a community could have less than 10 Mbps and still be ineligible for funds; that’s a pretty significant number of people.”

USDA launched an e-Connectivity pilot project Thursday that will see an additional $600 million of 2018 omnibus spending money go toward spurring private investment in rural broadband, but that too uses the 10-1 definition.

The farm bill does, however, direct grant funding more toward places with low population densities, while using loans for those with higher densities—a win for rural areas that limits providers’ ability to reserve service for more populated communities.

“Existing federal policy has failed to get broadband in rural America,” said Jim Matheson, CEO of the

National Rural Electric Cooperative Association.

Instead, the farm bill will enable co-ops to both modernize the electric grid and offer retail broadband to consumers, Matheson said. Successful broadband rollouts by co-ops could see more federal funding flow their way in future legislation, he added.

Unfortunately, 20 states still inhibit local communities and, in some cases, co-ops from building out broadband networks, Socia said.

Socia would also like to see more broadband funding for communities where slower digital subscriber line, or DSL, internet service is degrading, but she was pleased to see that the new legislation filled a need for greater precision farming connectivity.

Reliable broadband access in rural America enables precision farming technologies to reduce water, fuel and fertilizer use with the help of sensors and drones.

Moving forward, lawmakers need to be cognizant that attempts to avoid broadband overbuilding may be counterproductive in areas where FCC maps currently overestimate service, Socia said.

“Branding overbuilding as a wasteful thing isn’t really helpful, in part because the data is so bad,” she said. “They have access but we know the map isn’t really accurate, so I don’t think we want to be so bold.”

**Route Fifty**

By Dave Nyczepir
News Editor

DECEMBER 13, 2018

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## First BUILD Grants Emphasize Rail & Rural Infrastructure Needs.

**BUILD grants are for multi-modal, multi-jurisdictional surface transportation infrastructure projects and fund railway, roadway and transit improvements.**

This year, the U.S. Department of Transportation (DOT) replaced the Transportation Investment Generating Economic Recovery (TIGER) grants program with the Better Utilizing Investments to Leverage Development BUILD program and is beginning to release a projected $1.5 billion in discretionary grant funding.

BUILD requires that at least 30 percent of funds be awarded to projects located in rural areas and that funding to a single state through the program cannot exceed $150 million, according to Railway Track & Structures (RT&S Magazine). Individual project awards also max out at $25 million.

The publication called it a “good day for railroaders and contractors.” Bridges and rail infrastructure across five states were notified of funding — Oregon, Missouri, Illinois, Pennsylvania, Vermont while Indiana, Ohio and others announced roadway-related infrastructure funding:

Continue reading.

**efficientgov.com**

by Andrea Fox

December 10, 2018

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## Municipal Request Volume Declines while Corporate Volume Increases on Month-to-Month Basis.

“Uncertainty over the future of interest rates is clearly starting to show up in the CUSIP data set, particularly as we start to see some volatility in the monthly activity,” said Gerard Faulkner, Director of Operations for CUSIP Global Services. ” While the Fed has signaled that it will raise rates again in December, it is not yet clear what’s in store for 2019, so we expect to continue to see a fair amount of volatility in our monthly CUSIP request volumes.”

Read Press Release.

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## BlackRock Is Bullish on Muni Bonds Heading Into 2019.

- **Shrinking market, Fed pause may boost returns, strategist says**
- **Demand may get a boost from new limit on tax deductions**

The world’s biggest asset manager is a big bull on the $3.8 trillion municipal-bond market.

Sean Carney, managing director and head of state and local government debt strategy at BlackRock Inc., said in an interview that he expects the securities to return as much as 4 or 5 percent in 2019 if the Federal Reserve moves closer to pausing on interest-rate hikes. That compares with a 0.7 percent return this year, when rising rates weighed on bond prices, according to Bloomberg Barclays indexes.

If Fed policy makers next week tweak their outlooks such that their median estimate is for two hikes in 2019, rather than the three they currently project — a scenario Carney sees as a “strong likelihood” — it will also help support returns, he said.

“Fixed-income returns have the potential to both reap the benefit of price return and coupon return,” he said. “Or, if price return is flat, you receive all the coupon return. We could have returns, in a good environment, of 4 to 5 percent.”

BlackRock is joining other firms that are forecasting that municipal-bond performance will improve next year. Oppenheimer & Co. said it expects state and local debt to deliver “modest” returns in the single digits in 2019, while JPMorgan Chase & Co. is predicting average total returns of 2 percent.

Carney said the municipal market will benefit from other factors, such as increased demand from investors looking for tax havens after they see the impact of the new limit on the state and local tax deductions. And more bonds may be paid off — either because they mature or are called back early — than are sold next year, he said.

“You have an environment where your market is shrinking,” he said. “That’s a strong technical and it should help aid performance in 2019.”

**Bloomberg Markets**

By Amanda Albright

December 12, 2018

*— With assistance by Michelle Kaske*

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## Snow Doesn't Stop the Post Office, But It Stopped a Bond Payment.

A school district in upstate New York missed a bond payment last month because of a snow day.

The Hartford Central School District said in a regulatory filing that it was late making principal and interest payments due Nov. 16. on a $335,000 bond anticipation notes issued a year earlier because the district was closed for inclement weather. The payment was made Nov. 20, and the district said there were no financial consequences.

While outright defaults are extremely rare, such missteps are more common than one would think in the $3.8 trillion municipal-bond market, where even tiny, remote towns and schools turn to borrow money.

Municipalities inadvertently missed or were late to make payments to investors at least 119 times in 2017 through the first half of this year, according to public records.

**Bloomberg Markets**

By Danielle Moran

December 13, 2018

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## Fitch USPF Credit Outlooks 2019.

Our annual Credit Outlooks are now available. We're producing reports, video, webinars, and commentary across all sectors and regions to give you in-depth insight into credit in 2019 and beyond.

View Credit Outlooks 2019 for USPF

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## GFOA: Getting the Most for Your Asset Management Money with Lifecycle Costing.

Read the GFOA Publication.

Author: Shayne Kavanagh

Date Published: June 2018

## Fitch Ratings Revises U.S. Higher Education Sector Outlook to Negative for 2019.

Fitch Ratings-Chicago-06 December 2018: Various industry challenges are increasingly pressuring U.S. colleges and universities, widening the credit gap in the sector and prompting Fitch Ratings to revise its higher education sector outlook for 2019 to negative, as detailed in the rating agency's outlook report.

Perhaps most prominent are operating and revenue pressures, which stem from increasing constraints on tuition growth and more challenging demographic and competitive markets than seen in prior years. "Increasing competition for students and heightened scrutiny over the value of a college education have suppressed overall tuition growth since the recession," said Director Emily Wadhwani.

The regulatory environment is not likely to add much clarity. The Higher Education Act (HEA) is still in limbo, and the newly elected Congress is not likely to consider reauthorization. "Unexpected policy decisions that constrain access to student loans, Pell grants, or to research funding could create pressures across the sector," said Wadhwani.

Consolidation is likely to accelerate in 2019 and beyond, which may take multiple forms. Smaller private institutions remain most susceptible to consolidation either through a merger, affiliation with another larger institution or in the most serious scenario, outright closure.

Substantial headwinds aside, the higher education sector as a whole still retains key fundamental strengths including significant flexibility and fortitude in the face of operating and financial pressure. Many institutions maintain sufficient liquidity, and have been proactive and agile with regard to strategic management, targeted revenue growth and diversity, expense management, and pursuing partnerships for mutual benefit. The Outlook on ratings in the Fitch portfolio remains Stable.

'Fitch Ratings 2019 Outlook: U.S. Public Finance Colleges and Universities' is available at 'www.fitchratings.com'.

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## Fitch Ratings: U.S. Local Governments Largely Downturn-Ready Headed into 2019

Fitch Ratings-New York-04 December 2018: U.S. local governments are heading into next year by and large well-prepared fiscally for the next economic downturn whenever it comes, according to Fitch Ratings in its 2019 outlook report.

'The most prepared local governments have ample reserves and sound budgetary flexibility,' said Fitch Managing Director Amy Laskey. Local governments that rely primarily on property taxes will generally see at least some revenue growth given continued increases in home values. The sector is not without its outliers; some communities are still trying to regain fiscal resilience lost during the last economic downturn. 'The biggest struggles for some challenged local governments remain continual pension pressures and lack of revenue control.'

As such, the ability to curb expenditure growth will be a priority for local governments in order to stem the tide of slowing revenues, wage pressures and increasing pension and other benefit costs. Expenditure pressures are particularly stark for school districts. 'Expenditure cuts remain a likely solution, but avoiding an impact on the classroom is becoming more challenging,' said Laskey.

Expenditure pressures will make finding funds to address infrastructure needs even more difficult headed into 2019. Infrastructure needs continue to weigh negatively on local budgets. A federal infrastructure program would help address at least some of the growing unfunded needs and may become more likely with the upcoming change in Congress.

Outliers notwithstanding, Fitch expects continued stability for local government financial operations in 2019. Ratings in this sector remain high and concentrated largely within 'AAA'/'AA' territory, reflecting core sector strengths.

'Fitch Ratings 2019 Outlook: U.S. Local Governments' is available at 'www.fitchratings.com'.

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## Negotiating and Implementing Relief Event Programs in P3 Projects.

The primary vehicle for allocating design and construction risk in a public private partnership (P3) using the design-build-finance-operate (DBFOM) P3 model is the Relief or Supervening Event regime in the public private agreement.1 A Supervening Event entitles the private partner to some financial or schedule relief from the public authority under the public private agreement (PPA).

The PPA will be consummated in a competitive request for proposal process including input from the public partner, private partner, and impacted participants including developers/equity providers, lenders, design-builders, and operation and maintenance service providers. This article focuses on the Supervening Events that can have an impact on these participants during the construction phase of the PPA. The Supervening Event issues addressed in this article include:

- Voluntary changes or breaches by the public sector
- Right of way/land access
- Permits, environmental conditions, endangered species, archeological conditions and hazardous materials
- Weather
- Changes in law
- Labor shortages or strikes
- Other force majeure events
- Differing site conditions
- Utility delays

Before we get into the case law and sample contract terms for these issues, it is worth pausing to reflect on how the financial markets view these risks in terms of rating the financial risks associated with a P3 transaction. Moody's has published a wide variety of risk and rating data based on P3 transactions and financing risks. Here is Moody's risk factor summary from a P3 rating article published in 2016:

Continue reading.

**Faegre Baker Daniels**

December 7, 2018

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## The Week in Public Finance: Kansas City Suburb Headed Toward Default

**Platte County, Mo., is being punished for its resistance to bailing out a retail center that opened during the recession and has struggled to make bond payments.**

Platte County, Mo., home to Kansas City, may default as early as tomorrow if it fails to make a bond payment on a long-struggling shopping development.

County officials are questioning the value of covering the $1 million shortfall that's due Dec. 1, noting that they are not legally obligated to help out the beleaguered Zona Rosa retail center.

But that resistance has come at a cost. Credit agencies have already punished the county just for considering not stepping in, with multiple downgrades into junk bond status.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | NOVEMBER 30, 2018

## Fitch Ratings: Medicaid, Infrastructure Among Key Focuses for U.S. States

Fitch Ratings-New York-04 December 2018: U.S. state governments are up against numerous potential headwinds heading into next year, though revenues should continue to grow so long as the broader economy continues its upward trajectory, according to Fitch Ratings in its 2019 outlook report.

Fitch has a stable outlook for U.S. state government ratings for 2019 thanks largely to the sector's overall strengths – broad economies and tax bases and substantial control over revenue raising and spending. The debate in most states will be around whether to allocate additional revenues to spending priorities or tax reductions. That said, developments in some states could affect their rating performance in the coming year. Fitch's states to watch in 2019 are Alaska, California, Connecticut, and Illinois, and the Rating Outlooks on Hawaii (Positive) and Pennsylvania (Negative) also indicate an elevated likelihood of change this year.

Federal government action remains the biggest risk for U.S. state government ratings, though a House/Senate split following the recent midterm elections has alleviated some concern. Medicaid spending will remain one of the largest fiscal hurdles of state budgets despite an expected near-term respite from congressional attempts to fundamentally restructure the program.

While Medicaid is likely at or near the top of the priority list of items state governments will be focused on, the inadequacy of current transportation funding remains a concern for state policymakers. Interestingly, infrastructure funding seems a potential area of bipartisan agreement on the federal level at a time of divided government.

Most states will be debating budgets next year, at a time of many new governors and state revenues that have become more difficult to forecast. Fitch rates to fundamentals rather than the political cycle, though a material change in fiscal policy could become a credit issue, particularly if economic conditions deteriorate notably.

Fitch's '2019 Outlook: U.S. States' report is available at www.fitchratings.com.

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## Democrat Bond Plan To Fund Infrastructure Is A Win-Win (Bloomberg Radio)

MUNIS IN FOCUS: Joe Mysak, Editor for Bloomberg Brief: Municipal Market, discusses: a Democrat pushing a $300 billion bond plan for infrastructure; higher gas tax needed to restore highways. Hosted by Pimm Foxx and Lisa Ambramowicz.

Running time 05:26

Listen to audio.

December 7, 2018 — 9:35 AM MST

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## How the 2018 Elections Reshaped State and Local Governments' Fiscal Policy Space.

State and local fiscal policy was not the mobilizing force behind the historic voter turnout of the 2018 elections. Yet policy questions related to public budgets were on state and local ballots across the country, and by showing up in November, voters made decisions that will shape the policymaking landscape of their governments for years to come.

As we have previously described, government revenue structures, and the constraints they operate within, play a crucial role in governments' ability to provide basic services to constituents and respond to new policy challenges. States that do not levy personal or corporate income taxes, such as Nevada and Texas, or cities that operate under extreme state-imposed limitations on expenditures, such as Denver or Tucson, have less "fiscal policy space" to innovate and govern.

In this light, state and local ballot measures in the 2018 election can be placed into one of two broad categories: those that expand state or local fiscal policy space (which we call "expansionary measures"), and those that restrict state or local fiscal policy space (which we call "restricting measures"). By tracking the results of dozens of state measures and over one hundred local measures in the country's 100 largest cities, this analysis seeks to understand where voters sought to expand public services, and where they sought to check government spending.

Continue reading.

**The Brookings Institute**

by Nathan Arnosti and Michael A. Pagano

November 21, 2018

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## How States Can Balance Saving for a Rainy Day and Other Priorities.

Budget stabilization funds can help states manage revenue volatility by allowing them to set aside money that can be used during difficult financial times. Policymakers use the funds to smooth budgets over multiple years and across difference phases of the business cycle. That ensures governments have the resources needed to fund important priorities, no matter how the economy turns.

Undeniably, setting aside money for future needs requires trade-offs. In many states, leaders have

emphasized the need to rebuild savings in the years following the Great Recession, but each dollar directed to reserves is a dollar that cannot be spent on public programs, tax reductions, paying down debt, or unfunded retirement costs. Policymakers often struggle with decisions about when to make deposits and how large they should be.

At the same time, the various savings strategies provide differing benefits, with some more effective than others. For instance, one of the most common triggers is a budget surplus, which allows states to set aside money when there is extra at the end of the fiscal year. This method may be straightforward, but the contributions are often the last—and frequently the lowest—priority in the budget process because of their timing. In addition, surpluses occur for multiple reasons, sometimes clouding whether the time is right to save. The debate in Ohio over funding the state's rainy day fund illustrates common challenges.

Continue reading.

**Route Fifty**

By Mary Murphy, Airlie Loiaconi and Steve Bailey

Dec 9, 2018

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## P/C Insurers Shifting Investments Out of Municipal Bond Market: Best

Property/casualty insurers are shifting investments out of the municipal bond market due to corporate tax reform, but will need to monitor continuing Federal Reserve rate hikes for their impact on their investment portfolios, according to a new report by A.M. Best Co. Inc.

Historically, municipal bonds have been an "integral part" of the property/casualty segment's investment portfolio due to low default rates and attractive tax-equivalent yields, the Oldwick, New Jersey-based ratings agency said in a report released on Monday. The segment held $428.1 billion in municipal bonds at year-end 2016, but that figure declined to $413.0 billion at year-end 2017.

"Insurers are beginning to shift away from these assets now that the tax-equivalent yield has become less attractive," the report stated. "A.M. Best expects this trend to continue over the next several years, as bond holdings come to maturity and the proceeds are reinvested in government bonds and high-quality corporates, which are now offering more attractive after-tax yields. However, municipal bonds will always have a place in an insurer's fixed-income portfolio, given their diversification, high credit ratings and low historical default levels."

The property/casualty's total invested asset base in 2017 was $1.7 trillion – a $299 billion increase during the preceding 5-year period – consisting of about 58.0% bonds, 19.1% stocks, 6.7% cash and short-term investments, 11.2% affiliated investments and 5.0% in all other investments, according to Best.

Net investment income of $51.1 billion, accounting for a 3.1% investment yield, more than offset a segment-wide underwriting loss of $24.9 billion, driven by a significant rise in the frequency and severity of natural catastrophes, according to Best. The segment operating ratio, meaning its combined ratio minus the net investment ratio, increased to 94.6% in 2017 from 91.7% in 2016 owing to substantial underwriting losses, according to Best.

But U.S. property/casualty insurers "may need to re-examine their investment policies to maximize their returns while continuing to service their liabilities to policyholders" amid expectations that growth will moderate in 2019 as the effects of the tax cuts on consumer spending dissipate, according to Best. In addition, government spending, the other recent driver of economic growth, is set to end September 2019, when the agreement between the White House and Congress to increase spending caps ends, Best noted. The International Monetary Fund is projecting 2.5% GDP growth for the United States in 2019, down from the projected 2.9% growth in 2018.

Property/casualty insurers "will need to keep an eye on moves by the Fed" as the frequency of rate hikes increased in 2018 compared with 2017, with the Federal Reserve expected to raise rates a fourth time in December 2018, Best stated in the report. In addition, the European Central Bank is expected to end its 3-year €2.4 trillion bond buying program at its next meeting in December.

"As monetary policy tightens, conditions for global economic growth are tilted to the downside and include the potential for an escalation in U.S. trade policies with both the EU and China, volatile geopolitical tensions, and high levels of debt for consumers, governments and corporations," Best said. "Globally, market observers expect yields to rise across the curve. Changes in market conditions could lead to insurers re-examining portfolio metrics such as asset allocations, credit quality and durations. With yields back on the rise, insurers will also have to balance the risk/reward tradeoffs with their equity allocations, particularly in a market in which valuations have been stretched from historic norms."

**Business Insurance**

by Gloria Gonzalez

12/3/2018

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## The Bond That Could Be Wiped Out by California's Wildfires.

**A $200 million security, designed specifically for fire, dives 95% as PG&E is probed over disaster cause**

The deadliest blaze in California's history is threatening to cause losses for investors who purchased the first catastrophe bond designed specifically to cover wildfire risk.

San Francisco utility giant PG&E Corp. PCG -0.06% sold the $200 million bond in August to insure against liability from future infernos. Three months later the Camp Fire in Northern California burned more than 18,800 structures and killed at least 85 people.

Investors will suffer significant losses if state investigators determine that PG&E was responsible for the November conflagration. PG&E said in a Nov. 13 filing that it has $1.4 billion in liability coverage, including the catastrophe bond, and expects to use all of it if found liable for the Camp Fire. A PG&E spokesman said the utility is participating in the investigation into the fire's cause.

Continue reading.

**The Wall Street Journal**

By Nicole Friedman

Dec. 5, 2018 5:30 a.m. ET

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## Year-End Update To S&P Global Ratings' U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises Criteria Implementation.

Since publishing its updated criteria, "U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises," on March 12, 2018, S&P Global Ratings has been assigning ratings and reviewing its existing ones in the sector.

Continue Reading

Nov. 28, 2018

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## Yield Curve Inversion Risk.

**Investors often hear the term "yield curve" and how certain forces in financial markets and political decision-making may affect the shape of the yield curve – indirectly impacting their fixed-income and equity holdings.**

In recent times, the yield curve has been the main talking point for many financial gurus and their commentary on the effects of interest rate hikes by the Federal Reserve. As short-term interest rates have been on the rise, the possibility of the yield curve inversion has also taken center stage in many discussions amongst policymakers and investors. A yield curve inversion happens when the short-term rates on government debt pass the interest rates on long-term debt.

In this article, we will take a closer look at the flattening of the yield curve as the short- and long-term rates are getting closer and closer, and the potential impacts of an inversion on fixed-income financial markets.

*Be sure to click here to learn more about the yield curve and the implications for municipal bond valuations.*

Continue reading.

**municipalbonds.com**

Jayden Sangha

Nov 28, 2018

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## The Fiscal Need to Find a 'Second Life' for Underutilized Parking Lots.

**Revenue streams from parking lots and garages are expected to be undermined as autonomous vehicle technology improves and is more widely adopted.**

General Motors' announcement this week to shutter production at a handful of assembly plants and layoff thousands of factory and white-collar jobs as part of a larger North American restructuring is a clear signal of difficult economic waters U.S. automakers are currently navigating.

One of the biggest challenges automakers are facing is both a simple and complex one: There are fewer people buying cars, especially among younger generations who are eschewing personal automobiles for other modes of transportation, including using public transit and ride-booking apps through companies like Uber and Lyft.

"This isn't just a GM issue. People aren't buying cars" like they once did, Lordstown, Ohio Mayor Arno Hill, whose village near Youngstown is home to one of the GM assembly plants slated to be "unallocated" in 2019, said during a press conference on Monday.

Continue reading.

**Route Fifty**

by Michael Grass

NOVEMBER 27, 2018

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## Big Bet Made on Largest Municipal-Bond ETF After Powell Speech

- **BlackRock's muni ETF saw $149 million purchase on Wednesday**
- **Purchase pushed trading in the fund to the most on record**

Federal Reserve Chairman Jerome Powell's dovish comments appear to have led one investor to make a big bet on the largest municipal-bond exchange traded fund.

Around 1:30 p.m. on Wednesday, shortly after Powell's speech raised speculation that the central bank is closer than previously thought to pausing its cycle of interest rate hikes, an investor bought $149 million worth of shares of BlackRock's $10.3 billion iShares National Muni Bond ETF. State and local debt, like the rest of the bond market, is highly linked to the direction of interest rates, and went on to gain after the central banker's comments.

The purchase caused the fund, which is the largest municipal ETF, to see the most share turnover on record, with $313.9 million worth of them traded, according to data compiled by Bloomberg. It also recorded an inflow of $107.6 million on Wednesday, part of a spate of inflows this month that comes as state and local debt heads for its best performance since May, according to Bloomberg Barclays indexes.

Other funds tracking muni bonds also saw heated trading yesterday. The second-largest muni ETF, the $3.7 billion SPDR Nuveen Bloomberg Barclays Short Term Municipal Bond ETF, absorbed close to $82 million worth of trading, more than triple the average daily turnover for the past year. Investors have added bets to the fund for the past three consecutive days, marking the longest streak of inflows since February.

Meanwhile, other investors may be feeling more bearish about the direction of interest rates and the $3.9 trillion municipal-bond market. Traders have boosted their short positions against the BlackRock ETF, which trades off the ticker MUB, during the first half of the month. And Deutsche

Bank and RBC Capital Markets warned that the reaction to Powell's comments on Wednesday may have been overdone.

**Bloomberg Markets**

By Amanda Albright

November 29, 2018, 9:59 AM MST

*— With assistance by Carolina Wilson*

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## Why 2019 Could Bring 'Positive Performance' to Muni Market.

Lyle Fitterer, head of municipal securities at Wells Capital Management, looks ahead to 2019 in the municipal bond market. He speaks with Bloomberg's Taylor Riggs in this week's "Muni Moment" on "Bloomberg Markets."

Watch video.

**Bloomberg MarketsTV Shows**

November 28th, 2018, 9:14 AM MST

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## Banks Post Longest Retreat From Munis Since 1996 on Tax Cuts.

- **Big banks reduced exposure by $3 billon during third quarter**
- **JPMorgan, Wells Fargo, Morgan Stanley see largest declines**

Some of the biggest U.S. banks have continued to reduce their exposure to state and local government debt, slashing such holdings by $3 billion during the third quarter, after the federal corporate tax cut weakened the appeal of the securities.

The latest reduction was led by JPMorgan Chase & Co. and Bank of America Corp., which together accounted for more than half of the decline in the three months ended in September, according to quarterly filings with the Securities and Exchange Commission. State Street Corp., Citigroup Inc., First Republic Bank, Bank of New York Mellon Corp. and Morgan Stanley also reduced their holdings in the third quarter.

The figures from the big banks suggest that U.S. lenders are on track to pare their investments in tax-exempt bonds for a third straight quarter, which would be their longest-running retreat from the $3.9 trillion market since 1996, according to Federal Reserve Board figures. That has added headwinds to the market because U.S. banks are one of the biggest buyers of municipal securities.

Continue reading.

**Bloomberg Markets**

By Michelle Kaske

November 29, 2018, 5:55 AM MST

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## S&P: Rising U.S. States' OPEB Liabilities Signal Higher Costs Ahead.

Other postemployment benefit (OPEB) liabilities, which consist primarily of retiree health care plans, are a growing concern for certain states' credit quality and require attention to control higher future costs. Total unfunded state OPEB liabilities have increased significantly for the third year in a row, according to S&P Global Ratings' latest survey of U.S. states. Overall, total unfunded lia…

Continue Reading

Nov. 28, 2018

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## What the Climate Change Report Means for Investors, According to BlackRock's Brian Deese.

Climate change has long been one of the factors driving the growth in sustainable investing. Disturbing new assessments about global warming, including the National Climate Assessment and a new United Nations progress report, will keep investors focused on climate-related risks.

We checked in with Brian Deese, the global head of sustainability for BlackRock , about how investors should think about the new reports. Deese, 40, joined BlackRock last year, after serving as deputy director of the Office of Management & Budget and as a senior advisor to former President Barack Obama, overseeing climate, conservation, and energy policy. Helped by Deese, BlackRock's iShares united recently rolled out its first full suite of sustainable core ETFs, as well as new tools for sustainable investors, including so-called ESG (environmental, social and governance) and carbon intensity metrics. Assets in the full suite have grown 10% in the month since it was launched.

***Barron's: What do the California wildfires, weather disasters, and new reports about global warming mean for investors?***

Continue reading.

**Barron's**

By Leslie P. Norton

Nov. 29, 2018

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## NYSERDA's Municipal Solar Procurement Toolkit Promotes The Development Of Solar Projects On Brownfields And Landfills.

*What is the toolkit?* The Municipal Solar Procurement Toolkit provides guidance and resources for communities seeking to develop solar projects on underutilized properties such as landfills and brownfields. It is part of a comprehensive resource prepared by the New York State Energy

Research and Development Authority ("NYSERDA"), the New York Solar Guidebook for Local Governments to help municipal officials engage in informed decision making about the potential benefits, effects, and impacts on the community from solar energy projects.

*What does the toolkit do?*

Municipalities can use the new Municipal Solar Procurement Toolkit as a guide to converting underutilized municipal property, such as landfills and brownfields into revenue producers through leases to solar energy developers.

*What are the components of the toolkit?*

The toolkit consists of:

(a) an overview guide to municipal procurement; the Guide notes some of the rules governing municipal leases and in particular County leases, and how to address them;

(b) step-by-step instructions;

(c) information about solar project permitting, inspection, property taxes, land leases; and

(d) ready-to-use templates for a land lease agreement as well as a request for proposals.

As a corollary to the toolkit, NYSERDA makes free technical assistance available to help municipalities implement policies and practices in order to become solar-ready communities.

*Effect of relaxed SEQRA regulations:* the toolkit complements a set of updated rules adopted by the Department of Environmental Conservation ("DEC") intended to streamline the State Environmental Quality Review Act ("SEQRA") process to encourage sustainable, renewable energy development.

Starting January 1, 2019, the updated regulations expand the number of actions not subject to further review under SEQRA, known as Type II actions, modify thresholds for actions deemed more likely to require the preparation of an environmental impact statement ("EIS"), and require scoping of an EIS. Type II actions include installation of solar arrays on closed landfills, cleaned up brownfield sites, wastewater treatment facilities, sites zoned for industrial use, solar canopies on residential and commercial parking facilities, and the installation of solar arrays on an existing structure not listed on the National or State Register of Historic Places.

With the DEC streamlining the SEQRA regulations, contractors will no longer have to prepare a formal assessment of the environmental impacts of solar projects on brownfields and landfills. Elimination of this step greatly expedites what used to be a lengthy and long drawn out SEQRA review process. Given the already disturbed nature of these sites, the regulations recognize the minimal need for environmental review, and will encourage alternative use of these sites.

*Impact:* Earlier this year, NYSERDA established higher incentives for solar projects that are built on brownfields and landfills through the Governor's NY-Sun Megawatt Block initiative, which is a $1 billion public-private initiative to expand solar energy. The toolkit provides a pathway to take advantage of the revised SEQRA regulations and increased incentives:

– dead space of a brownfield or landfill can not only be revived but transformed into a renewable energy resource, thereby making that land/site productive once again;

– consumer energy bills will be lowered;

– clean, emission free energy can be produced with no harmful impact upon the environment;

– economic development will be spurred by creating solar industry jobs and generating revenue for the municipalities through the leasing of these sites;

– by virtue of a community solar project, greater access to solar energy is provided; and

– the state's capacity to harness solar power will be expanded, thereby supporting the Governor's mandate that 50% of the state's electricity come from renewable resources by the year 2030.

Streamlined SEQRA regulations, NYSERDA's toolkit, and the financial incentives under the megawatt block program are this state's triple booster shot aimed at propelling the Governor's 50% renewable energy goals by 2030 to combat climate change.

A link to the Guidebook with the newly-added Municipal Solar Procurement Toolkit chapter is available here.

**Hodgson Russ LLP**

November 28, 2018

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## Report: Since Recession, 10 States, Including Illinois, Operate at Structural Deficits.

A new report by Pew Trusts points to economic improvement for states overall, but highlights ten – including Illinois – whose expenses still exceed their revenues ten years after the Great Recession.

Continue reading.

**Watchdog.org**

November 30, 2018

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## FCC Could Slash County Franchise Fees.

**Counties would stand to lose millions of dollars if cable TV franchise fees are cut under a deregulation proposal being considered by the FCC**

Cable TV franchise fees paid to counties and other local governments could be slashed under a deregulation proposal being considered by the Federal Communications Commission, according to the National Association of Telecommunications Officers and Advisors (NATOA).

How much could counties lose? It could be in the millions of dollars, according to Nancy Werner, general counsel for NATAO. "Lawyers I have talked to have said 30 [percent] to 40 percent and others have guessed at 100 percent," she said.

There's room for a considerable amount of debate because the FCC is proposing to allow cable companies to deduct the fair market value for a wide range of public benefits from their franchise

fee obligations, namely public, educational, and government (PEG) channel capacity and transmission. “The fair market value of say a channel in a small town is going to be more valuable than say a channel in a large urban area,” Werner said.

These channels “are a way for a community to have a voice,” she said.

In Montgomery County, Md., Mitsuko Herrera, a director in the county’s technology services department, said that “cable operators have passed through the cost to construct and operate these cable channels to subscribers over the past 15-25 years, and now the FCC would allow cable operators to collect again the value of these channels.”

In some smaller jurisdictions, Herrera noted, the “value” of the cable channel may be more (because value is not capped by the FCC) than what the jurisdiction receives in franchise fees. “So effectively, the FCC is inviting cable operators to force smaller jurisdictions, where there is already limited newspaper and almost no television news, to pick between operating cable channels that provide the public with access to board meetings and community information, or receiving any funding from franchise fees,” she said.

In September, the FCC voted to confirm that a local franchise authority’s ability to regulate cable service does not extend to broadband and other non-cable TV services and that in-kind commitments those authorities get from providers as part of franchise agreements count toward the 5 percent franchise fee cap, with the exception of providing public, educational and government channels. The Commission is considering applying the proposed new rules to state-level franchising actions as well, not just local franchising.

A group of 11 senators, led by Sen. Ed Markey (D-Mass.), have written to FCC chair Ajit Pai asking him to rethink the proposal: “Currently, towns and cities across the country are permitted to require as part of cable franchise agreements that cable operators meet demonstrated community needs by setting aside channels for public, educational or governmental stations,” they wrote.

“However, the commission’s proposal would permit cable companies to assign a value to these channels, and then substract that amount, and the value they place on any other in-kind contributions, from the franchise fees the cable operator pays the local community,” they said.

The senators noted that “our constituents watch PEG channels to monitor local government proceedings, hear the latest news from nearby college campuses and consumer other locally produced programming including emergency alerts and directives. We fear this proposal will result in a dire drop in resources for PEG channels throughout the nation.”

There are more than 1,500 public, educational, and governmental studios/operations and an estimated 3,000 PEG channels in America. Religious programming represents 30 percent of local access programming. Tens of thousands of hours of programming is produced by veterans, seniors, the disabled and ethnic, minority and second language groups.

Other senators signing the letter include Senators Tammy Baldwin (D-Wisc.), Maggie Hassan (D-N.H.), Ben Cardin (D-Md.), Jeff Merkley (D-Ore.), Bernie Sanders (I-Vt.), Gary Peters (D-Mich.), Ron Wyden (D-Ore.), Pat Leahy (D-Vt.), Richard Blumenthal (D-Conn.), and Elizabeth Warren (D-Mass).

**National Association of Counties**

By Mary Ann Barton

Nov. 12, 2018

## Fitch Ratings Updates U.S. Public Finance Prerefunded Bonds Rating Criteria.

Fitch Ratings-New York-20 November 2018: Fitch Ratings has published an updated criteria report titled 'U.S. Public Finance Prerefunded Bonds Rating Criteria.' The report replaces Fitch's criteria report of the same title dated Nov. 21, 2017. No changes to the ratings of existing transactions are anticipated as a result of the application of the updated rating criteria.

The full report is available at www.fitchratings.com

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Additional information is available on www.fitchratings.com

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## Fitch Ratings: Driverless Cars Leave Parking Assets at Risk

Fitch Ratings-New York-26 November 2018: The advent of autonomous vehicles could negatively affect parking assets over time, according to a new report from Fitch Ratings.

With autonomous vehicles likely to operate through ride-sharing and accessing cheaper parking locations, revenues will be adversely affected for not just standalone parking facilities in urban areas, but for those housed in airports and universities. Where this is most likely to play out is among younger generations that are moving to large cities in greater numbers. 'Millennials and Generation Z are most likely to embrace autonomous vehicles since they are already frequent users of ride sharing and are far less likely to obtain a driver's license,' said Senior Director Chad Lewis.

Standalone urban parking assets stand to be most susceptible to the effects of driverless cars as they become more commonplace. Once the technology is standardized enough for autonomous vehicles to drop off individuals and travel to cheaper parking spaces further away from the urban centers instead of clogging the facility looking for parking, revenues will decline. Likely to stand in the way of more widespread use of driverless cars, however, are several high profile accidents involving these vehicles of late. Additionally, the public will have to endure inevitable teething problems as the technology is perfected.

Some airports are already seeing their revenue streams significantly disrupted from transportation network companies like Uber and Lyft. In response, these airports are now charging fees for these

companies to pick up and drop off passengers while others have started parking clubs that provide guaranteed spaces within close proximity to the terminal for its members. Driverless cars will have less of an effect on university parking until they capture a large share of the market. That said, younger students are already relying on ride sharing and public transportation to greater degrees while professors and other university staff are not likely to shift from their current mode of transportation anytime soon.

Ratings implications are highly unlikely in the near future for the seven Fitch-rated parking facilities since autonomous vehicle technology is still very much in development and will keep driverless cars from widespread use for at least for the next decade. 'For highly leveraged transactions, especially those with bullet debt, structural features such as cash sweep triggers and management strategy to timely delever and maintain high coverage ratios in outer years will mitigate longer-term risk. Parking facilities under public ownership with amortizing structures should be able to pay down debt with relative ease,' said Lewis.

Longer term, underutilized parking assets could have a second life. 'Some existing car parks are already developing additional revenue streams including car cleaning areas, valet parking services and EV charging points,' said Lewis.

'The Effect of Autonomous Vehicles on Parking Assets' is available at 'www.fitchratings.com'

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## S&P Credit FAQ: Criteria Considerations For Mass Transit Agency Ratings

In most cases, the obligor or related entity is also the issuer. However, in others–for instance, when the issuer is primarily a vehicle for issuing and servicing debt or has relatively little control over pledged revenues apart from payment of debt service–we may exercise analytic judgment to identify the obligor or related entity in evaluating the operating linkage.

Continue Reading

Nov. 14, 2018

## Fighting Fires With "Forest Resilience" Bonds.

The rocky Yuba River meanders in a remote corner of California. It's here that insurers, environmentalists and venture capital firms are joining forces to create a "Forest Resilience Bond" aimed at solving a multibillion-dollar problem plaguing the wildfire-ravaged state.

Nearly 100 people have died and 1,000 are unaccounted for from the two most recent mega-fires, both of which remain active. And in what the Association of International Fire Chiefs now calls "a year-round fire season" for this and other tinderbox states, more destructive blazes are all but a certainty.

One major factor behind the fires: an overabundance of dry brush from a seven-year drought and millions of dead trees from an influx of bark beetles – none of which is cleared away until a campfire spark or downed power line ignites these fuel-rich forests. Meanwhile, the money budgeted for forestry conservation or to hire more firefighters often pays instead for paramilitary equipment, such as airplanes and helicopters.

**Funding for forests**

Enter Blue Forest Conservation. The startup, launched by University of California, Berkeley business school graduates and backed by the World Resources Institute, works to raise money to save the forest through a public-private partnership. To do so, it created the first "Forest Resilience Bond."

"There are 58 million acres of forest at high risk of wildfire in the U.S.," said Linc Walworth, vice president of investments for CSAA Insurance Group, one of the bond's backers. "If the concept works, there will be lots of opportunity for forest restoration bonds, and they could become a permanent source of financing for our forests."

A $4 million bond is small relative to the massive economic losses caused by infernos such as the "Camp Fire" in Northern California and the "Woolsey Fire" around Los Angeles, but it could be seed money for what is to come. Blue Forest's goal is to shift the financial burden of preventing fires from the state's overtaxed fire and forestry services to private industry. The California fire agency has already exhausted its $443 million budget and needs another $234 million to continue the fight.

The bond works by tapping private capital to maximize forest restoration without stressing the already overtaxed state budget. CSAA, along with an investment firm and two foundations, will fund the investment. The National Forest Foundation will use the bond to hire private contractors to "thin" the forests by cutting down trees, perform "controlled burns" and trim brush that could fuel fires in the 15,000-acre Tahoe Forest above the Yuba River.

The money will be repaid over five years by the Yuba Water Agency, a public utility, and though a grant from California. The utility benefits from cleaner water. Its hillsides, ravaged by fire erosion, are also prone to flooding because scorched soil lets water flow downhill unimpeded. The state benefits because the work will be done in less than half the time it would take the state forest service to do it.

Forest resilience bonds could also amount to a good deal for investors. CSAA will provide $1 million, while The Rockefeller Foundation, the Gordon and Betty Moore Foundation, and a unit of Calvert Investments (a fund known for so-called responsible investing), will contribute the rest. They will realize a 4 percent return on their investment, better than the 3 percent from an average bond.

**Getting insurers on board**

As an American Automobile Association insurer, in theory CSAA will get an additional bonus: fewer payouts on property claims from fire damage.

Insurers will have to pay an estimated $13 billion this year to repair and replace homes and businesses burned in the California fires. As a result, Walworth said it makes sense for big property insurers to get involved once they see that the small pilot program works. “If a market develops for these types of bonds, we think other insurers will see the benefit in making similar investments,” he said.

In 2017, California set a state record, with more than 9,000 fires torching 1.4 million acres, burning down 10,000 homes and killing 47 people. This year will be much worse, topping all previous statewide disaster costs.

President Donald Trump, who visited the fire-ravaged state on Saturday, has been critical of its forest management, even threatening to withhold federal funds. “They should take a lesson from Finland, where they do a lot of raking and cleaning… and they don’t have this problem,” he said in visiting Paradise, California, a town devastated by the Camp Fire.

So does it make sense for big insurers like Allstate, Geico and State Farm, which have billions invested in California, to help underwrite bonds or other investments meant to fund the protection of forests? As of year-end 2017, the property casualty insurance industry’s “policyholders’ surplus” – the amount of money available to pay claims – reached an all-time high of $752.5 billion, up more than $50 billion from the year earlier and at its strongest level in history.

“The industry is extremely well capitalized and financially able to pay very large-scale losses in 2018 and beyond,” according to a statement by the Insurance Information Institute, which represents the industry.

Or, as Blue Forest suggests, it could join forces with other private investors and – just possibly – cut those losses.

CBS MONEYWATCH

by ED LEEFELDT

November 20, 2018, 6:51 AM

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## When a Local Government is ‘Unwilling’ to Cover Debt Costs.

**Lawmakers in Platte County, Missouri are hesitant to assist in picking up the tab for bonds related to a retail project.**

With a payment deadline looming at the end of the week, there’s little question Platte County, Missouri has the cash to help cover debt service costs for bonds linked to a struggling retail shopping center.

But commissioners there have voiced opposition to doing so—at least until there is a new plan in place for how the debt will be paid going forward. The county is also taking action in court, seeking

a ruling that confirms it has no legal obligation to assist in paying off the bonds.

Credit ratings agencies have taken notice of the situation, and characterize it as a "willingness to pay" issue. They've responded by whacking the bonds and the county with ratings downgrades and have warned a default could be on the horizon for the bonds.

With about 101,000 residents, Platte County encompasses an area that sprawls north from Kansas City, along Missouri's border with Kansas.

Census Bureau data show that the county is more affluent than the city itself, with a median household income between 2012 and 2016 of $70,879, compared to $47,489 in the city, and a poverty rate estimated to be just 6.1 percent, versus Kansas City's 18.3 percent.

Todd Graves, an attorney for the county, said by phone last Tuesday that the three-member board of commissioners hasn't decided how to handle its possible share of the debt payment associated with the local shopping center development, known as Zona Rosa.

By making the payment, the county would help to offset sales tax revenue shortfalls in a pair of special taxing districts.

"They haven't told me what their decision is," Graves said, "and I don't know when they'll make that decision."

"The nature of the lawsuit," he added, is to get a court ruling "so the county can make its decision with a clearer understanding of the law."

There's been at least a dozen or so instances dating back to the early 2000s where similar debt deals have turned sour, but the problem is not of epidemic proportions, said Al Medioli, a senior vice president with the credit ratings agency Moody's Investors Service.

One example is an arrangement in Buena Vista, Virginia where the city ended up in court, and at risk of losing its city hall, after a default on bonds issued in 2005 for a golf course.

Another occurred in Moberly, Missouri and involved debt issued for an artificial sweetener plant project, which failed, with the former CEO of the company, Mamtek, US, Inc., sentenced to prison for theft and fraud.

"We're seeing a number of instances in recent years where communities have issued this kind of debt for projects that they thought would be self-sufficient and then when they weren't self sufficient, they were like, 'oh, we don't want to pay,'" Medioli said.

"Some of these have been very wealthy suburban districts, or suburban cities, that clearly have the ability to pay," he added, noting that "there's always a story to these things."

**Route Fifty**

By Bill Lucia,
Senior Reporter

NOVEMBER 25, 2018

## State Revenue Volatility and Optimal Reserve Size Are Directly Linked.

**Comparison of states provides insight into their ability to weather an economic downturn**

The amount of money a state takes in fluctuates from year to year, with a range of factors influencing this volatility. Those factors can include specific tax revenue sources, the state's economic profile, federal budget changes, and unforeseen events such as natural disasters. Although each state's revenue swings may be unique, all face the challenges associated with managing these ups and downs.

Policymakers can use reserves to help offset revenue declines during down periods, such as recessions. But how much a state should hold in its reserves—its savings target—can vary as well, and for many reasons. For example, leaders in one state might have a higher risk tolerance than their peers, meaning they are more willing to save less than enough for the next downturn. Some may more routinely use other budget tools, such as raising revenue or cutting spending, to close a budget gap. These alternative approaches can reduce reliance on reserves.

However, revenue volatility remains a primary factor influencing optimal reserve size. In general, states with greater revenue volatility need to save relatively more than do those with less fluctuation. High revenue volatility means that tax collections tend to drop more dramatically during economic downturns.

Continue reading.

**Route Fifty**

By Mary Murphy and Steve Bailey

NOVEMBER 20, 2018

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## Demographic Destiny: The Impact of an Aging, Moving Population on Municipals.

An aging, increasingly urban population will create revenue challenges for municipalities while increasing demand for hospital and other infrastructure bonds.

Every sector of municipal finance will face new opportunities and risks posed by this demographic shift as the last of the baby boomers retire and millennials begin to buy houses and settle down, according to a report issued by Moody's Investors Service last week.

The primary drivers of this demographic challenge for state and local finances are population growth and an aging labor force, Moody's said.

"The population of the U.S. has been steadily aging over the last decade and will continue to do so through 2055," the report says, adding that in another shift, people have been moving to cities from rural areas. Over the last 100 years, the percent of the U.S. population residing in an urban area has steadily risen and the shift – from rural to urban – is expected to continue.

"The working-age population is growing at a pace similar to overall growth of the total population,"

the report said. “Approximately 63% of the U.S. population is working age (ages 15 to 64), and we expect that number, as well as the age at which people retire, to continue to rise. Millennials represent the largest portion with the most rapid growth, at 56 million working age in 2017.”

Henry Cisneros, former U.S. secretary of Housing and Urban Development and former San Antonio mayor, said he sees dramatic contrasts between places and their economic prospects and their ability to fix and to expand their economies.

“We can look at the problems through two templates,” said Cisneros, now a partner at Siebert Cisneros Shank & Co. “In the first, we can look at some of the basic trends — an aging of some the traditional populations, which is very dramatic, where those over 65 will be doubling, while those over 85 years will be tripling in the next 18 years.”

Boomers will be earning less, requiring more services, drawing Social Security checks and moving to downsized housing with property accessorized for older residents, Cisneros said.

And the new younger populations will be much more diverse than the rest of the county. They will create educational needs and new schools along with new forms of technology and computer literacy. The upcoming population will also have to face new problems, arising from outsourcing, part-time work, as well as the continuing effects of changing technology, such as artificial intelligence and what that may mean for many jobs.

Another way to look at the scope of the changes is to view the regions across the U.S., where some are growing dramatically while others are seeing slower job creation and population growth, Cisneros said. Some areas in the growing regions will have to tap into public finance to support economic progress.

“The traditional Sun Belt, bicoastal areas, Boston and Washington and along the West Coast from Washington to Arizona will require more schools, better roads, expanded water systems along with airport development, seaports, rail, logistics such as warehouses and freight systems, and new communication systems to support growth in those areas.”

In contrast, he said other stressed areas — such as some of those in the Midwest — will have to oversee a process where managing decline becomes the priority. This is where slow growth combines with a contracting population, where there is an outmigration of younger people while leaving an older population along with aging infrastructure like bridges and water systems.

“It’s very clear that public authorities within the growth areas will have to access public debt,” Cisneros said. “But that won’t be enough — we can’t do it all with public debt — many states and localities have debt caps and other restraints.”

He said America need to address new forms of financing, deploying private capital into public works. “The country needs to be more imaginative and creative with private and institutional capital.”

Other places that are managing decline — such as those in the Midwest — will have to face some hard decisions, such as consolidating services and closing schools. And aging demographics can translate into an inability to generate the revenue to preserve existing infrastructure.

These are the diverse forces across the country, which have profound implications for public finance, he said.

“Moody’s put out a brilliant report and it is critical that public officials read it and understand it, not only at the local level, but at the national level,” Cisneros said.

He stressed that a discussion about a national infrastructure plan was both timely and urgent. “After these elections,” he said, “I am hopeful there can be a bipartisan consensus that infrastructure needs to be at the top of the priorities for the nation. We need to bring up the level of the need — and do it in a national template — not just empowering localities but also finding a national role to fill in the gaps.”

Other also looked at patterns of change in migration.

“Shifting demographics are important, but of at least equal concern is the migration flow in and/or out of cities and states, and what impact those changes have on tax revenues for states and cities,” said Stephen Taddie, managing partner at Stellar Capital Management. “The analysis cannot be ignored by state and local leaders, but sadly, in some cases, officials kick the can down the road for someone else to deal with. We see the results in a number of old Rust Belt cities, where infrastructure is crumbling, social and community services are lacking, and debt levels are spiraling out of control. Forecasting population flows is important in forecasting tax revenue, for if people are fleeing the ship, those remaining split an ever growing liability fewer ways, until the system breaks down.”

“It’s a situation that seems to be the same as we have seen in our latest State of the States report,” said Paul Mansour, managing director and head of municipal credit research at Conning. “We don’t see any dramatic changes over the short term. Rather, there is a gradual change in the population over the long term.”

He said that outside of states and cities with out-migration, like Illinois and Chicago, the population shift was more important to local governments. He said they would continue to be looking at housing stock and prices in the years ahead to determine the effect that these shifts will have.

The aging population may buoy the municipal bond market into the future, said Anthony Tanner, senior vice president at Aquila Investment Management.

“It is likely to support munis because there will be a significant demand — and there will be a plentiful supply of capital to upgrade infrastructure projects that are needed all across the country,” said Tanner, lead portfolio manager of Aquila’s Tax-Free Trust of Arizona.

He also said shifts could be seen in certain sectors, especially health and hospitals, citing his own experiences in Maricopa County.

“I’ve lived here for 15 years and I’ve seen multiple hospitals expand their facilities,” he said, adding that with an aging population it also bodes well for bonds that back senior living and continuing care facilities. “It will be good for those type of bonds,” he said.

Tanner also noted that it is vital for portfolio managers to have a local presence, so that they could monitor changing demographic trends more effectively.

“A local presence can make a significant difference,” he said. “You can observe nuanced changes in localities just by being on the ground there — such as growth in infrastructure. It’s easier to determine the impact when you’re local.”

Changing trends have also captured the attention of the Federal Reserve.

Late last year, Federal Reserve Bank of Cleveland President Loretta Mester said that demographics will be a challenge for policymakers, who will have to constantly evaluate and adapt. “Demographic change will result in a slower-growing and older population,” Mester said. “This transition will likely

put downward pressure on the growth rate of potential output, the natural rate of unemployment and the long-term equilibrium interest rate."

At a separate public finance conference held at Moody's (MCO) headquarters at 7 World Trade Center in Manhattan last week, panelists looked at the credit implications.

"Demographics — they are destiny. It's very hard to change demographic trends," Mark Zandi, managing director at Moody's Analytics, said in an address at the conference.

"If we have a demographic headwind, which I think we do, that means slower growth, that means less personal income, that means less corporate earnings, that means slower equity price growths, that means less house price growth, that means fewer retail sales — all the things that are necessary to generate revenue," he said.

Zandi said that top of the list on demographic trends was the aging of the workforce. He cited statistics showing that 10 years ago 3% of workers were over the age of 65; today it's over 6% and in 15 to 20 years it will be between 9% and 10% of the workforce.

Another big change was immigration, he said, stressing that this was one area where policy change could make a difference. Zandi said that over the next 25 years "the biggest problem will not be unemployment, it will be a screaming lack of labor. We are not going to be able to fill open positions."

Zandi said that if there was one policy step that the government should take that would be a game changer, it's immigration reform. "This dynamic is so powerful that at some point we will get reform," he said.

By Chip Barnett

BY SOURCEMEDIA | MUNICIPAL | 11/19/18 07:03 PM EST

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## U.S. Pension Funds Turn to Riskier Real-Estate Bets.

**Large public retirement systems hope to close funding gaps by embracing so-called opportunistic investments**

U.S. public pension funds are taking on more real estate, and at times some of the riskiest types of property investments, as they try to close their funding gaps.

American public plans with more than 20,000 members had an average 7% of their assets in real-estate investments at the end of 2017, according to a Wall Street Journal analysis of Boston College's Public Plans Data, which contains the most recent numbers available. That is up from 4% in 2006, representing more than $120 billion in additional pension money flowing into real estate.

Some of this increase is due to the construction of new properties designed to be sold later for a profit. These so-called opportunistic investments by pensions grew nearly sixfold between 2006 and 2016 even as allocations to "core" existing properties remained flat, according to an analysis by CEM Benchmarking.

Continue reading.

**The Wall Street Journal**

By Heather Gillers

Nov. 26, 2018 7:00 a.m. ET

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## Local Government Investment in Public Water and Sewer Hits a Record $123.7 Billion in 2016.

**Long-term infrastructure investment commitment to clean water and sewer/stormwater management tops $1.99 Trillion from 1993 to 2016**

Public spending on water and sewer/stormwater management continues to set new nominal dollar highs according to recently released local government Census data for 2016. Overall there was a 4 percent increase in spending from 2015 to 2016, and a 2 percent growth in revenues. Expenditures for water and sewer follow similar trajectories with some important distinctions, (Chart 1). For example, local governments consistently spend between $5 Billion to $15 Billion more on water than on sewer/stormwater management.

Read More

**United States Conference of Mayors**

By Rich Anderson

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## New Report Strengthens Economic Case for Flood-Prepared Infrastructure.

**Mitigation projects yield positive return on investment in coastal, inland states**

From elevating roadways in Nebraska to moving wastewater treatment plants away from flood plains in Iowa, proactive measures before flooding can provide a major return on investment, according to a new report from the National Institute of Building Sciences (NIBS). The report, "Natural Hazard Mitigation Saves: Utilities and Transportation Infrastructure," provides analysis and key examples that underscore the benefits of investing in mitigation measures.

The report was released Oct. 30 during a webinar co-hosted by the institute and The Pew Charitable Trusts. Ryan Colker, NIBS vice president, and Philip Schneider, director of NIBS' Multihazard Mitigation Council, provided an overview of the report, including cost-benefit assessments of flood-related case studies. The webinar also featured Melissa Clow, a civil engineer and special projects administrator for Iowa City, Iowa, who discussed the city's disaster mitigation work on a bridge and major road.

In developing the report, NIBS examined natural hazard mitigation investments across the country that included upfront spending on infrastructure projects—such as raising roads above anticipated flood levels and moving water treatment plants outside of flood plains—as well as near- and long-term maintenance. Benefits included avoiding replacement or repair of damaged infrastructure and disruptions to daily life from impacts such as closed roads, impaired public safety, and loss of

essential services like water and electricity. Of the 21 case studies analyzed in the report, 10 focus on mitigating the impacts of flooding on infrastructure—projects involving roads, bridges and railways, water and wastewater facilities, and electric and telecommunications substations.

Continue reading.

**The Pew Charitable Trust**

by Forbes Tompkins

Nov. 20, 2018

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## Investing in Better Procurement Processes Can Enable Better Infrastructure Outcomes.

**Editor's Note:** *This post is the first in a two part series about how procuring infrastructure systems, technologies, and services can be an entry point to resilience in cities, rather than an obstacle to it.*

Many cities across the United States are home to legacy infrastructure systems. These older water, transportation, and communications systems are not only poorly suited to current needs, but they are also nearing (or well past) the end of their usable lives after decades of underinvestment and deferred maintenance.

The motivation for investing in resilience—taking measures to adapt and modernize systems amid rising environmental and social pressures—could not be greater, especially at a local level.

However, local government resources for infrastructure transformation are limited at best. As a result, local leaders are caught in a tug-of-war. On one side are high-priority incremental repairs to keep critical services up-and-running. On the other side is all the up-front planning required to invest in long-term capital projects. Both are costly. Both are necessary. In the coming years, more places will inevitably be confronted with a stark choice: keep making short-term fixes or find the resources to make major upgrades and replacements.

Continue reading.

**The Brookings Institute**

by Shalini Vajjhala and Ellory Monks

November 26, 2018

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## These Muni-Bond Funds May Offer Year-End Bargains.

Bargain hunters can find plenty of discounted stocks these days. But year-end tax-loss selling may be creating good bargains in closed-end funds, particularly those that hold municipal bonds, according to a note from BlackRock.

CEFs have two prices: the fund's share price and its underlying net asset value, or NAV. When the share price falls below the NAV, the fund is said to trade at a "discount." A 10% discount enables investors to buy a fund's underlying securities, such as stocks or bonds, at 90 cents on the dollar, for example. Investors can profit when the discount to the NAV narrows even if the underlying securities don't budge much.

Historically, CEF discounts widen in the fourth quarter as tax-loss selling kicks in, according to Stephen Minar, head of closed-end funds at BlackRock. Investors sell the funds to realize capital losses in the tax year. That may be especially prevalent this year as stock and bonds have slumped, putting some categories of CEFs in negative territory.

Yet the funds tend to bounce back in the new year-a well-known "January effect." CEF discounts have narrowed in January in 16 of the last 20 years, Minar points out. "Based on historical trends," he wrote, "BlackRock believes that tax-loss selling may present an opportunity to reap the rewards of a temporary mispricing in the CEF market."

Some of the best deals may be on municipal bond CEFs. Interest income from muni bonds isn't taxed at the federal level and may be tax-free at the state level (if the bonds are issued in the investor's state).

Investors should calculate their tax-equivalent yield to see if munis make sense for them. For example, a 5% muni yield would be equivalent to a 6.9% taxable yield for investors with income of $100,000 in the 28% federal tax bracket, according to Bankrate.com. The higher a person's tax rate, the more of a break they would receive from investing in munis.

National muni CEFs, which invest in state and local debt from across the country, are down by an average of 8.7% this year, through Oct. 31, including dividends, and they trade at an 11.3% discount to NAV. That's steeper than their historical discount of 7.3%, according to BlackRock. Indeed, muni CEFs have traded at a narrower discount on 99% of trading days over the last 20 years, averaging 3.5%, Minar writes.

"At BlackRock, we believe these conditions are cyclical and discounts this wide are not likely to persist longer term," he says.

Granted, bonds have been under pressure as the Federal Reserve has raised interest rates and investors have grown increasingly concerned about inflation. Those trends aren't likely to disappear in the new year, keeping up the pressure on bond prices and making it tough to generate positive returns.

To help lower risks, consider funds with a relatively low average "duration," or sensitivity to interest rates. Another consideration is a fund's use of borrowed money, or leverage. Many CEFs use leverage to juice their distributions, and the more leveraged a fund, the steeper its yield is likely to be. But leverage can amplify losses when a fund's underlying securities lose value.

The BlackRock MuniAssets fund (ticker: MUA) has a moderate duration of six years, well below that of long-term bond funds that would lose more in a rising-rate climate. Its distribution rate is 5.2% and it trades at an 8.2% discount to NAV, a wider gap than its 52-week average of 3.7%, according to Cefconnect.com, a closed-end fund research site. More than half of the fund's $500 million in assets are in investment-graded munis, rated BBB or higher. The fund's leverage is relatively low at 12.5%.

The Eaton Vance Municipal Bond fund (EIM) trades at a 14.2% discount to NAV, below its 52-week

average of 10.6%. Its distribution rate is 4.6%. The fund's duration is 7.3 years, giving it more rate-sensitivity than the BlackRock fund, but the underlying debt is of higher quality. The portfolio of nearly $1 billion consists of investment-grade bonds, with 70% rated AA or AAA.

If you're willing to take more interest-rate risk in exchange for a higher yield, consider Nuveen AMT-Free Municipal Credit Income fund (NVG), one of the largest muni bond funds with $3.2 billion in assets. Trading at a 13% discount, the fund yields 5.9%. More than 60% of its bond holdings are rated investment-grade, and the fund emphasizes munis that don't subject investors to the alternative minimum tax.

Nonetheless, the fund uses a considerable amount of leverage, at 39% of assets. With an effective duration of 13 years, the fund's shares will get hit hard if rates continue to increase. That could sting long after the January effect wears off.

**Barron's**

By Daren Fonda

November 23, 2018

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## The Best Bond Funds to Buy for 2019 as Interest Rates Rise.

In normal times, when a stock-market downturn looks likely, investors move money into bonds, the better to protect their wealth from sharp losses. But these are not normal times: It looks like the beginning of a downturn in fixed income too. Interest rates are rising, which drives down bond prices. The value of a 10-year Treasury note maturing in November 2027 has fallen 6% in the past year. And the Federal Reserve is expected to hike benchmark rates three times in 2019, putting even more pressure on prices.

Another conundrum: This is a time when many investors actually do need to rebalance their portfolios to own more bonds. The S&P 500 has risen nearly 35% since the 2016 elections, which means most investors have a higher share of stocks in their portfolio than their investment plan might dictate. An October survey by the American Association of Individual Investors found that average exposure to fixed income had dipped to a 10-year low of 13.3%, compared with a high of 25.5% in 2010.

So how can investors rebalance into bonds, and their relative safety, without taking a small but still painful beating? Amy Wasser, a financial adviser at Edward Jones, is adding short-duration U.S. Treasuries to her mix of bonds. While shorter-dated bonds tend to yield less interest than longer-term ones, their prices take less of a hit when inflation rises. (The Vanguard Short-Term Treasury [VFISX] fund is a low-cost way to play that sector.) Independent adviser Lewis Altfest recommends emerging market bonds, whose higher yields make up for the volatility of their prices. (Goldman Sachs Emerging Markets Debt Fund [GSDIX] is a popular option for those assets.)

Municipal bonds are also worth adding if you live in a high-tax state or locality, says Don Martin of Mayflower Capital. They're less sensitive to fluctuations in interest rates, and the fact that their interest is partly tax-exempt can sweeten their payout.

One last reason to beef up your bond portfolio: Its value could rise sharply if a truly big stock plunge sends investors fleeing to bonds for shelter. "For all we know, it could be the start of the bear

market," says Greg Ghodsi, a Raymond James financial adviser.

FORTUNE

By LUCINDA SHEN

November 19, 2018

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## Data Driven Fixed Income Dealer Growth Survey.

***Trust and Data Drive Fixed Income Dealer Growth*** was led by Kevin McPartland at Greenwich Associates and surveyed 50 fixed income dealers – both large and regional – examining the current state of the fixed income business, top concerns of both large and middle-market dealers, technology priorities, and the most likely path forward given each firm's strategy of managing balance sheet and relationships in a more quantitative driven way.

*This newly released study has been provided through an active partnership between Greenwich Associates and the BDA.*

**Bond Dealers of America**

November 13, 2018

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## How the Third Largest Closed-End Fund is Coping With Rising Rates.

**Rising interest rates are creating challenges for the Nuveen AMT-Free Municipal Credit Income Fund.**

Like other closed-end bond funds, the Nuveen AMT-Free Municipal Credit Income Fund is grappling with the fallout from the Federal Reserve's rate-raising campaign and a roller coaster stock market.

With more than $3.1 billion in assets, the Nuveen AMT-Free Municipal Credit Income Fund is the third largest closed-end fund in the world, according to Lipper Research.

Nuveen's decision a few years ago to expand the fund and revamp its investment focus turned out to be a winner, helping cushion the fund amid rate-hike and stock market turbulence.

Founded in 2002, NVG undertook a significant expansion a few years ago when Nuveen, its parent fund company, merged and combined 18 closed-end bond funds into eight.

Along with an infusion of assets, NVG also was given a new mission to reposition its portfolio to focus on lower-rated municipal bonds.

That strategy has paid off well for NVG, with lower-rated bonds performing handsomely even as their premium-rated cousins have lagged, notes Paul Brennan, a portfolio manager at Nuveen Asset Management, who oversees NVG and other closed-end funds.

"That has been the most positive part of our fund performance," Brennan says. "Over the last

number of years, the lower-rated bonds have been the top performers."

Some of NVG's largest holdings are bonds issued by the state of Illinois and Chicago, both of which have struggled in recent years with various budget crises.

Illinois last year resolved a two-year budget standoff that had threatened to implode the state's already shaky finances. And while Chicago faces a $98 million deficit, it is down from $635 million in 2012.

Overall, municipal bonds have proven to be a good bet, with state and local revenues, from taxes to highway tolls, on the rise, Brennan says. In deciding where to invest, NVG draws upon Nuveen's team of 26 or so credit analysts, who keep tabs on the immense, $3.7 trillion municipal bond market and the tens of thousands of government and quasi-government entities that issue the bonds.

*(Full disclosure: Nuveen is an advertiser on TheStreet, but did not participate in the preparation of this article.)*

"While the news was very dire in Illinois and Chicago, our belief was that there were solutions," Brennan says. "We were getting bonds at distressed levels at the trough of the cycle. We generated very good yields on those bonds."

The NVG's investments in tobacco settlement bonds have also been a bright spot as well, he notes.

Overall, more than 50% of the fund's holdings are now in bonds rated triple-B, the lowest investment grade, or below.

"A lot of our top holdings have been some of our top performers," Brennan notes. "That is the best type of outcome."

However, the Fed's efforts to jack up interest rates have made it more expensive for the fund to do business.

Unlike open-end mutual funds, which make up most of the market, closed-end funds are allowed to borrow and use leverage, which can boost returns.

But with short-term interest rates rising, NVG's cost of borrowing has also gone up, increasing the amount of money the fund owes to creditors and cutting into earnings, according to Brennan.

The increase in long-term rates, in turn, has had a negative impact on the fund's net asset value, with a reduction in the value of its bonds as investors flock to higher-paying newer issues.

NVG has posted annualized returns of 6.6% over the past five years, with a 5.7% annual distribution rate, a key state for investors seeking steady income. But year to date, the fund's net asset value is down 2.5%, according to Lipper Research.

The fund is trading at a 12% discount relative to its net asset value — another feature unique to closed-end funds, which hold a modest but influential niche in the overall fund world, managing roughly $300 billion in assets.

They differ from their far more numerous cousins in the open-end mutual fund world in their fixed capital structure and the fact they are traded on exchanges throughout the day.

This combination creates gaps between the closed-end fund's trading price and the net asset value

of its holdings, often allowing investors to buy the stocks and bonds in the portfolio at a significant discount.

A 12% discount effectively means investors can buy a dollar's worth of bonds in NVG's portfolio for 88 cents, with a potential gain if the discount narrows rather than widens.

That's down from a 52-week high of nearly 14% but up from its 52-week average of around 8.6%.

Looking ahead, Nuveen's Brennan sees more of the same when it comes to the main pressure weighing on NVG and other closed-end bond funds.

"We are still looking for the Fed, which is the most important thing to watch, to continue the pace of slow, gradual increases," Brennan says.

That, in turn, could set the stage for more growth in 2019 and continued strong performance by municipal bonds.

"We are seeing more volatility in our space but the underlying fundamentals are pretty solid," Brennan says. "There is still pretty good economic growth and state and local municipalities are performing well."

**TheStreet**

by Scott Van Voorhis

Nov 26, 2018 3:08 PM EST

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## Despite Major Wildfires, Most Calif. Local Governments Won't Feel Credit Ratings Impacts.

**Only small towns and school districts facing significant damage and weak liquidity will likely feel pressure, according to Moody's.**

Most local governments dealing with California's deadly wildfires won't see their credit ratings downgraded, according to a weekly Moody's Investors Service report.

Camp Fire became the deadliest wildfire in California history on Nov. 14 and, together with the Woolsey and Hill fires, had killed 79 people as of Saturday while razing about 237,000 acres and 8,350 buildings.

Federal Emergency Management Agency, state assistance and private insurance are expected to cover most of the costs of debris removal and reconstruction following the federal disasters, according to the outlook.

But that assurance stopped when it came to Paradise, the town of about 20,000 people that has been devastated by the wildfire. Thousands of residents have been displaced and authorities over the weekend said more than 1,200 people were missing.

"We expect select small entities, such as the Town of Paradise and Oak Park Unified School District with significant damage and weak liquidity to be faced with significant credit challenges," reads the report.

About 80 to 90 percent of Paradise in Butte County burned in Camp Fire, which the report said will cause “dramatic” declines in property, sales and lodging tax revenues—65 percent of the town’s 2017 general fund. People moving away could hurt the town’s ability to recover as other residents look to rebuild, according to the report.

On the other hand, Los Angeles and Ventura counties will see temporary sales tax declines, which should rebound during rebuilding.

“[W]e currently expect impacts to [assessed value] will not materially affect credit quality, as their tax bases are sizable relative to the burned areas, and they have experienced healthy growth in recent years,” reads the outlook. “California local governments have the flexibility to cut spending and can raise taxes with voter approval.”

**Route Fifty**

By Dave Nyczepir,
News Editor

NOVEMBER 16, 2018

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## Fitch U.S. College and University Rating Criteria Revision.

To more clearly communicate credit opinions and facilitate a more forward-looking, predictable approach to ratings, Fitch Ratings has revised its U.S. Public Finance College and University Rating Criteria. These revisions will facilitate a more forward-looking, predictable approach to ratings and better highlight differences among credits in the same category.

**Anticipated Rating Impact is Limited**
Assuming current credit characteristics are maintained, Fitch estimates that approximately 85% of institutions covered by this criteria will be unaffected. Upgrades are expected to lead downgrades for those affected. Criteria-driven rating changes will be dependent on the finalization of criteria after assessing comments received during the exposure draft period.

**Rating Changes More Predictable**
The revised criteria more clearly define and communicate Fitch’s expectations of the range of performance.

**New Through-the-Cycle Tool**
Known as FAST, this tool highlights how cycles affect issuers differently, and will be publicly available with a select group of issuer data during the criteria comment period.

**Experienced Analytical Judgment**
Fitch’s ratings will continue to be based on the judgment of a team of experienced analysts, rather than on weighted assessments or model-based outcomes.

**Clearer Communication of Credit Opinions**
The goal of the revised criteria is to communicate Fitch’s credit analysis more clearly, presenting well-defined opinions about both rating conclusions and the underlying fundamentals.

**Focused Key Rating Factors**

Three focused key rating factors replace the traditional inventory of credit considerations to highlight the role that each plays in determining credit quality.

**Tailored Versus Generic Expectations**
As part of an integrated analytical approach, expectations are linked to issuer-specific risk factors.

- Rating Criteria User Guide
- Exposure Draft: U.S. College and University Rating Criteria
- Exposure Draft FAQs
- Sample New Issue Report
- FAST for College and University

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## Why the Extra Safety You Get Through Bond Insurance Is Worth the Modest Yield Reduction.

Bond insurance protects investors and benefits issuers at a modest cost.

In this article, we cover the details of how bond insurance works, how it is priced and why it is worth the cost. We also take a look at how insurance benefited bondholders through Detroit's bankruptcy and, more recently, with Puerto Rico bonds.

Continue reading.

**municipalbonds.com**

Joshua Hudson

Nov 14, 2018

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## MSRB Q3 Trading Stats.

Follow muni market data trends? The MSRB has released third quarter trading stats. Read about the muniland quarterly highlights, most actively traded securities and more.

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## Municipal, Corporate Equity and Corporate Debt Pre-Market Activity Climbs Following September Slump.

"CUSIP request volume for October is consistent with the trend toward increased levels of capital markets activity we've been seeing throughout most of the second half of the year," said Gerard Faulkner, Director of Operations for CUSIP Global Services. " While we did see a great deal of volatility in the CUSIP indicator in the early months of 2018, current readings suggest we'll see a relatively healthy volume of new securities issuance as we make our way through the fourth quarter."

Read Press Release.

## Fitch Ratings: Has Acute Care Peaked for U.S. NFP Hospitals?

Fitch Ratings-Austin-15 November 2018: With acute care operating profitability set to decline for a third straight year, questions are being raised among some U.S. not-for-profit hospital investors as to whether acute care has peaked or if there's room for improvement, according to Fitch Ratings in a new report.

In response to falling profitability, large system providers are planning some basic cost-cutting, elimination of waste and rethinking how healthcare is delivered to fall in line with Medicare rates. Smaller providers, however, are at a competitive disadvantage according to Senior Director Kevin Holloran.

"Smaller hospitals are characteristically less able to trim expenses and typically unable to negotiate higher rates from commercial insurers in their markets," said Holloran.

How healthcare will be delivered going forward along with changing reimbursement models are what precipitated Fitch's gradual move away from "classic measures" like maximum annual debt service (MADS) coverage and days' cash on hand and increased emphasis on two new metrics of its NFP hospital analysis: Cash to Adjusted Debt and Net Adjusted Debt to Adjusted EBITDA.

One thing appears clear. Consolidation of NFP hospital systems is set to continue, if not escalate going forward. The quest for increased size and scale, however, has led to some investors asking whether bigger is actually better (a question Fitch plans to answer more substantively in a future report).

"Size and scale are 'better' for a hospital's rating if its enhanced size and scale means improved operations, stronger balance sheets and more market essentiality," said Holloran. "Conversely, a hospital getting bigger just for the sake of getting bigger at time can lead to an initial dip in operating profitability as the two or more organizations come together."

One facility type whose outlook is not encouraging is critical access hospitals. Fitch has a negative outlook for these small inpatient facilities characterized by independent distance from the next closest facility and short stays. "Critical access hospitals have long benefited from higher levels of cost based reimbursement, though even that will likely not be enough to secure a long-term future for these facilities," said Holloran. These facilities will likely either close altogether or become freestanding centers that perform little more than triage services.

'What Investors Want to Know: U.S. Nonprofit Hospitals and Healthcare Systems' is available at 'www.fitchratings.com'.

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## Fitch Ratings: Revenue Continues to Climb for U.S. Water Utilities

Fitch Ratings-Austin-12 November 2018: Growth in annual revenue accelerated for U.S. water utilities over the last year while leverage declined, according to Fitch Ratings in a new report.

Revenue increased almost 5% in the current median cycle with most of the growth again coming from rate adjustments. However, revenues did get a slight bump from increased water sales, which were up about 2% compared to flat sales during the past several years. Sewer flows were also marginally higher, by almost 1%. Conversely, leverage fell 5% for the year after rising 8% with 2018 medians.

“Added debt is expected to represent a manageable 36% of capital resources for water utilities over the next five years, which should limit growth in some key debt metrics,” said Managing Director Doug Scott.

Operating expenses jumped more than 5% with the 2019 medians and rose faster than operating revenues. However, water utilities have mitigated that potential risk by keeping debt carrying costs in check to just 18% of revenues (compared with 20% with the 2018 medians). Days cash on hand also reached a new high of 561 days of operating expenses.

“Liquidity at this level will give water utilities a significant amount of flexibility in meeting their capital funding needs and managing fluctuations in operations,” said Scott.

One area worth a closer look will be aging facilities, which rose to a new peak of 16 years this past period. Capital spending has been in line with 2018 medians at 142% of annual depreciation, but additional spending may be necessary to maintain infrastructure performance.

Fitch’s ‘2019 Water and Sewer Medians’ is available at ‘www.fitchratings.com’

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## Fitch Ratings: Adjusted Net Pension Liabilities Hit $1 Trillion for U.S. States

Fitch Ratings-New York-12 November 2018: Steady increases in the present value of future benefits

and lackluster performance in pension assets led to net pension liabilities reaching a noteworthy milestone this past fiscal year for U.S. states, according to Fitch Ratings in a new report.

Fitch-adjusted net pension liabilities (NPLs) surpassed $1 trillion in fiscal 2017 (up from $892 billion in fiscal 2016) and now encompass 3.6% of personal income for states. Fitch recalculates state-reported pension liabilities based on a 6% discount rate for plans using a higher discount rate. The pension liability burden of individual states, combined with bonded debt, varies widely. Illinois tops the list of seven states with long-term liability burdens that Fitch considers elevated (above 20% of personal income) with a highwater mark of 29%. Another eight states carry moderate long-term liability burdens measuring between 10% and 20% of personal income. Conversely, the state with the lowest liability burden is Nebraska at 1.5% of personal income.

“Many of the net pension liabilities that states have comprise pension obligations for non-state employees, usually local teachers, legally carried and directly funded by the state,” said Senior Director Douglas Offerman. In fact, nearly all states with the highest pension burdens reflect this dynamic.

Discount rate changes are also proving to have a discernible effect on state pensions with 80 state-reported plans lowering their discount rates from a year earlier. “For such plans, states like Illinois, Kentucky and New Jersey are feeling the effect of insufficient contributions in the form of severely underfunded pensions and rising budgetary demands for pension contributions,” said Offerman.

Despite rising NPLs, the median level of tax-supported debt relative to personal income remained virtually unchanged at 2.3% of personal income for fiscal 2017. “States in general remain selective debt issuers and tend to do so primarily as capital needs arise,” said Offerman. “As a result, most states will continue to see only gradual shifts in their debt burdens from year to year.”

Fitch’s “2018 State Pension Update” is available at www.fitchratings.com.

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## [California Fire Rattles Muni Market as Investors Sell PG&E Bonds.]

- **Debt is among the most active in muni market on Wednesday**

- **‘My fingernails are down a little bit further today’**

Even the typically calm municipal-bond market can’t withstand the crisis that’s enveloped PG&E Corp., California’s biggest utility, since the outbreak of the state’s devastating wildfires.

As authorities investigate PG&E equipment as a possible cause of the deadly Camp fire, the value of some of company’s more than $700 million in debt sold through government agencies is slumping. The company’s municipal bonds were among the most actively traded municipal securities Wednesday.

A security with a mandatory put option in 2022 traded Wednesday at a price of 86.6 cents on the dollar, down from 94 cents when it last changed hands on Oct. 15, data compiled by Bloomberg show.

Nick Venditti, portfolio manager at Thornburg Investment Management, holds some of the utility’s municipal debt and is sitting tight — for now.

“Right now I’m not interested in fire-selling my bonds at the worst price because I think there will be better days ahead for PG&E,” he said by phone. But, he added, “my fingernails are down a little bit further today than they were yesterday.”

Shares of PG&E Corp. plummeted as much as 23 percent Wednesday after the company said it had exhausted its revolving credit lines, signaling its growing financial stress.

California authorities are investigating PG&E equipment as a possible cause of the Camp fire, the deadliest blaze in state history, burning about 150 miles (240 kilometers) northeast of San Francisco. It has killed at least 48 people, destroyed 130,000 acres and wiped out the town of Paradise.

**Bloomberg Business**

By Romy Varghese

November 14, 2018, 12:01 PM MST

*— With assistance by Jim Efstathiou Jr*

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## What Amazon's HQ2 Means to Local Muni Markets.

Laura Porter, managing director at Fitch Ratings, discusses how Amazon Inc.’s new HQ2 locations could impact the local municipal bond markets and the fate of bond initiatives in the midterm elections. She speaks with Bloomberg’s Taylor Riggs in this week’s “Muni Moment” on “Bloomberg Markets.”

Watch video.

**Bloomberg Markets**

November 14th, 2018

## Muni-Bond Defaults Show Risk Clustered in Midwest, Southeast.

- **Regions account for the highest share of impaired bonds**
- **'Warning flag' for muni-bond investors looking for new debt**

To find the distress in the municipal-bond market, look to the Southeast and Midwest.

That's the conclusion from Municipal Market Analytics, a research firm that examined state and local government bond defaults by using Bloomberg data and disclosure filings from issuers.

Such lapses are extremely rare, accounting for a minuscule share of the nearly $4 trillion market. But counties in the Midwest and Southeast are home to about 37 percent and 22 percent, respectively, of outstanding bonds that are in default for failing to make adequate payments or for violating elements of the debt contracts. Excluding bankrupt Puerto Rico, about $19 billion of the $31.8 billion in defaulted and impaired bonds are in those two regions.

That share is notable considering the areas together have issued only about one-third of all outstanding bonds.

Continue reading.

**Bloomberg Business**

By Romy Varghese

November 13, 2018, 4:00 AM MST

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## Wall Street Muni-Bankers See Dollar Signs With Amazon 'HQ2' Plan.

Wall Street's public finance bankers might be seeing dollar signs after New York City, Nashville and Arlington, Virginia, revealed their billion-dollar plans for Amazon.com Inc.'s new offices.

In letters to Amazon released when the company announced its new sites Tuesday, officials from the three locations emphasized their commitment to financing infrastructure surrounding the online retailer's new offices. Banks that raise money in the $3.9 trillion municipal-bond market — which state and local governments turn to when they finance capital improvements — stand to benefit as a result.

While Arlington County may not be able to finance the helipad that Amazon wants, the county is committed to building out public infrastructure and a "top tier transportation system," it said in its letter. New York City officials said it would create an infrastructure fund for streets, sidewalks, utility work and transportation for the new campus in Long Island City.

Nashville said roads, parks and greenways would be built as part of the new operations center that Amazon is building downtown. The Amazon announcement comes after AllianceBernstein Holding LP moved its corporate headquarters to Nashville, which may prod officials to revisit a $5 billion transportation plan that voters nixed earlier this year.

While none of the three localities explicitly mentioned issuing bonds, cities, counties and public

agencies selling bonds for the benefit of corporations and economic development projects has become near-commonplace. New York said it would provide funding for “community infrastructure” through a payment in lieu of taxes program that will collect money from the retailer. Governments frequently sell bonds backed by such revenue.

Even the riskiest of deals have been well-received by the municipal market. So investors will likely be eager to gobble up any debt out of New York City, Arlington County and Nashville for the benefit of the world’s third most valuable company.

**Bloomberg Technology**

By Amanda Albright

November 13, 2018, 9:50 AM MST Updated on November 13, 2018, 9:58 AM MST

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## Why Losing Out on Amazon HQ2 Isn't So Bad for Cities.

**A new study points to evidence that luring a large corporation isn’t the best way to spur job growth.**

After a yearlong and very public deliberation over the location of its second headquarters, Amazon this week disappointed some policymakers when it announced that it would split HQ2 into two locations, one in New York City and the other in the Washington, D.C., metro area.

In choosing New York and D.C., Amazon opted for two cities that have led the economic expansion since the end of the last recession in 2009, far outpacing the rest of the nation in job growth. The decision drew the ire of politicians at the state and federal levels, along with others who had called on the tech giant to place its second headquarters in a city where it could play a more transformative role in the economy.

Yet a new study from the Urban Institute suggests that landing such a large corporation isn’t actually the best way to build a local economy and spur job growth.

Instead, the report says, cities should focus on growing existing local firms, not trying to lure out-o--town companies and poaching firms from other cities. “Most job expansion and contractions come from birth and deaths of homegrown businesses or expansion or contractions of existing home-based businesses,” says Megan Randall, a research analyst with the Urban-Brookings Tax Policy Center and a co-author of the report.

When marquee companies move into a new city, they often displace existing firms, like when a big box store puts some mom-and-pop stores out of business. Creating and expanding homegrown businesses has a better track record for adding job growth to a region, the report says.

The competition to land Amazon HQ2 has spurred debate over the generous tax incentive deals cities offer up to attract big corporations. New York City offered some $3 billion incentives to Amazon, and Crystal City, Va., where the company will be located just outside Washington, put up $500 million in tax breaks. But those offers weren’t the deciding factor, according to the company. The stronger draw was the highly skilled and highly educated labor force in both cities.

“One of the first things to remember when using tax incentives and any other cash rewards is that

they play a relatively small role in attracting businesses," Randall says. "We see that pretty clearly in Amazon's own self-stated priority. They said they wanted to go to a place where they can recruit and hire talent."

Sometimes, tax incentives can even harm the local economy, especially in cities whose finances aren't as rosy as New York's or D.C.'s. Giving up that tax revenue can put a strain on local services, particularly schools. As New York University business professor Scott Galloway put it in an email to Barron's on Tuesday, the tax incentives from New York amount to "an elegant transfer of funds from municipal school/fire/police districts to Amazon shareholders."

Cutting into services and school budgets makes the local workforce less attractive in the long run, and the location less alluring, the Urban Institute report notes. "What is the trade-off? What are the investments that the city or the state can be making to change its long-term economic trajectory?" Randall says.

Cities would be better served, according to Randall and other economic policy analysts, by improving schools and public services, and focusing on nurturing their existing network of businesses.

When a city offers tax giveaways to lure a company, the government goes into the negotiation with a marked disadvantage because of what economists call "information asymmetry." The city doesn't have all the information about what the company is looking for. In some cases, a company may choose a city it would have moved to anyway, pocketing the tax incentives even though they weren't a deciding factor.

"Firms are in a advantageous position," Randall says. "They know cities want to attract jobs and create opportunities for their residents. They know they are in the position to leverage a public benefit from what they have to offer."

GOVERNING.COM

BY J. BRIAN CHARLES | NOVEMBER 15, 2018

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## The Week in Public Finance: Federal Tax Reform Fuels Record State Spending

**Budget directors are still figuring out how much of the tax law's impact on state revenues was a one-time boost.**

SPEED READ:

- According to the National Association of State Budget Officers, state spending topped $2 trillion in fiscal 2018, a record high.
- The spending increase is largely driven by higher income tax revenues that resulted from last year's federal tax changes.
- Much of the extra money has gone toward Medicaid and transportation, but education also received significant funding boosts.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | NOVEMBER 16, 2018

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## Infrastructure Update: America's Water Infrastructure Act of 2018.

Prospects for a major infrastructure bill are uncertain, but several initiatives at the United States Army Corps of Engineers should facilitate some projects in the energy sector—including ports, terminals, and navigation channels, and a wide variety of linear projects, such as transmission lines and pipelines that interface with federal water projects and thus require approval from the Corps.

***America's Water Infrastructure Act of 2018 ("AWIA," aka "WRDA 2018").*** President Trump signed America's Water Infrastructure Act of 2018 on September 13, 2018. Primarily focused on the Corps, "water resource development acts" are the vehicles used by Congress—ideally every two years—to authorize federal infrastructure projects for purposes such as navigation, flood control, hydroelectric power, and municipal and industrial water supply. The latest installment, AWIA, is notable for its continued focus on public-private partnerships and regulatory reform. Numerous provisions expand opportunities for non-federal partners to expedite federal projects. Examples include opportunities either to "contribute" or to "advance" funds to expedite construction of federally approved projects, and even to construct projects to be owned, operated and maintained by the Corps.

For example, Section 1153 of the AWIA improves the "Section 204" program, which allows non-federal interests to take the initiative to construct federal water projects that have been approved by Congress, but that have not been funded for construction. Subject to cost-sharing requirements applicable to all federal water projects, costs incurred by the non-federal partner that would have been borne by the Corps are potentially eligible for reimbursement upon completion. While there is some risk that reimbursement will be denied or delayed, this risk may be acceptable for certain critical projects. Because the congressional "authorization" and "appropriations" processes are separate, being controlled by different committees, and because many authorized projects are never funded for construction, this program provides an important new mechanism for non-federal interests to get the job done.

Until now, Section 204 projects have been impeded by a requirement that non-federal "constructors" obtain any applicable permits that would be required of a non-federal party, including permits that would not be required of the Corps. Section 1153 fixes this problem by allowing Section 204 "constructors" to stand in the shoes of the Corps from a permitting perspective. Contracting procedures will be used to ensure that non-federal constructors adhere to all standards or requirements that would apply to the Corps. By eliminating the need to apply for additional permits, however, Section 1153 will significantly streamline the procedure, making Section 204 significantly more attractive. The Corps will issue implementing guidance providing further details.

***Reform of the "Section 408" Approval Process.*** Clients that interact with the Corps should also take note of recent changes to the Section 408 approval process. Section 408 (33 U.S.C. § 408) requires Corps approval before any person can "alter" or "occupy" a federal water project or related "works." Because federal water projects include extensive real estate holdings, including levee systems and waterways, Section 408 is triggered by many types of projects, including transmission and pipeline projects merely requiring an easement to cross federal lands or navigable waterways. Because the Section 408 approval process is notoriously slow, this program has been a significant obstacle to many private projects.

On September 13, 2018, the Corps issued a new guidance revising and reforming its Section 408 approval procedures. See Engineer Circular (EC) 1165-2-220 (13 Sept. 2018). The new guidance creates "categorical exemptions" for certain types of projects. Other improvements include greater delegation of decisions; introduction of a multi-phased review option for incremental reviews; timelines for written notifications; and procedures to better align and integrate Section 408 with certain reviews conducted by the Corps' Regulatory Program.

**Conclusion**

The AWIA and the new Section 408 procedures reflect a broad, bipartisan focus on infrastructure development and regulatory reform. This focus is expected to continue in the new Congress. Other significant regulatory reforms consistent with this focus are also pending, including a full-scale reorganization of the regulatory functions of the Corps and the government-wide "One Federal Decision" initiative to reform environmental review procedures. Clients pursuing major infrastructure projects should track these developments carefully to identify new opportunities.

**King & Spalding**

November 19, 2018

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## $20.6 Billion of Bond Sales Backed by Voters in Midterm Election.

Voters across the U.S. were backing at least $20.6 billion of bond sales to support school construction and infrastructure upgrades including road and bridge repairs, led by multi-billio--dollar measures in California. Results are still pending on hundreds of state and local measures.

The nationwide election brought about $76.3 billion of bond referendums from California to Maine, the most in an election since 2006, according to data from market research company Ipreo by IHS Markit. It signals an increasing willingness by states and local governments to borrow for needed public works while they reap the financial gains from the nearly decade-long economic expansion.

The debt sales would finance infrastructure projects and housing programs in California, school construction in Texas and North Carolina, and affordable housing in Oregon, where rising home prices have been a strain on many residents.

The bulk of bond proposals were in California, where nearly $16.4 billion of state borrowing was proposed to upgrade water infrastructure, support housing programs and renovate children's hospitals.

The ballot propositions mark a shift away from the fiscal austerity that gripped states and cities after the last recession, when they put needed infrastructure work on hold while contending with large budget shortfalls. Those deficits have largely disappeared as states benefit from growing tax collections, allowing them to put more money into construction projects, despite President Donald Trump's failure to enact a big infrastructure program like the one he campaigned upon.

The referendums come after the pace of new debt issues slowed this year, in part because of a surge late last year before Trump's tax overhaul pulled the tax-exemption for bonds sold for a key type of refinancing. The support at the ballot box is unlikely to herald a sharp increase in debt issues, however, because the securities are often sold years after they're approved by voters.

Here is a list of some of the major bond referendums getting approval at the polls:

CALIFORNIA
California: $4B for housing programs and veterans' loans (94% of precincts reporting, was winning 54% to 46% as of 9.37 a.m. ET) San Diego USD: $3.5B for security improvements and plumbing (73% of precincts reporting, was winning 61% to 39% as of 9.37 a.m. ET, according to San Diego County) California: $2B for homelessness prevention housing California: $1.5B for expansions of children's hospitals San Francisco: $425M for seawall improvements Peralta Community College District: $800M for facilities and technology Chaffey Community College District: $700M for improvements

NEW JERSEY
New Jersey: Voters OK'd $500M in bonding for vocational school expansions, school safety and water infrastructure

NORTH CAROLINA
Wake County: Voters were likely to pass $548M in bonding for school construction

OREGON
Metro: Voters were poised to approve about $653M in bonds for affordable housing

TEXAS
Collin County: Voters were poised to approve $600M in bonds for non-tolled highway construction Fort Bend ISD: A measure for $992.6M in bonding for construction, security and technology was poised to pass by a wide margin Frisco ISD: Voters looked likely to approve $695M in bonds for growth, maintenance and renovations Tarrant County: Voters looked likely to pass $800M in bonds for County hospital expansion Round Rock ISD: voters appear to have approved $508 million Alvin ISD: Approved $480.5M for school improvementsAnd here are some of the notable measures that voters have rejected:

COLORADO
Colorado: Voters rejected $6B for transportation projects Colorado: Voters also rejected $3.5B for road and bridge expansion

By BLOOMBERG

November 7, 2018

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## Study Urges Private Activity Bond Changes.

WASHINGTON —Lawmakers should expand the permissible uses of tax-exempt private activity bonds and lift the PAB volume cap to facilitate financing of long-term infrastructure leases that could generate as much as $885 billion for state and local governments, according to a study released Wednesday.

The new paper, "Asset Recycling to Rebuild America's Infrastructure," called on Congress to pass legislation that would make tax-exempt PABs eligible to help private companies finance the acquisition of existing public infrastructure. The paper's author, Robert Poole of the Libertarian think tank Reason Foundation, argued that this "asset recycling" approach to public-private partnerships, which has been controversial in the past, could be a key component to addressing

America's infrastructure funding woes.

"With constrained public resources at every level of government, it will take novel ideas to address our continued infrastructure investment deficit," Poole said. "Asset recycling can help fix America's serious infrastructure problems: aging, deteriorating facilities and a lack of funding for a large array of new infrastructure that would improve our quality of life.

"The basic idea calls for long-term leasing of existing facilities to well-qualified private partners and 'recycling' the lease proceeds into new, but currently unfunded infrastructure project," Poole continued. "The company pays most or all of the annual lease payments upfront, and the government uses that money on its unfunded infrastructure needs. Arguably, no other tool holds as much promise in addressing America's infrastructure deficit."

In his study, Poole argued that asset recycling is consistent with the Trump administration's stated preference for encouraging private investment in infrastructure, and pointed to a variety of infrastructure financed in this way in Australia. Billions of dollars' worth of Australian infrastructure investment were made possible through asset recycling as well as other forms of P3 in the past decade or so, according to Poole.

The study used data compiled from past commercial infrastructure transactions to produce its estimates.

Leasing the 61 largest U.S. airports to private partners could generate between $250 billion and $360 billion for state and local governments in gross upfront lease payments, according to Poole's work. Under the leases, the private companies would spend an estimated $100 billion on capital improvements over the first five years, bringing the total private-sector investment in airports to between $350 billion and $460 billion.

The study cites Baltimore/Washington International Thurgood Marshall Airport, which it finds could generate between $1.6 billion and 2.3 billion in net lease proceeds (after paying off existing bonds), and Louisville International Airport, which Poole said could be leased for over $600 million in net lease proceeds.

The study produced projections for other sectors as well, including toll roads and bridges, ports, and water/wastewater facilities.

But the program would benefit immensely from tax-exempt financing, Poole said, requiring legal changes to PABs. Under current law, PABs can only be used for certain kinds of infrastructure projects such as tunnels and are subject to a $15 billion cap. The $15 billion in exempt facility bonds is not subject to the state volume caps. The Department of Transportation is responsible for allocating the remainder among qualified projects. As of Aug. 1, 2018, approximately $8.38 billion in PABs have been issued, according to the DOT website.

PABs cannot be used to finance the acquisition through an outright purchase or long-term lease of existing brownfield infrastructure assets. Poole said both bars should be lifted to make asset recycling attractive.

Poole also recommended other policy changes, including making small federal grants available to city and state governments to hire financial and legal advisors for asset recycling projects.

Privatization of exiting government infrastructure has been controversial in the past, but P3s generally have gained increasing acceptance as one possible avenue to finance infrastructure. Muni market observers are hoping for a bipartisan infrastructure bill to emerge from Congress sometime

next year.

By Kyle Glazier

BY SOURCEMEDIA | MUNICIPAL | 11/14/18 07:03 PM EST

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## Neighborly Enters Muni Broadband Market with Ambitious Accelerator Project.

**More than 100 communities applied to join Neighborly's inaugural Community Broadband Accelerator, prompting the company to expand the cohort to 35 participants in 18 states.**

In a new initiative that has already been expanded by popular demand, 35 groups representing cities, counties, towns and municipal utilities across 18 states will join private-sector partners in the first-ever Neighborly Community Broadband Accelerator.

The cohort, announced on Nov. 15, will get underway later this year and conclude sometime in 2019. It's the first-ever broadband endeavor for the San Francisco-based company, which links communities to capital and has helped finance such traditional public projects as schools, bridges, playgrounds and roads. More recently, however, Neighborly has focused on supporting infrastructure that will make communities "more resilient and more future-proof," said Product Manager Garrett Brinker.

Nearly a year after the Federal Communications Commission voted to repeal net neutrality, Brinker and incoming members of the new cohort said it's clearer than ever that the availability of affordable, high-speed broadband is essential for public entities across the U.S. to improve connectivity, fight brain drain and bolster their workforces and economies. Financing and funding are key aspects of any broadband project and the realization that many municipalities don't address these areas early enough in the process helped inspire creation of the Accelerator, which opened its application process in August.

The company initially planned on accepting around 10 groups but received more than 100 applications that it reviewed with an eye for network feasibility, geographic diversity and overall effort. The enthusiastic response motivated Neighborly to roughly triple the number of participants. The company believes that broadband is foundational for modern infrastructure and smart city efforts alike; and widening participation would improve the group's capacity to educate and inform members.

"Just like the bridges did in the 20th century, broadband infrastructure can help unlock economic prosperity, the creation of jobs, new educational opportunities and ways in which people can become more connected to anyone and anything around the world," Brinker said, comparing its potential to the 1930s construction of the Golden Gate Bridge, an early economic enabler for the Bay Area. Having closely examined how to establish a broadband network in an educational curriculum guided by industry representatives, participants will have access to competitive Neighborly financing at the program's end.

WORKFORCE A MOTIVATOR FOR WISCONSIN COUNTY

Keeping economic engines running smooth is definitely an aim for officials in Sauk County, Wis., part of a Neighborly Accelerator that includes partners from Laramie, Wyo., to JEA, the community-

owned utility in Jacksonville, Fla.; and from Baird, Texas, to Palo Alto, Calif.

Jared Pinkus, who has been Sauk County's community liaison for nearly eight months, said his position was created following a 2014 survey of rural broadband that identified a need for better connectivity, particularly in the southwest section of the county. Pinkus said that, despite ongoing efforts, the county continues to face a workforce gap as its population ages and younger residents move to better connected areas.

"We're situated right outside of Madison," said Pinkus. "It's the capital so there's a lot going on, it's very attractive to a younger workforce and so it's 'How do we tap into that?' We went through a number of initiatives over the course of four years to try to figure out how to attract and retain specifically millennials, but (also) young families or skilled workers."

The county's topography, including hilly areas with dense forest, is a natural challenge to deploying broadband, but the county continues to study the need and hopes to drill down on financing and learn from participants and private-sector partners with more experience.

Standing up high-speed broadband would cost nearly $50 million, Sauk County's second study determined, but supervisors are supportive and joining the Accelerator should help the county's effort, Pinkus said. Local connectivity efforts are also progressing. The Reedsburg Utility Commission, which provides Internet, TV and telephone services to more than 4,400 customers in Sauk County, recently received two state grants totaling nearly $450,000 to connect a fiber backbone.

## OREGON PARTNERS SEEK DIGITAL EQUITY

Leaders in one Oregon metropolitan area have already bonded over improving broadband. Michael Hanna, a data engineer at Multnomah County and campaign manager for the regional Municipal Broadband PDX campaign, said last winter's FCC vote galvanized support for creating a publicly owned Internet utility with permanent net neutrality. Last year, new data showed 30 percent of Latino households in Multnomah, and 28 percent of households with residents ages 65 and older, lack broadband access.

The county and the cities of Portland, Gresham, Troutdale, Fairview and Wood Village will partner in an upcoming broadband feasibility study, Hanna said. By joining the Accelerator, the group hopes to gain a better sense of how to streamline the process of creating a public utility; and how to create a template that could serve as a model to other agencies. Other reasons for participating, however, have to do with leveling the playing field.

Digital equity is a primary driver for Municipal Broadband PDX, which took the lead in applying to join the Accelerator. ("PDX" is the airport code for Portland International Airport, and also regularly used as a signifier of the Portland metropolitan area.) Serving the neediest is a primary mission for the county, Hanna said, but because Internet access is controlled by a for-profit industry, furthering high-speed broadband has been difficult.

"Equity was really the primary driver for Multnomah County, and for the four cities in eastern Multnomah County," said Hanna. "They quickly also joined both from an equity perspective but also from an economic development perspective. They saw the opportunity to attract and retain new businesses and kind of the local economic boom and local jobs. There's really kind of a compelling economic aspect to municipal broadband."

## CONNECTIVITY, PARTNERSHIPS KEY IN VERMONT

Connectivity is a primary issue for the town of Enosburgh, Vt. But Sean Kio, chairman of the Enosburgh Technology and Innovation Committee, said the town, which serves more than 2,700 residents in areas including the village of Enosburg Falls, has other motivations for joining the Accelerator, including a growing workforce it wants to retain, forging local partnerships, sparking creative tech work and potentially standing up a broadband network.

The quality of broadband access, provided by the private sector, can vary around the region, the chairman said, calling it “decent” in the village — which is within town boundaries — but somewhat slower in the town and elsewhere. Compounding the issue is the fact that most residents live outside the village. Joining the accelerator, Kio said, would enable the muni to explore closing its digital divide with education from partners — but also help attract and retain a younger workforce drawn by the lower cost of home ownership but seeking high-speed Internet.

“Enosburgh being a small community, not putting the town in any sort of financial burden long-term is always something to think about. I don’t think there’s a wrong answer. We’re currently in that process of looking at alternatives and what’s right for the community,” said Kio, who works for a fiber broadband company, Burlington Telecom, which provides TV, telephone and Internet to residents in Burlington, Vt.

GOVTECH.COM

BY THEO DOUGLAS / NOVEMBER 15, 2018

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## The Dollars to Shape Cities.

**The scale of the challenges facing cities is bigger than any public sector can handle. Here’s a look at different sources of private-sector capital, and the new and unexpected ways communities can access that capital.**

The more you go to city council hearings, town halls or other forums where cities are discussing affordable housing, economic revitalization or environmental sustainability, the more you hear it — like the refrain of a classic song that everybody seems to know, even if it’s not their favorite. It goes something along the lines of “the public sector will have to play a role, but it won’t be enough.”

The scale of the challenges at hand are just bigger than any public sector budget can handle — meanwhile, the private sector controls the lion’s share of capital.

But “the private sector” isn’t a monolith. There are different pools of capital with different constraints and means of accessing them. Below, we’ve compiled the basic facts about the main “buckets” of private sector capital, along with examples of how those in cities have gained access to them to meet the scale of the challenges they face.

Continue reading.

**Next City**

by Oscar Perry Abello

Nov 12, 2018

## Best Credit Data Launches BCD Municipal Bond Evaluation Methodology Version 2.0.

BOSTON, Nov. 14, 2018 /PRNewswire-PRWeb/ — Best Credit Data (BCD), a provider of municipal bond, corporate bond, private credit and syndicated/middle market loan pricing data and analytics, today announced the launch of BCD Municipal Bond Evaluation Methodology Version 2.0.

BCD provides evaluated pricing for over 1 million U.S. municipal bonds every day — including eight years of end-of-day history — to clients across a range of use cases, including banks, brokers, mutual funds, hedge funds and insurance companies.

“BCD combined input from industry recognized municipal bond evaluation experts, the experience and expertise of our developers and product management team, and the awesome computing power of Google BigQuery to develop our enhanced methodology,” stated Mark O’Brien, President of Best Credit Data. “Among other things, these enhancements enable us to better differentiate municipal bond evaluations via an increased number of sectors, among them state, use of proceeds and credit risk.”

James “J.R.” Rieger, an industry expert and the author of The Rieger Report, consulted on the project. “Best Credit leverages state of the art technology and an extremely refined methodology to deliver municipal bond evaluations designed to reflect the complexities of the municipal bond market,” Rieger said. “BCD’s evaluations are well suited to address workflow requirements across front, middle and back office applications.”

Tom Metzold, a municipal bond portfolio manager for over 28 years said Best Credit’s enhanced methodology checks all the boxes. “Financial institutions would do well to consider BCD as a primary or secondary source of municipal bond evaluations,” Metzold said.

In addition to delivering daily and historical evaluations via API and data feeds, Best Credit also provides clients with ad-hoc access via the BCD portal, an intuitive and easy-to-use platform. The portal is a cost-effective method to quickly view and download municipal and corporate bond data into a client’s workflow.

**About Best Credit Data, Inc.**

Best Credit Data, Inc., is a leading provider of municipal bond, corporate bond, private credit and syndicated/middle market loan evaluations and analytics to financial institutions across the globe. Based in Boston, BCD leverages observation driven methodology and big data cloud computing technology to provide a high quality and cost effective market data alternative.

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## JPMorgan Brings the Active vs. Passive War to the Muni Bond Market.

- **Bank starts two actively managed ETFs tracking municipal debt**
- **Firm says active approach enables funds to avoid credit issues**

The battle between passive and active fund managers is raging in most corners of the investing world. Now it’s coming to the $3.9 trillion municipal bond market with two new actively managed ETFs.

JPMorgan Chase & Co., which has $65 billion in muni investment assets, started two municipal bond exchange-traded funds in October that have attracted a combined $50 million in assets. Using active strategies, the funds can select bonds to avoid credit issues and won't "blindly invest" through indexes tracking what's often considered an opaque market, said Richard Taormina, a portfolio manager at JPMorgan Asset Management and head of tax aware strategies.

"Active is really the only way to go" when investing in municipal debt, Taormina said. "Passive provides you access, but it doesn't provide you opportunity."

Continue reading.

**Bloomberg Markets**

By Amanda Albright and Carolina Wilson

November 15, 2018, 10:22 AM MST

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## Fitch Ratings: U.S. Higher Education Can Absorb Pension Liabilities

Fitch Ratings-Chicago-08 November 2018: Unfunded pension liabilities make up a large chunk of a U.S. public university's overall financial leverage, though a new Fitch Ratings report says pension debt in and of itself is not enough to drive rating changes in the sector. Fitch is also planning to release its higher education criteria exposure draft for comment early next week.

One notable reason unfunded pension liabilities alone do not drive ratings is the U.S. higher education sector's tolerance for higher leverage overall. Another is that, unlike other revenue supported sectors like not-for-profit healthcare, colleges and universities may receive direct state funding support for pension liability. Like other subsets of public finance, Fitch treats an institution's unfunded pension liability or net pension liability (NPL) like debt when calculating financial leverage. Fitch treats lease obligations like debt for similar reasons.

Fitch sees an institution's business model as the fundamental bedrock when considering its rating. Acceptable levels of leverage at a given rating level vary across sectors because the relative strength of the business model can be very different. Under Fitch's framework, public higher education institutions with a strong business model can have many multiples of leverage compared to other kinds of entities that have a midrange business model.

The revised framework does not represent a shift in Fitch's approach to considering leverage in public institutions differently from their not-for-profit counterparts. This is demonstrated in Fitch's historical median data. The median level of available funds to debt at the 'AA' rating level is 94.2% for public universities, while the same ratio for a 'AA' rated private institution is much higher at 202.5%.

'Pensions in Public Higher Education: Not Expected to Drive Rating Change' is available at 'www.fitchratings.com'

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## Municipal Buyers Embrace Risk With Recycling Deals: Joe Mysak

- **Deal in South Carolina for expansion of wood pellet mill**
- **Unrated, high-yield deals sold only to qualified buyers**

The municipal-bond market is serious about waste.

Each week's calendar seems to contain some form of deal that promises to convert waste into something useful.

There's the California recycler that will save glass collection companies from having to pay to take hitherto unrecyclable glass to landfills. It will pay them instead to deliver all of their glass to a mill that will turn 100 percent of it into new glass and cement, among other things.

Or take the Arizona facility that will convert cow manure and food waste into methane, which will then be sold to British Petroleum.

Now comes the South Carolina Jobs-Economic Development Authority with a $12.1 million issue of revenue bonds for the Jasper Pellets LLC project. The proceeds will allow the company to buy, renovate and expand an existing wood-pellet production facility in Ridgeland, South Carolina, quadruple its production, and truck the finished product to Savannah, Georgia, where it will be shipped to Europe. The company already has a contract with CM Biomass Partners, a subsidiary of a Danish firm, for the pellets, which are used as fuel.

Jasper Pellets intends to buy its feedstock from lumber mills in Georgia and South Carolina. It's "generally sawdust and chips and other processing materials which are residual products with little economic value," in the words of the preliminary offering memorandum.

Like the glass recycler and cow manure processor, the pellets deal is unrated and being sold only to qualified institutional investors in $100,000 denominations. The recycler deal hasn't been priced yet. The $61 million cow manure bonds were priced to yield 7.5 percent in 2033. The feasibility study to the pellets deal presumes a 7.25 percent coupon.

These are designated Green Bonds and tax-exempt, unless you're subject to the alternative minimum tax.

It's hard not to imagine that these kinds of deals will be replicated in state after state. One banker told me he had bond issues for a plastic bottle recycler in the works, as well as for an anaerobic digester that would turn biodegradable material into gas.

The municipal market only re-embraced risky transactions like this, last common in the 1990s, in the last few years. This new generation seems to be on a little more solid footing, a little less speculative. And it is Feel-Good. It's hard not to root for worthy projects designed to help clean up the environment.

If you were looking for the Next Next Thing in municipal finance, this is it.

**Bloomberg Markets**

By Joe Mysak

November 9, 2018, 6:38 AM PST

(Joe Mysak is a municipal market columnist who writes for Bloomberg. The observations he makes are his own and are not intended as investment advice.)

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## Municipal Bonds Get a Boost in Midterm Elections.

James Iselin, managing director and head of municipal fixed income at Neuberger Berman, discusses how municipal bond initiatives fared in the midterm elections and what changes in state governments may mean for the market. He speaks with Bloomberg's Taylor Riggs in this week's "Muni Moment" on "Bloomberg Markets."

Watch Video.

**Bloomberg Markets**

November 7th, 2018

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## 'No Bold Bets' for Muni-Bond Managers Stung by Trump's Victory.

- **Trump's surprise win caused bond market to fall on rate fears**
- **Polls predict Democratic House, but they could be wrong again**

People who work in the municipal-bond industry describe November 2016 as "awful," "like staring down the bottom of a bottomless well," and simply "extreme."

Now, they're preparing for the prospect of another sell-off if Republicans score another surprise upset on Election Day and keep control of the U.S. House of Representatives. Such a scenario could cause bond prices to tumble on anticipation that Republicans will push through another round of tax cuts just as the Federal Reserve is raising interest rates to cool down the pace of the economy.

President Donald Trump's 2016 win pushed the municipal market to its biggest monthly loss since the recession.

"You have to take everything with a giant grain of salt," said Nicholas Foley, senior portfolio manager at Segall Bryant & Hamill LLC, who said he was prepared for an early morning on Wednesday if there is a surprise win by the GOP.

The firm has reduced exposure to long-dated hospital bonds, which could be hit hard if the Republicans keep control of Congress and make another effort to repeal the Affordable Care Act. At the same time, the firm is trying to make sure that it has "proper exposure" to municipals to benefit from Democrats winning control of the House, which could cause state and local debt to gain by diminishing the chances of deeper tax cuts or a rollback to the tax exemption for the income from the securities.

"There's a lot of uncertainty," said Foley, who compared the November 2016 sell-off to the bottomless well. "You can feel it in the market."

Given the chance of the polls being off, as they were in 2016 and in the U.K. Brexit vote, Vikram Rai, head of Citigroup's municipal strategy group, is telling clients to be cautious.

GOP control of Congress would be "material" because of the likelihood of a second tax-cutting round, which could threaten the tax-exemption on municipal bonds as lawmakers look to raise revenue, Rai said.

The 2016 elections and the tax law changes enacted late last year have ignited increased interest in federal politics from what's typically viewed as a buy-and-hold asset class. Among other steps, the Trump tax cuts reduced demand for bonds from corporations and limited the state and local tax deduction, which caused some residents of high-cost states to invest in municipal bonds to drive down their taxable income.

"I don't remember ever a time when we talked to clients more about it," said Tom Casey, a senior portfolio manager at Standish, a division of BNY Mellon Asset Management North America. While Casey said he's still focused on technical factors like supply and demand and what it means for the asset class, he said he's reading and talking about politics much more than usual in his career.

"We're clearly in different times than we have been in a long while," Casey said.

The midterms are arriving as state and local debt is headed for a 1.3 percent loss this year as interest rates tick up, the first drop since 2013. Investors are starting to pull their money out of municipal-bond mutual funds, with the funds seeing six weeks of outflows. With elections this week, supply has dwindled to just about $6 billion in bonds this week.

James Iselin, a managing director at Neuberger Berman, said he's been more cautious on the high valuation of state and local debt in general, and he's not making any big calls ahead of election night. "There's so many unpredictable outcomes, it's not a time to step out with any bold bets," he said.

Sweta Singh, a portfolio manager at Wilkins Investment Counsel Inc., said the firm's "bottom-up" analysis of credits it owns makes it comfortable with its municipal holdings regardless of what happens in Washington. It's still too early to forecast the way policies could shift, she said.

"For it to percolate to an actionable item, there's a gestation period and a time-lag," she said.

**Bloomberg Technology**

By Amanda Albright

November 6, 2018

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## Wall Street Muni-Bond Bankers Need Work. Voters Gave Them Plenty.

- **They approved at least $31.5 billion in new bonds Tuesday**
- **$76.3 billion in bond referendums on ballots most since 2006**

American voters gave plenty of work to Wall Street underwriters desperate for it.

Of the almost five dozen state and local bond measures asking for at least $200 million or more, voters Tuesday approved $31.5 billion, data from market research company Ipreo by IHS Markit shows. That's about 61 percent.

In all there were more than 690 bond measures across the U.S. ranging from as large as $8.8 billion to as small as $250,000, and a tally of how much of that was approved is still pending. Bond referendums that passed include $4 billion for affordable housing programs and veterans loans in California, $3.5 billion of school improvements in San Diego and $800 million in hospital improvements bonds in Tarrant County, Texas.

"A fair number of bond proposals were approved, that's good for supply," said Joseph Rosenblum, director of municipal credit research at AllianceBernstein.

The bond approvals come after the pace of new debt issues slowed this year, in part because of a surge late last year before the federal tax overhaul pulled the tax-exemption for bonds sold for a key type of refinancing. The support at the ballot box is unlikely to herald an immediate increase in debt issues, however, because the securities are often sold years after they're approved by voters.

Eight bond measures each asking for more than $200 million or more failed. Voters in California rejected an $8.9 billion proposal for water infrastructure and conservation and Colorado voters struck down two competing transportation bonds referendums totaling about $9.5 billion.

The nationwide election brought about $76.3 billion of bond referendums from California to Maine, the most in an election since 2006, according to Ipreo.

**Bloomberg Markets**

By Danielle Moran

November 8, 2018, 10:43 AM PST

*— With assistance by Amanda Albright, and William Green*

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## Fitch Ratings: Amazon HQ2 Split Has Muted Upside for New York & Virginia

Fitch Ratings-New York-07 November 2018: A prospective Amazon headquarter split between Long Island City in New York and Crystal City in Northern Virginia would have at most a muted impact on the economies and credit quality of Arlington County and New York City, according to Fitch Ratings. The final announcement is expected by year end, although it may come as early as later this week.

The total impact of HQ2 is expected to include 50,000 new employees with an average salary of over $100,000 within 15 years and more than $5 billion in investment over up to 17 years. The additional economic activity could positively affect two of the four local government key rating drivers Fitch assigns, revenue framework and long-term liability burden, over the long term. However, given the large size of the locations remaining in contention, any impact would be modest, particularly if HQ2 is split.

We do not expect much change in home prices in either location as healthy economic dynamics are already pushing up prices and supply should be sufficient to absorb the needs. The Washington, D.C. area is more likely to benefit than New York City as it has slower growth in rents and home prices.

Similarly, an Amazon HQ2 split would not have much effect on employment. An analysis conducted by Fitch earlier this year indicates that even the full impact of HQ2 would represent a modest 1.5% of the labor force in the Washington, D.C. Metropolitan Statistical Area (MSA) and only 0.5% in the vast New York City MSA. Both MSAs have low unemployment rates. The impact could be more significant if the new facilities attract substantial numbers of related jobs.

The direct impact on local government revenues from Amazon will be reduced not only by splitting HQ2 but also by anticipated state and local incentives. The winners and their surrounding MSAs will see some indirect benefit from increased tax revenues generated by employees and related businesses.

Fitch rates Arlington County ‘AAA’/Stable and New York City ‘AA’/Stable. Both already have ‘aaa’ assessments on their revenue frameworks. New York City has a weaker long-term liability assessment at ‘a’, but the incremental growth in the resource base from one of the HQ2’s would be insufficient to improve the assessment. Arlington County’s long-term liability assessment is already strong at ‘aaa’.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

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## States Resist Urge to Go on Spending Spree as Revenue Pours In.

- **General-obligation bonds of states outperform local debt**
- **Personal income tax revenue grows 11% in first half of 2018**

As a strong economy and federal tax changes boost U.S. state coffers, they've resisted going on spending spree.

Personal income taxes, which make-up about 40 percent of state government revenue, rose 11.2 percent in the first half of the year, as residents prepaid taxes before new limitations on state and local deductions kicked in. In addition, the limit's cap on property-tax deductions means that some will collect more revenue, since states use federally-adjusted income as a base for their taxes.

Yet states haven't ramped-up spending, with budgets growing about 3 percent in the fiscal year that begin July 1, according to the National Association of State Budget Officers. They employ 5.1 million people, same as the beginning of the year, and 30,000 less than last year, according to the U.S. Department of Labor.

"We expect states' top-line revenue to benefit through FY19-20 and are bullish on credit quality of state GO bonds in the near term," Barclays Plc's municipal strategists, led by Mikhail Foux, wrote this week.

State general-obligation bonds have outperformed local ones this year, losing 1.03 percent compared to 1.45 percent for bonds issued by cities, towns and counties, according to Bloomberg Barclays indexes. While a strong economy has increased local sales-tax revenue, the don't benefit directly from federal tax changes.

Almost 95% of state credit ratings are AA or higher, according to Barclays.

Forecasting state revenue has become more challenging because of federal tax policy changes, the volatility of capital gains and online sales, said Fitch Ratings analyst Laura Porter. Pension liabilities, healthcare and education funding continue to grow.

"States in general continue to be conservative," said Porter. "There's lots of uncertainty."

**Bloomberg Business**

By Martin Z Braun

November 8, 2018

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## CDFI Bond Guarantee Program.

**CDFI Bond Guarantee Program Benefits**

Through the CDFI Bond Guarantee Program, the Secretary of the Treasury makes debt available to CDFIs from the Federal Financing Bank. The loans provide long-term capital not previously available to CDFIs, and inject new and substantial investment into our nation's most distressed communities. The CDFI Bond Guarantee Program has guaranteed over $1.51 billion in bonds to date.

OPENING DATE
November 5, 2018

DEADLINE
February 26, 2019

ANNOUNCEMENT DATE
Fall 2019

OVERVIEW
Enacted through the Small Business Jobs Act of 2010, the CDFI Bond Guarantee Program responds to a critical market need—long-term, low-cost capital that can be used to spur economic growth and jump start community revitalization. Through the CDFI Bond Guarantee Program, Qualified Issuers (CDFIs or their designees) apply to the CDFI Fund for authorization to issue bonds worth a minimum of $100 million in total. The bonds provide CDFIs with access to substantial capital that is then used to reignite the economies of some of our nation's most distressed communities.

Unlike other CDFI Fund programs, the CDFI Bond Guarantee Program does not offer grants, but is instead a federal credit subsidy program, designed to function at no cost to taxpayers. The bond proceeds are debt instruments that must be repaid.

The Secretary of the Treasury provides a 100 percent guarantee on these loans, with a maximum maturity of 30 years. The Qualified Issuer sells the government-backed bonds to the Federal Financing Bank (FFB)—a government corporation that ensures the efficient use of federal financing—and bond proceeds are used to extend credit to CDFIs for community development purposes. The Qualified Issuer thus acts as a "go between" financier to the broader CDFI community.

CDFIs benefit from the potential scale of the CDFI Bond Guarantee Program, which offers long-term credit at below-market interest rates. This unique program incentivizes and empowers CDFIs to execute large-scale projects, including the development of commercial real estate, housing units, charter schools, daycare or healthcare centers, and municipal infrastructure. In addition to these projects, eligible CDFIs may use the capital to extend credit to other community development borrowers—or Secondary Borrowers—or refinance existing loans at low interest rates, freeing up capital for additional investments. By promoting large-scale, long-term investment, the CDFI Bond Guarantee program helps breathe new life into economically underserved areas.

For more information, please see our CDFI Bond Guarantee Fact Sheet.

Click here for Reference Documents.

Click here to apply.

ELIGIBILITY

There are separate eligibility criteria for an applicant to be deemed either a Qualified Issuer or an Eligible CDFI for the purposes of the CDFI Bond Guarantee Program.

For detailed information, please refer to the Notice of Guarantee Availability.

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## A Wall Street Haven for Democrats Has Reason to Cheer a Blue Wave.

- **Republican House win seen fueling another potential sell-off**
- **Another round of tax cutting could put pressure on rates**

There's one area of Wall Street where you can find a bit of blue in what's typically seen as a sea of red: public finance.

But the bankers and mutual fund managers who work in the $3.9 trillion municipal-bond market have professional reasons to root for Democrats Tuesday regardless of their political views. If Republicans defy polls and keep control of the U.S. House of Representatives, analysts at BlackRock Inc., Barclays Plc and Citigroup Inc. have predicted that bond prices may tumble on anticipation that Republicans will push through another round of tax cuts just as the Federal Reserve is raising interest rates to cool down the economy.

"The GOP retaining power in the House, even by the slimmest of margins, is bearish," said Vikram Rai, head of Citigroup's municipal strategy group. "I would expect you could see a selloff in the fixed-income markets altogether."

The Congressional elections come as bonds are under pressure because the economy continues to expand at a solid pace, holding unemployment at a near half-century low. The steady drumbeat of strong economic data has sent the municipal securities market to a two-month losing streak, causing investors to pull funds from state and local government debt funds for the past six weeks.

The pressure on the market would likely be worsened by another round of tax-cuts, which would reduce demand for tax-free securities and put more pressure on the Fed to raise rates by further fanning the economy. Last year's corporate tax cut also dealt a blow to Wall Street underwriters by doing away with the tax exemption on bonds sold for a key type of refinancing, helping spur a drop in new debt sales this year. To offset the cost of deeper reductions, a Republican-led Congress could chip away at the market's subsidies even more.

### Reinforcing Convictions

"Equity people are driven by: lower taxes mean higher earnings per share," said Craig Brandon, co-director of municipal investments at Eaton Vance. "If you're a fixed-income person, higher deficits might not necessarily be so good for Treasuries, state governments."

That may be reinforcing convictions in what's already a corner of Wall Street where Democratic politics mix well with business. Tax cuts at the local level tend to not be popular with bondholders, given that a smaller revenue stream increases their risk. And for securities firms, the big cities and states, such as New York and California that are a major source of new debt deals, skew Democratic.

Bankers tend to "see the view point of the people they represent — the larger issuers who tend to be Democratic," said Richard Ciccarone, head of Merritt Research Services, who has worked in the municipal bond industry for more than three decades.

Banks' public finance departments frequently include former Democratic officials. Chicago's chief financial officer, Carole Brown, previously worked for Barclays, and a current candidate for mayor,

Bill Daley, once worked for JPMorgan Chase & Co. Henry Cisneros, who led the U.S. Department of Housing and Urban Development under President Bill Clinton, and William Thompson, Jr., former New York City comptroller, are part of the leadership team at municipal-bond investment bank Siebert Cisneros Shank & Co.

**Dominant Banks**

But public officials say politics doesn't determine which banks underwrite their bonds — a business that's come to be dominated by Bank of America Corp., Citigroup and JPMorgan — and bankers are banned from making political donations to their clients under securities rules. Tim Schaefer, California's deputy treasurer, said political connections don't play a role in debt deals.

"It doesn't come up in my work at all," he said.

Still, the municipal-bond business stands to benefit from a Democratic advance. In Washington, Democrats are planning to push for major transportation and infrastructure plans if they win the House, picking up on a stated priority of President Donald Trump's that took a back seat to last year's tax cuts. Such a plan could involve subsidized bond sales by states and cities, as were included in the economic stimulus plan passed under former President Barack Obama.

State elections have implications as well, with Democrats seeking to chip away at the majority that Republicans have held in governors' offices since the Tea Party wave in 2010. In Illinois, Democrat J.B. Pritzker is the favored winner in his bid to unseat Governor Bruce Rauner, a Republican whose term was marked by battles with the Democrat-led legislature over his plans for turning around the state's finances.

Democrat Gretchen Whitmer, who is running for governor of Michigan, has made fixing roads and bridges a part of her platform, saying she would go to voters for a bond measure if the state legislature doesn't "sufficiently fund" an infrastructure bank. In Ohio, Democrat Richard Cordray is in favor of seeking voter approval for an infrastructure program financed by debt.

"If you're a banker, you want to do deals, you want to do projects," said Joseph Krist, a partner at research firm Court Street Group, who previously worked at UBS AG and is a Democrat. "It's kind of what we do."

**Bloomberg Markets**

By Amanda Albright

November 6, 2018, 6:29 AM PST

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## Facing Climate Change, States and Cities Seek to Borrow Billions.

- **Miami Beach, a harbinger of warming perils, floats bond issue**
- **'I don't think we can wait,' the Florida city's mayor says**

Dan Gelber, the mayor of Miami Beach, Florida, says climate change will be a homeowners' worst nightmare.

"If you own a home and you find that your roof has a problem or you find out there's a termite infestation, you have to take care of it," he said. "That's what climate change is. Sea level rise has

created challenges that have to be addressed. For local governments, they don't go away unless you do something about them."

That's why Miami Beach, where frequent flooding prompted by high tides have illustrated the risks of climate change, is asking residents for the power to pump more money into environmentally-friendly sidewalks, parks, and neighborhood improvements. The $439 million bond proposal would use a fourth of the proceeds to address the effects of climate change.

Continue reading.

**Bloomberg Climate Changed**

By Amanda Albright

November 5, 2018

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## EPA Selects 39 Projects to Apply for Water Infrastructure Loans.

**FY 2018 Selected Projects**

The WIFIA program is inviting 39 projects in 16 states and Washington, D.C. to apply for Water Infrastructure Finance and Innovation Act (WIFIA) loans. Together, the selected borrowers will receive WIFIA loans totaling up to $5 billion to help finance over $10 billion in water infrastructure investments and create up to 155,000 jobs. These loans will allow large and small communities across the country to implement projects to address two national water priorities – providing for clean and safe drinking water including reducing exposure to lead and other contaminants and addressing aging water infrastructure.

View one-page summaries of the FY 2018 selected projects.

See EPA's News Release to learn more.

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## CDFA Advocates for Permanent Category of Disaster-area Recovery Bonds.

Read the CDFA memo.

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## CDFA Reports Record Multifamily Housing Bond Issuance in 2017.

In 2017, the 50 states and the District of Columbia reported issuing a record $15.3 billion in multifamily rental housing bonds, representing a 9.3 percent increase from the previous record $14 billion reported issued in 2016, according to the Council of Development Finance Agencies (CDFA). The $21 billion in reported combined multifamily and single family mortgage revenue bond issuance represents a 13.6 percent increase in the portion of the cap used for housing from 2016, when states reported a total of $18.5 billion for housing bond issuance.

This record issuance for multifamily bonds comes during the year when Congress considered repealing the tax exemption for all private activity bonds, a proposal originally made in 2014 by then House Ways and Means Committee Chairman Dave Camp, R-Mich.

In 2017, the 50 states and the District of Columbia received $35.3 billion in new private activity bond volume cap allocation, according to CDFA in its report "CDFA Annual Volume Cap Report: An Analysis of 2017 Private Activity Bond & Volume Cap Trends." CDFA reports that the 2016 cap is an increase of 0.6 percent from 2016. This was in addition to more than $55.1 billion in existing carryforward allocation, making the total accessible amount of national volume cap approximately $90.4 billion. CDFA reported states issuing a record $24.9 billion in all private activity bonds in 2017, a 22 percent increase from $20.4 billion in 2016.

Of this total available, the combination of multifamily housing bonds and single family mortgage revenue bonds issuances represent 59.3 percent of 2017 cap and 84.4 percent of 2017 issuance.

The graphic below describes what CDFA found related to bonds issued for multifamily housing.

Continue reading.

**Published by Michael Novogradac on Thursday, November 1, 2018 – 12:00am**

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## Capital Markets Outlook: A Tough Road Ahead

**Interest rates, costs continue to rise for developers.**

All eyes will be on interest rates as the calendar turns to 2019.

The Federal Reserve raised its benchmark interest rate a quarter point, to a range of 2% to 2.25% near the end of September, the third hike this year. Additional increases are also expected in the months ahead.

"Interest rates have continued to increase, and the yield curve has flattened," says Richard Gerwitz, co-head of Citi Community Capital. "Those are the two outstanding changes in the capital markets this year. While we're still in a relative low point if you look over the last 30 years or more, rates have climbed and there's certainly concern that the trend will continue."

Continue reading.

**Affordable Housing Finance | Nov. 7**

By Donna Kimura

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## A Blueprint for Gridlock in the Markets.

Stocks enjoyed a relief rally on Wednesday, mainly because of the great relief that the midterm elections were finally over. By week's end, however, that relief faded, and the agita resumed.

Friday's 202-point drop in the Dow Jones Industrial Average wasn't enough to wipe out Wednesday's

545-point leap, however, and the blue chips ended up 718 points, some 2.8%, for the week. Over the past two weeks, the Dow tacked on 1,301 points, or 5.3%, for its best fortnight in two years. That, of course, came after October's 5.1% shellacking.

For the financial markets and the economy, the as-expected election result of Democrats gaining control of the House of Representatives and Republicans retaining the Senate makes possible a variety of outcomes. Most depend on whether the new Congress cooperates or clashes with President Donald Trump. What can be confidently predicted is continued massive budget deficits.

Democratic control of the House probably means no further middle-class tax cuts, according to Fitch Ratings, although fiscal "consolidation" also isn't apt to be a priority for the Dems. The taxing and spending policies are likely to continue, Northern Trust economists add, which bodes poorly for the fiscal outlook. "Despite strong growth and exceptional corporate profits, government receipts were flat in the last fiscal year, thanks to tax reform," they observe. And with the loosened spending curbs, the federal deficit may reach $1 trillion this year.

Infrastructure investment may be one area of agreement between the parties, although Fitch notes that there is no clear consensus on the details, notably funding. In a paper released last February, the Trump administration recounted a proposal made a year earlier to use $200 billion in federal spending to seed $1.5 trillion in projects paid for mainly by state and local governments. Little has been heard of this recently. In contrast, Rep. Peter DeFazio, an Oregon Democrat who is set to become chairman of the House Committee on Transportation and Infrastructure in the next Congress, has proposed bankrolling projects by issuing $500 billion in 30-year bonds and indexing federal fuel taxes to inflation.

Court Street Group, a municipal bond advisory, argues that Democratic control of the House increases the chances of reviving Build America Bonds, which were taxable munis with a federal subsidy that were issued to fund capital projects in 2009 and 2010. If the ideas of issuing more long-term Treasuries and reviving Build America Bonds for infrastructure sound familiar, they were proposed by Barron's in December 2016. (For other ideas for fixing the budget, see this week's Streetwise.)

In the meantime, the only certainty is that the national debt will continue to climb. Northern Trust points out that a new deal to raise the debt ceiling will be needed when the present suspension ends on March 1. In the meantime, gridlock is the most likely outcome, according to Greg Valliere, chief global strategist for Horizon Investments, given the probability of the House focusing on investigating Trump, who will fight back by demonizing Nancy Pelosi, the California Democrat who may well return as Speaker of the House.

For the markets, Federal Reserve policy and China remain "huge wild cards, but economic fundamentals will dominate—and those fundamentals look solid," he concludes. For now, anyway.

**Barron's**

By Randall W. Forsyth

Nov. 9, 2018

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## Investors Speculate on Return of Crisis-Era Build America Infrastructure

## Bonds Under Split Congress.

**This infrastructure-bond structure, backed by federal subsidies, could face uphill battle in Congress**

With Democrats sweeping into the House in the midterm elections, analysts are touting the potential comeback of crisis-era municipal bonds as part of a broader infrastructure bill.

Talk of major infrastructure legislation has gained ground as investors marked it out as the rare area where Democrats and President Donald Trump shared common ground. That has drawn speculation of the potential re-introduction of Build America Bonds, taxable municipal bonds issued by local governments to finance infrastructure projects, that came to life in 2009 when former President Obama launched a wave of fiscal stimulus measures to revive a recession-hit economy.

“It may be brought back in some form,” said John Mousseau, director of fixed income at Cumberland Advisors.

The need for infrastructure spending has been felt on both sides of the aisle. The American Society of Civil Engineers estimated the total cost of leaving the U.S.’s potholed roads, aging airports and rusting bridges in disrepair amounted to more than $4 trillion by 2025. They estimated the gap needed to keep U.S. existing infrastructure in adequate shape at $1.4 trillion.

In Trump’s earlier plans, he proposed the federal government would chip in with more than $200 billion through tax incentives and grants. This would serve as seed money to attract another $1.3 trillion from businesses and local municipalities, the administration had proposed.

“We have a lot of things in common on infrastructure,” Trump said of the two political parties at a White House news conference after the midterm election results.

BABs have been touted as one solution to shoring up America’s ailing infrastructure in part because of a strong track record in a period when local governments struggled to gain access to bond markets.

The U.S. Treasury sold more than $180 billion of BABs in their short existence before they were phased out in 2010. Some of the bonds still remain in investors’ portfolios, including in the Nuveen Build America Bond Fund NBB, +0.16% and in the Taxable Municipal Bond Trust BBN, +0.20% .

Backed by federal subsidies that lower costs for the local issuers, BABs were able to offer richer yields, a feature designed to compensate for their lack of tax-exempt status but also to make them competitive against higher-yielding corporate bonds. BABs attracted a pool of non-traditional buyers including pensions funds and foreign investors, who were unable to take advantage of the tax-exempt income from municipal bonds.

But talk of federal subsidies means a municipal bond issue constructed similarly to BABs would likely face an uphill battle in Congress, even when Trump voiced support for infrastructure spending throughout his presidency.

“Resistance to the required spending, in the form of annual interest subsidies, is likely, especially as the growing budget deficit is poised to become a contentious issue in the new Congress,” said Alan Schankel, municipal strategist at Janney Montgomery Scott.

After the tax cuts, fiscal conservatives in the Republican-controlled Senate may be unwilling to support another deficit-widening stimulus measure. The budget deficit is on record to widen to a

trillion dollars by 2020, according to the Congressional Budget Office. Treasury bond issuance is set to rise to a more lofty $1.34 trillion this year.

And analysts say it's not clear if Congress needs to bring BABs out of retirement when the tools at hand may be sufficient.

With municipal issuance muted relative to last year, the demand for tax-exempt yield has largely ensured the success of infrastructure bond deals, meaning there are buyers in abundance and projects are getting funded. According to the Securities Industry and Financial Markets Association, municipal bond issuance is down 14% year-to-date from 2017.

Mousseau pointed to the strong demand for recent multibillion dollar bond sales funding a new terminal in New York's LaGuardia airport and a replacement for the Tappan Zee bridge, both of which relied on a mix of taxable and tax-exempt municipal debt.

"Big deals have had no problem selling bonds," said Mousseau.

**Market Watch**

by Sunny Oh

Published: Nov 9, 2018 7:58 a.m. ET

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## Finance Employees Are Fastest-Growing Segment of Local Government Workforce.

**Local governments in nearly all states reported slight increases in staffing for accounting, budgeting and other areas of public finance.**

Most local governments haven't been on hiring sprees lately. But one area where they appear to be adding employees is finance.

The latest data from the Census Bureau's Annual Survey of Public Employment and Payroll shows that employees working in finance-related roles increased 5.4 percent between 2014 and 2017. While that might not be a big jump, it's significant in that it's the highest of any workforce category tracked in the Census survey.

Finance jobs peaked in 2008, subsequently declined as governments made recession-era cuts and then changed little until 2016. Since then, they've expanded at roughly double the rate of total local public-sector employment when education jobs are excluded. Other areas of local government experiencing noticeable growth, albeit at a slower pace, include transit, fire departments, parks and recreation.

Continue reading.

GOVERNING.COM

BY MIKE MACIAG | NOVEMBER 6, 2018

## Stormwater Greening Is Good for Business.

**Digging into the successes and stumbles of Philly's ambitious 25-year stormwater mitigation plan.**

Five years ago, Philadelphia civil engineer Dennis Shelly glimpsed a business opportunity lying out in the open — or more precisely, he spied that opportunity from 22,000 miles in orbit. Satellite images made plain an idea back on Earth that has since helped him grow a business that moves water around just below the planet's surface.

Shelly heads PEER Environmental, an engineering and design firm that in its fifth year is well on the way to revenues of $1 million. PEER's specialty is green infrastructure — green rooftops, rain gardens or infiltration beds — on big plots of land. This, to shift stormwater so that it's absorbed into the ground and kept out of the city sewers. Shelly's clients are rewarded handsomely by the Philadelphia Water Department (PWD), which not only cuts their water bills — by as much as 80 percent, which can translate to tens of thousands of dollars per year — but also supplies grant funding to execute the projects. His job is the behind-the-scenes (well, underground, mostly) work of using gravity, stone, pipes, dirt and plants to manage how fast water seeps into the ground, where it can soak in gradually or even evaporate.

In 2010, the PWD changed how it calculated stormwater fees for large private customers, including big institutions and property owners. Instead of levying a fee based on monthly metered usage, the utility rolled out new rate calculations over several years based on how much area of a business's surface area, including roofing, was covered by impermeable concrete or asphalt — materials that channeled water away from buildings and into the overtaxed sewer system. The less permeable the materials, the higher the fee.

Continue reading.

**Next City**

by James A. Anderson

Nov 5, 2018

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## With Their Powers Combined, Local Governments are Changing the Clean Energy Landscape.

These days, it seems like actions by subnational governments to promote clean energy and address climate change are all the rage. Yet for all of the commendable measures from states, from emissions pledges to renewable energy or energy efficiency targets, actions at the local level are driving real, measurable change. More than 80% of the U.S. population lives in urban areas, and with fewer legal and logistical hoops to jump through, local governments can provide significant market pull for innovative clean tech.

Some recent examples illustrate cities' abilities to manufacture considerable demand for clean energy, especially when they band together. In August, a coalition of 20 U.S. cities—including Atlanta, Boston, Chicago, Houston, Los Angeles, and Phoenix—issued a Request for Information on

how they could best purchase enough renewable energy to cover their aggregate municipal electricity demand of 5.7 terawatt-hours (enough to power about 500,000 average U.S. homes). The request acknowledges that most respondents are not in a position to meet 100 percent of the coalition's stated load, and is open to proposed projects that provide ancillary benefits, including local economic benefits and educational opportunities. This opens the door to a broad array of viable options, including demonstration-scale projects showcasing innovative technologies that can be used to inform residents and visitors of the cities' commitment to clean energy.

A similar effort is taking place with electric vehicles for municipal fleets across the country. After a successful Request for Information received 40 responses across all vehicle segments, Climate Mayors—a bipartisan network of over 400 mayors from nearly every state—launched an Electric Vehicle (EV) purchasing portal in September for municipal governments interested in greening their fleets. The portal is a one-stop, turnkey solution for mayors of some of the largest cities in the country; when viewed in conjunction with recent action at the federal level to boost DOE's Advanced Technology Vehicle Manufacturing Program, there is an unmistakable trend of increasing technology push and market pull in the EV space.

These are just two of the higher-profile opportunities that are being spearheaded at the local level, and highlight the collective influence cities can have. But smaller-scale opportunities present themselves every day, from a 200 megawatt Request for Proposals in Austin, TX, to a solicitation for a mere 10,000 kilowatt-hours per year in Caroline, NY (population: 3,481).

American cities are growing, and they represent a reliably constant source of demand for energy, and for clean energy in particular. There are opportunities out there for companies of every size to gain a foothold in this booming market.

by Taite R McDonald and Michael Obeiter

October 24 2018

**Holland & Knight LLP**

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## P&G Agrees to Settlement Over "Flushable" Claims.

Several years ago, consumers filed class action complaints against Procter & Gamble, alleging that P&G falsely advertised its Charmin Freshmates Flushable Wipes as "flushable."

Recently, the parties asked the court to approve a settlement of the class action, which included consumer refunds of 60 cents for each package they bought and payment to the attorneys for fees and costs of approximately $2.1 million. As part of the settlement, P&G agreed that the wipes — which have now been reformulated — would comply with various testing protocols and would include a statement on the packaging which says, "Use only in well-maintained plumbing systems."

The plaintiffs alleged that although P&G made claims such as "flushable," "septic safe," and "safe for sewer and septic systems," the wipes were not actually suitable for disposal by flushing down an toilet, are not regarded as flushable by municipal sewage system operators, do not disperse upon flushing, and routinely damage or clog plumbing pipes, septic systems, and sewage lines and pumps. P&G denied the allegations, maintaining the wipes performed as advertised.

When the FTC revised its Green Guides in 2012, it wrestled with the issue of whether to include

guidance on how consumers would interpret flushable-type claims, but ultimately decided it didn't have enough information to do so. At the time, the FTC wrote that, "because the record contains no evidence regarding how quickly consumers would expect a substance disposed of in the liquid waste stream to fully decompose, the final Guides also do not provide general guidance on this issue." Even without issuing specific guidance, however, the FTC has gone after "flushable" claims in the past as well.

With all green claims — regardless of whether the FTC has provided specific guidance about them — it's important to consider whether consumers will experience the full, intended environmental benefit. Even if a product may be technically "flushable," for example, you'll also want to consider whether the product will perform as consumers will reasonably expect, and whether there will be any unexpected, adverse impact.

by Jeff Greenbaum

November 5, 2018

**Frankfurt Kurnit Klein & Selz PC**

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## America's Largest Three Cities' Financial Condition Is Scary.

Just in time for Halloween and Día de los Muertos (Day of the Dead), municipal finance watchdog, Truth in Accounting (TIA) published its financial analysis on the United States' top three most populated cities–New York, Los Angeles, and Chicago. Unfortunately, the fiscal condition of these cities is scarier than any costume you have seen this week.

TIA, a non-partisan, not-for-profit municipal finance organization created in 2002, gave New York and Chicago a failing grade of 'F' and Los Angeles only a notch above, a 'D.' New York City only has $58.5 billion in assets to pay $244 billion in liabilities. Growing retiree health costs are a primary reason for this shortfall. This significant gap means that every New York City resident has a tax burden of $64,100; moreover, this burden grew by $1,600 since last year and has grown every year since 2014. To put that number into context, the median household income in New York City is $60,879.

Continue reading.

**Forbes**

by Mayra Rodriguez Valladares

Nov 1, 2018

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## Meet the Municipal Bond Investor Who Looks Everywhere for Deals.

Nothing hampers a good money manager quite like a restrictive investment style. This can be especially so with bond managers, as bond returns are generally lower than those of stocks and often similar for specific kinds of bonds that move in lockstep with another, so long as none default.

Of course, flexibility's no guarantee of success. After deducting their fees, managers with bad luck or little skill will underperform their benchmarks even more than index-hugging peers if they choose to "think outside the box" with the wrong securities. But for a skilled manager, a go-anywhere style will produce the best results.

Such is the case with Adam Weigold of Eaton Vance Municipal Opportunities (ticker: EMOAX).

"We started this fund in 2011 as one that would have full flexibility to go anywhere in the muni market and essentially seek out the best returns," Weigold says. "Back then, that was very unusual in our market." Such flexibility has enabled him to beat his benchmark—the Bloomberg Barclays Municipal Bond Index—and 97% of his peers in Morningstar's Muni National Intermediate fund category over the past five years. The $1 billion fund's cumulative return since its May 2011 inception is 42%, versus the benchmark's 31%, and almost double the fund category's 23% average.

And that's despite having a higher-than-average 0.96% expense ratio.

The municipal-bond market favors managers who do deep credit analysis because it's so opaque and fragmented, allowing investors who turn over a lot of rocks to find undiscovered gems. "There are about 60,000 credits in our market with 1.2 million Cusips [the equivalent of ticker symbols for stocks]," Weigold says. "We have one of the deepest benches in credit research here with 16 analysts."

A favorite strategy currently that plays to Eaton Vance 's analytical strengths is to find possible takeover candidates in the municipal hospital sector. Bonds for takeover targets usually receive a credit rating upgrade when they're acquired by a bigger hospital with a stronger balance sheet. Such upgrades also cause the value of their bonds to rise.

"Look at Care New England Health System (Cusip: 14165LAA3), which is our fifth-largest holding," Weigold says. "This is a BB-rated hospital [in Rhode Island] that is currently being acquired by Partners HealthCare, which is located up here in Boston and is an AA-rated hospital. So when that merger occurs, the bonds that I bought at a BB level will become AA and the yield spreads [between the lower-rated and higher-rated bonds] will compress as prices go up." In consequence, Care New England has been one of Weigold's best performers. As of the end of September, such hospital bonds accounted for 21% of his portfolio.

While credit research is vital to Weigold's strategy, the best bonds in the wrong sector for the current macroeconomic environment often still won't work. So he adjusts his portfolio based on his macro outlook. This year, the fund increased its weighting to 18% in floating-rate muni bonds such as those issued by Connecticut's Hartford HealthCare Obligated Group (20774YVL8) and New York's Triborough Bridge & Tunnel Authority (89602N6Q2). Such bonds adjust their yields with interest rates, acting as a "defensive strategy" in our current rising interest-rate environment.

An alternative defensive strategy would be to buy regular short-term bonds that are less sensitive to rate increases. Yet Weigold says "everybody and their brother is doing that," and, as a result, "the front end of the muni yield curve has gotten a little rich." Still, he has been buying lower-quality B- to BBB-rated short- and intermediate-term bonds with durations in the one-to-five year range, which he says offer better value: "That has been one of our big calls this year so we could take some interest-rate risk off the table but not necessarily give up the income. And that has been a good place to be year to date." As of Sept. 30, 44% of the fund was in bonds rated BBB or below, an increase from 35% a year ago.

The other big macro theme that Weigold is focusing on is the recent federal tax reforms' impact on

munis, which is far more complicated than it appears on the surface. For instance, while the decrease in the top federal income-tax rate from 39.6% to 35%, and the corporate tax rate, from 35% to 21%, makes muni returns less attractive to individual and corporate investors, the capping of the state and local tax, or SALT, deduction at $10,000 makes munis much more attractive in high tax states like California and New York, as high earners can no longer write off much of their income.

“The SALT deduction cap is going to hit these tax payers in high-tax states much more than they realize,” Weigold says. “They’ll be looking to shield their income once they do their taxes in April.” Almost a year ago, he had 11% of his fund in California bonds, but has since reduced that weighting to 8% because of valuation concerns and shifted assets to New York ones, which are now 16% of the fund. “California demand has been off the charts because it has a top tax rate of 13%,” he says.

Another tax-reform-related strategy is to buy bonds subject to the alternative minimum tax, or AMT, which exists to ensure that the highest earners pay some tax. AMT bonds were once considered unattractive because the wealthiest investors couldn’t benefit from the bonds’ tax-free yields. But the new tax laws will dramatically reduce the number of rich Americans subject to the AMT from five million in 2017 to 200,000 this year, according to Tax Policy Center’s estimates. That means AMT bonds, which generally yield more than non-AMT ones to entice investors to buy them, will now be tax-free for more investors. One of Weigold’s largest positions, a BBB-rated muni bond for Delta Airlines (650116CG9) to build a new terminal at LaGuardia Airport in New York, is an AMT bond.

“The idea is that come April of next year, when muni buyers figure out they’re not subject to AMT, they might be more interested in paying for AMT bonds,” Weigold says. “So we’ve increased our AMT exposure to almost 15% from about 9% earlier in the year.” It’s that sort of astute maneuvering that should help Weigold stay ahead of his peers going forward.

**Barron’s**

By Lewis Braham

Nov. 1, 2018 11:08 a.m. ET

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## Report Recommends Ways for Cities, Schools to Finance Electric Buses.

**Dive Brief:**

- The U.S. PIRG Education Fund released a report examining how transit agencies and school districts can finance a switch from diesel or natural gas to electric buses, considering the higher up-front electric bus cost remains the largest deterrent.
- The report suggests that cities consider financing through municipal bonds, local option transportation taxes and federal, state and regional grant or incentive programs. It also suggests partnering with utilities to lock in favorable rate structures to help with the cost of charging vehicles.
- The report explains that initially, electric transit buses are 40% more expensive than diesel versions, and electric school buses are more than double the cost of diesel versions. However, electric buses reportedly provide cost savings over their complete lifecycle.

**Dive Insight:**

The report recommends that cities and school districts immediately stop purchasing diesel buses

and commit to a transition to electric buses by 2030 to reap the most health, environmental and long-term cost benefits.

Municipalities frequently struggle with the best way to fund programs and big ticket purchases with their tight budgets and sometimes waning financial support from the federal government. Electric buses are one item that some cities are hesitant to adopt solely because of the high cost of purchasing the vehicles and necessary infrastructure.

But price differences between electric and diesel or natural gas buses continues to narrow as the market expands and technology improves. The report offers formulas for calculating cost differences between electric and diesel buses as well as operating costs over time. Those and the financing recommendations could help municipalities discover viable solutions for making the transition to electric vehicles.

**Smart Cities Dive**

by Katie Pyzyk

Oct. 31, 2018

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## Credit Rating Superdowngrades Only Confuse Investors.

**What does it mean that S&P lowered Illinois sales-tax bonds five steps in one shot?**

Coming into this week, Illinois's $2.5 billion in sales-tax bonds carried an AA- grade from S&P Global Ratings, the fourth-most pristine rank. By the firm's own system, that signified "very strong" financial security characteristics differing only slightly from those rated higher.

In one fell swoop on Tuesday, S&P slashed those bonds by five steps. At BBB, just two levels above junk, that same debt suddenly has merely "adequate" protections that could be threatened by an economic downturn.

I have colloquially referred to this type of large rating cut as a "superdowngrade" in the past. Usually it happens to smaller borrowers facing some unexpected and specific source of financial stress. In the case of Illinois, though, S&P simply revised its criteria for priority-lien tax revenue debt and ratcheted the ranking lower accordingly.

For the moment, set aside the question of which rating is more justified. This sudden and drastic action does nothing but create confusion for bond investors. It reinforces how rating companies still struggle to properly grade municipal debt, which can be backed by various revenue streams and have different levels of legal protection from state to state. S&P's move isn't exactly a ringing endorsement for its judgment when looking to buy bonds in Illinois.

This is hardly the first such instance of credit ratings in Illinois that jolt the $3.8 trillion municipal market. In fact, those same Build Illinois bonds were downgraded five levels in May by Fitch Ratings, which also cited revised criteria that required it to give greater consideration to the state's general credit quality. In 2015, I wrote about how Chicago's sales-tax debt was rated AAA by S&P but considered junk by Moody's Investors Service because of differences in how the two firms evaluated such securities. Investors had trouble figuring out the right price.

Speaking of Chicago, this shake-up comes at an awkward time for the Windy City, which was supposed to be in the market this week selling $1.3 billion of debt through its recently established Sales Tax Securitization Corp. It postponed the deal because of what a Chicago spokeswoman called "recent market fluctuations," though some investors speculated that S&P's move rattled the market. Bloomberg News's Elizabeth Campbell reported that debt due in 2053 was being offered for a top yield of 4.37 percent. For Chicago, that's quite cheap borrowing if it can still get it.

But back to the Illinois bonds. S&P's report says they have a "strong credit structure that we believe largely insulates bondholders from economic and revenue volatility." That sounds about right for the previous AA- rating. But then it goes on to say this:

> "To date, the Build Illinois bond program's authorizing legislation has restricted its use to financing capital and infrastructure projects. While this remained the case even throughout the state's two-year budget impasse, future legislatures could enact laws broadening the program's allowable uses … in a scenario of severe fiscal distress, which we believe the state is susceptible to experiencing, a legislative expansion of the Build Illinois bond program's authorized uses is conceivable."

Those are two radically different views of the perceived safety of Illinois's sales-tax bonds. On the one hand, investors are well-protected from any economic downturn or revenue shortfall. But also, everything could change, particularly in the not-that-improbable case of severe fiscal distress. Talk about whiplash — which is it?

In truth, the new BBB rating is probably the right one, and anyone buying bonds tied to Illinois (with a BBB- grade overall) probably knows it. But that still doesn't excuse that it took so long to happen. Credit-rating firms suffered serious blows to their reputations during the financial crisis. Moody's, S&P and Fitch also settled claims in 2011 that they unfairly gave lower grades to public bonds than they should have. Altering their criteria to better reflect creditworthiness is necessary, of course, but when it happens regularly and involves a massive shift up or down the ratings scale, it's fair to question why the old model was so off-base.

Muni mutual-fund managers will say that they do their own analysis rather than rely on ratings. The mom-and-pop investors who frequent the tax-exempt bond market don't all have the same luxury. Sure, these grades aren't a perfect science. But considering all three firms both trace their roots back more than a century, you'd think there'd be just a bit more consistency.

**Bloomberg Markets**

By Brian Chappatta

November 1, 2018, 5:00 AM PDT

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## The Muni Meltdown that Wasn't.

The Muni Meltdown That Wasn't, a Bloomberg Brief, discusses the "inexpert testimony" that flew fast and furious during the panic of 2010 and questions why the opinion of non-experts was taken so seriously – especially in light of the fact that none of their dire predictions about an imminent municipal bond market collapse came to pass.

The brief analyzes the predictions, hyperbole, and fact, and provides five major lessons learned:

1. The municipal market is particular and specific to a remarkable degree. Hysteria proponents either ignored or didn't know about the incredible variety of securities and credits sold generically as "municipal bonds.'' They generalized.
2. Beware inexpert testimony; not all points of view are legitimate and credible.
3. Many of the dire predictions about the market were politically informed.
4. Municipalities that are legally allowed to file for Chapter 9 will do all they can to avoid it.
5. Twitter is a good source of breaking news and analysis; dismiss it at your risk. (The paper dates the "muni market meltdown hysteria" as starting in 2009, at which point those who understood the municipal market weren't talking about it on social media. That had started to change a few years later, and if the inexpert testimony had started then, "any such 'meltdown' call would have been mitigated, even refuted, by the very same Internet that had given birth to it.")

Wednesday, February 4, 2015

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## Meredith Whitney Was Flat-Out Wrong About Municipal Bonds.

**Her call on massive state and local government defaults was way too early and might never pan out.**

That's what Howard Marks, chairman and co-founder of Oaktree Capital Group LLC, wrote in a memo to clients about 11 years ago. Around that same time in late 2007, banking analyst Meredith Whitney made a prescient negative call on Citigroup Inc. that exacerbated a market sell-off and, she said, prompted death threats. Perhaps emboldened by that experience, she made another headline-grabbing prediction in a December 2010 broadcast of CBS Corp.'s "60 Minutes" program: There would be "50 to 100 sizable defaults" in the U.S. municipal market in the coming year, totaling "hundreds of billions of dollars."

That didn't happen. Her call was widely ridiculed — and remains so to this day — by members of the $3.8 trillion municipal market. In November 2014, Bloomberg News's muni maven Joe Mysak provided a comprehensive takedown: a 34-page special report titled "The Muni Meltdown That Wasn't."

Well, she's back. Or, at least, the ideas that Whitney represents. The Wall Street Journal published an article last week titled "Prophet of Muni Market Doom Wasn't Wrong — Just Early." The takeaway is that Whitney simply erred by putting a precise number and time period on her prediction, but her analysis was sound.

"Since then a dramatic decline in the finances of state and local governments has made it increasingly likely that she will be remembered as right but early. Municipal bond investors should heed the warning … ratings firms and fund managers in the sleepy sector operate under the assumption that everything will somehow continue to work out."

First of all, Whitney is hardly a "prophet." Six months before her "60 Minutes" appearance, none other than Warren Buffett predicted a "terrible problem" for state and local government debt in the years ahead. Second, a large swath of investors in the so-called sleepy market were wide awake ahead of defaults from Detroit and Puerto Rico. Their reckoning was a long time coming, and many of those bonds wound up in the hands of distressed funds. Lastly, a reminder: Being early is the same as being wrong.

Few muni investors are oblivious to Whitney's criticisms of state and local government finances. I've read her book, "Fate of the States: The New Geography of American Prosperity." It's easy to fly through because the analysis is uncomplicated and it repeats the same conclusions. Some states (primarily on the coasts) have too much debt and have inflated promises to retirees, the argument goes. People will take note and pack up for places with lower tax rates and cheaper cost of living.

No one's denying that's what happened over the span of decades in Detroit, nor that a population exodus helped exacerbate Puerto Rico's woes. Illinois, the lowest-rated U.S. state, is starting to face a similar problem, with a steady trickle of outmigration for four consecutive years. The Chicago Tribune's editorial board declared that "what we call the 'Illinois exodus' is real." I've written about how Connecticut officials shouldn't outright dismiss the possibility that the state could one day default, in no small part because of demographic shifts.

The thing that Whitney and her ilk failed to grasp was that for all but the most distressed cities, the issues of a demographic death trap and pension funding remain firmly a long-term question — even now, eight years later. Yes, maybe state and local governments could have done more to shore up their systems during this bull market in stocks. But their tax revenue exceeded their 2008 levels only once in the following six years as the economy recovered from the recession, according to Census Bureau data. That's hardly a palatable time to dump money into pensions.

And yet the plans as a whole aren't in as dire shape as many might think. A study last year by Milliman found the aggregate funded ratio of the 100 largest public pension plans was 70.7 percent, even though one-third of the funds reduced their discount rates, which makes their figures look worse (though probably more truthful). A 100 percent ratio isn't necessarily optimal at a given point in time — in fact, research suggests 80 percent is a reasonable level. Taken as a whole, state and local government pensions aren't so far off that a doomsday is inevitable.

Not surprisingly, the outliers steal the spotlight. "Zooming in on the weakest links is downright scary," the Whitney article says, pointing to Connecticut, Illinois and New Jersey. It's true that those states have real problems and politicians can no longer employ the tried-and-true method of passing the burden to their successors. But the death knell isn't necessarily higher interest rates, as the article describes. In fact, for pension funds, which invest a healthy amount in fixed income, a return to historically normal yield levels should provide a source of safe returns that was absent for much of the post-crisis era.

It's fair to ask whether some states and cities are prepared to withstand another deep recession. Or whether 177 basis points of extra yield is enough to compensate for the risk of owning Illinois debt versus top-rated munis. But it's simply revisionist history to say Whitney was right all along with her 2010 call, which ignited a bout of panic in the municipal market about events that never materialized. The truth is, she whiffed.

**Bloomberg Opinion**

By Brian Chappatta

October 30, 2018, 2:30 AM PDT

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## KBRA Releases Public Finance Research Report: Untapped Resources May

## Help Fund Pension and Infrastructure Shortfalls

NEW YORK–(BUSINESS WIRE)–Kroll Bond Rating Agency (KBRA) comments on the substantial assets many state and local governments control in the research report, "Untapped Resources May Help Fund Pension and Infrastructure Shortfalls." The report notes the benefits of using assets to fund critical public sector needs and further details the principal credit considerations for state and local governments.

KBRA describes two examples of state owned assets being used or considered for addressing unfunded pension liabilities. Firstly, New Jersey has contributed its statewide lottery enterprise to its pension funds. Also, Connecticut is considering a similar approach with its lottery or other assets. State and local officials face difficult choices with limited resources as they develop programs that use assets to solve critical funding shortfalls.

October 30, 2018

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## Higher Revenues, Restrained Spending Boost U.S. States' Credit Quality.

NEW YORK — The credit quality of U.S. states is improving, with revenue growth and spending moderation helping to halt a downward trend, according to a report to be released later on Tuesday.

States' revenue growth is higher than national economic growth in current dollars, the bi-annual report from global investment management firm Conning Inc found.

The boost in credit quality to "stable" is Conning's first higher outlook, up from "declined," on states in two and a half years. The firm manages more than $9 billion of municipal bonds in client portfolios.

"There's no reason to believe that this shouldn't continue for a while," Paul Mansour, head of Conning's municipal credit research, told Reuters.

Understanding credit trends can help investors determine how to buy and price bonds and businesses decide where to locate.

States struggled after the 2007-2009 recession, some cutting spending because businesses closed and residents lost jobs or earned less and therefore paid less in taxes.

Economies have improved since then. In late 2017, Moody's Investors Service had a stable outlook for U.S. states because of modest, continued revenue growth.

Fitch Ratings also had a stable outlook, sounding a note of caution about uncertainty over federal tax policy and politics.

And while equities markets have taken a beating lately, that is not likely to be reflected in state pensions' funded ratios because of a lag in reporting. Most of them will report later this year on fiscal 2018 results through June 30.

State revenues grew 7.4 percent during the 12 months that ended June 30, to $1.03 trillion, Conning's report noted.

Strong consumer confidence manifested in sales tax growth as personal incomes rose. States are also exercising caution on both debt issuance and expenditures, Mansour said.

Many states have used their revenue surges to bolster rainy day funds, even Connecticut. Previously among Conning's five lowest rated states, Connecticut's rainy day replenishment helped it rise to the 44th spot, as did the weakening of some other states.

Mississippi, Louisiana and Kentucky are Conning's three lowest ranked states, with Colorado, Idaho and Utah ranked highest.

"Economic growth throughout the country has lifted all boats. The raw scores have all improved. Home prices increased in all states," he said. "But there are some laggards."

Illinois and New Jersey continue to lag behind. Both are ranked in the bottom 10 states, with high debt levels, low reserves and slow growth compared to others, leaving them more vulnerable in any future recession, he said.

**By Reuters**

Oct. 30, 2018

(Reporting by Hilary Russ; editing by Clive McKeef)

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## Fitch Ratings: Aging Looms As Key Economic, Fiscal Issue for US States

Fitch Ratings-New York-01 November 2018: Unprecedented aging demographics in a number of U.S. states will increasingly constrain economic growth over the coming decade, with knock-on effects for state revenue and expenditure profiles, says Fitch Ratings. Seventeen states are forecast to be "super aged" by 2026, according to the U.S. Census Bureau, including Florida, Michigan, Pennsylvania and Ohio. No states are in this category today.

Societal aging in the U.S. is expected to accelerate over the next twenty years as population growth slows and the baby boomer generation reaches retirement age. While there will be marked variation between states, general demographic trends point to more aging and slower working age population growth in almost every state.

Continue reading.

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## The Week in Public Finance: What the Aging Population Means for State Finances

**One-third of states will be "super-aged" by 2026, weighing down economies and finances for years to come.**

Last week, Vermont was downgraded a notch by Moody's Investors Service, which cited pension debt and slow economic growth as the culprits. Connecticut knows a thing or two about that; it has struggled for years with downgrades due to lackluster growth.

But there's something else affecting these states' ratings: older populations. And the two are far from alone.

Declining working-age populations has already been a trend in 10 states over the past decade. But what's happening in Connecticut and Vermont may be foreshadowing what's in store for about one-third of the country. By 2026, a total of 17 states will move into the "super aged" category, meaning that at least 20 percent of their populations will be 65 or older, according to a recent report by Fitch Ratings.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | NOVEMBER 2, 2018

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## S&P: U.S. State Pensions Struggle For Gains Amid Market Shifts And Demographic Headwinds

In the decade since 2008, when pension funds in the U.S. reported steep investment losses, overall state pension plan funding levels stabilized but have still not fully recovered to pre-recession levels.

Continue Reading

Oct. 30, 2018

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## S&P Credit Conditions: For U.S. State And Local Governments, Winter Is Coming, But Maybe Not Yet

Throughout 2018, S&P Global Ratings has highlighted the role of accelerating economic growth as a cause of improving credit conditions among the U.S. states. The central takeaway from our most recent economic forecast suggests that the positive tone should persist at least through the next six months-to-one year.

Continue Reading

Oct. 24, 2018

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## Statement by U.S. Conference of Mayors on Motion Filed with the FCC by U.S. Cities and the National Local Government Organizations to Stay the Effective Date of its Order Preempting Local Authority.

Washington, DC — Below is a statement by U.S. Conference of Mayors CEO and Executive Director Tom Cochran on the Conference of Mayors joining with cities and other local government interests across the nation in requesting the FCC to stay the effective date of its recent order substantially

preempting local authority over the installation of small cell facilities in local rights-of-way and local public infrastructure:

> "The U.S. Conference of Mayors and more than 60 cities, counties and local government organizations throughout the U.S. filed a motion with the Federal Communications Commission last evening to stay the effective date of its recent order that substantially preempts local governments' authority over their own rights-of-way and infrastructure. This action would allow local governments to have their day in court and be heard on what many consider an unauthorized taking of local property and an unwarranted usurpation of elected local government authority by this unelected federal regulatory agency.
>
> "We urge the FCC to use our motion as an opportunity to grant a stay and allow the court to speak directly to the agency's actions. The stay would also avoid the complete upheaval that would occur, as thousands of U.S. cities and counties scramble to rewrite longstanding and well-established local rights-of-way and permitting rules and procedures between now and early January, complicated further by federal and religious holidays in between.
>
> "It is wasteful and needlessly disruptive to ask the nation's nearly 20,000 municipalities and more than 3,000 counties to comply with this ill-conceived and intrusive new federal regulatory regime by January 13, especially when the FCC knows full well that its order relies on broad and activist interpretations of federal law that were certain to be challenged vigorously in federal court. By refusing to accede to local requests to set compliance deadlines that made sense, the FCC has shown its complete and utter disregard for the burdens local governments and their officials confront in working every day to fairly and effectively manage our most valuable public asset – local public rights-of-way and infrastructure – on behalf of all the many public and private users and beneficiaries, not just a few FCC-preferred companies."

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## Cities Threatened by Climate Risk Still Getting AAA Bond Ratings.

- **One year later, no climate downgrades from Moody's, S&P, Fitch**
- **Investors say ratings still overlook risks of extreme weather**

Last fall, after a trio of deadly hurricanes, ratings companies warned vulnerable coastal cities to get ready for climate change — or face higher borrowing costs on the $3.9 trillion municipal bond market. Climate advocates cheered, hoping the prospect of downgrades would push local officials to better protect their residents from the effects of global warming.

Twelve months, two catastrophic storms and thousands of credit ratings later, those companies have yet to downgrade a single city because of climate change. The companies, which include Moody's Corp. and Fitch Ratings Ltd., say that's because cities are taking steps to protect themselves.

Continue reading.

**Bloomberg**

By Christopher Flavelle

November 2, 2018, 1:00 AM PDT

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## 'Living With Water': Facing Climate Change, Cities Trade Sea Walls for Parks.

**City planners now say they are increasingly turning to methods aligned with the Dutch concept of "living with water." Instead of resisting water, cities are channeling it to where they want it to go.**

To protect itself from a devastating flood, Boston was considering building a massive sea wall, cutting north to south through nearly 4 miles of Boston Harbor, taking $11 billion and at least 30 years to build. But a new plan unveiled in October represents a 180-degree turn: Instead of fighting to keep the water out, the city is letting it come in.

Boston Mayor Martin Walsh, a Democrat, announced the city would be scrapping the idea of a sea wall in favor of, among other things, a system of waterfront parks and elevation of some flood-prone areas. The city will add 67 new acres of green space along the water and restore 122 tidal acres.

The idea is to give people access to the shoreline when the weather is nice, but when the parks get flooded—well, it's not that big of a deal.

Continue reading.

**Route Fifty**

By Rebecca Beitsch

November 3, 2018

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## Who Buys Municipal Bonds And Why.

As a student of municipal bond defaults I was mystified for many years by the question of why individual investors chose to invest heavily in low yielding municipal bonds. The main attractions touted by them was their freedom from federal income taxes, but this did not explain why so many retirees and individuals of limited taxable income also chose to make muni bonds a significant part of their investment portfolio. In fact, many made this their entire venture into securities investing.

I believe the attraction of municipal bonds lies in how they where sold, that is as a very safe security that served a public purpose and rewarded you with the added bonus of being tax exempt. In fact, the tax exemption feature is overly valued by even individuals with modest taxable income because, as one retired investor told me, they simplify your life. What he meant by this is that he could ladder his monthly income flow with munis without worrying about the state of the economy or the stock market or about the need to file a tax return and disrupt his routine by suddenly having to file a tax return or come up with money for a tax payment. Until we reach those golden years, we fail to realize that people reach a point where getting to bed at 10 PM each night and not have a worried sleep is worth accepting a lower but steady return. Munis, CDs and annuities find a home among such investors despite each products unfavorable features.

Note however that there will always be investors who want their cake and eat it too. Such investors become the owners of municipal bonds sporting seven and eight percent coupons. They want equity returns and think the low risk attributed to munis is generic. Underwriters have taken advantage of this misconception to peddle junk debt issues labeled as municipals which could never be sold without the aura of a municipal authority. Yes, the offering statements usually make this all clear because they know that investors won't read them. Want to start a nursing home chain, housing project or environmentally friendly project all without a dime of equity? Offer them an 8% municipal bond issue and they come running. Build in a two or three year debt reserve and you're golden. The list of horror stories and even outright fraud is endless. Even opting to invest via a muni mutual fund is little protection since they have to compete for funds and payout percentages are what counts with these folks.

One abuse gaining a lot of traction are bonds issued to fund a municipalities pension funding obligation. Imagine a governmental entity that pretends it can borrow money and reinvest it at a higher rate of return than it pays out. If this were true, wouldn't we fund all government spending that way? The facts are that government is sucking in 'prudent investors' so that when the day of reckoning comes with its public employees, bondholders and pensioners it can stiff some 'fat cats' who thought they could profit from the labors of government employees who, incidentally, they have been lying to for decades. Were this not the case, municipalities would be issuing their bonds directly to the pension funds thereby earning the pension funds a higher rate of return. But this would of course would not do since it leaves out the underwriters and their fees, and we can't have that. But then capitalism has never been about fairness, has it?

This article appears in the November 2018 issue of the Distressed Municipal Debt Securities Newsletter.

**Forbes**

by Richard Lehmann

Nov 3, 2018

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## U.S. Municipal Bond Market Struggles to Find Footing.

NEW YORK, Nov 2 (Reuters) – The typically steady-as-she-goes U.S. municipal bond market is beginning to tread on shaky ground, with continuous mutual fund outflows, weaker prices and rising supply in recent weeks.

That, coupled with an expected bump in year-end tax-loss selling, has made participants cautious in the roughly $3.85 trillion market where states, cities, schools and other issuers sell debt.

"On the munis side of things, there have been some challenges and we've seen some of those challenges in the last few weeks," said Peter Hayes, head of BlackRock's Municipal Bonds Group.

Rising interest rates and inflation concerns have been alarming investors, while potential volatility tied to the outcome of the U.S. congressional elections next week has also kept market participants on their toes. Added seasonal selling of municipal bonds through the end of the year is fueling yield increases.

In the week ended Oct. 31, muni fund net outflows totaled $1.3 billion, the largest since December

2016, following five consecutive weeks of negative flows, according to Lipper data released late on Thursday. Year-to-date, the S&P Municipal Bond Index was down 0.88 percent.

Through the end of the year, the muni market could see an uptick in investors selling their holdings at a loss as a way to offset tax obligations for gains in other more profitable asset classes, like equities, Hayes said.

Supply of new bonds has started to increase in the last few weeks, after sluggish issuance for most of 2018. However, this latest increase is being met by slipping demand.

“All of those things mean that it will probably take slightly higher yields in order to clear all that paper,” Hayes said.

Signs of weakness in the muni market emerged in early October as investors fixated on Federal Reserve rate hikes and inflation fears.

Large moves up in rates are generally a precursor to outflows, said Barclays municipal credit analyst Mikhail Foux, adding: “And that’s what we have this year.”

Foux said he is watching rates and eyeing next week’s election results.

by Laila Kearney

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## Municipal Bond Funds Are on Sale. Buyers Should Be Cautious.

Many closed-end municipal bond funds are selling at big discounts to their net asset values, offering some interesting opportunities and nice yields—though investors need to be careful.

“If you are more selective and you are going to own these [funds] for the long term, there is probably some value,” says Sangeeta Marfatia, senior closed-end fund strategist at UBS Global Wealth Management.

Closed-end funds, which trade on an exchange, often use leverage to boost their returns. In theory, investors can benefit several ways. There’s the total return, including the yields, of the fund’s holdings — and the price appreciation of the shares. Price discounts can provide some measure of safety.

In 2018 many of these closed-end funds have fared much worse than the overall municipal bond market, which is down roughly 1%. As a result, numerous closed-fund muni funds trade at wide discounts to their net asset values. The accompanying table lists five.

One factor that’s pressured prices is tax-loss selling, says Marfatia. Investors can pare their losses with gains to reduce their tax liability. With rates moving up, funds that use leverage face higher borrowing costs as well. And some funds have had to cut their distributions.

In July, for example, BlackRock announced it was cutting the monthly distribution for the BlackRock Municipal Income Investment Quality Trust (BAF) from 6.85 cents a share to 5.85 cents. “The distribution change was made in order to better align the fund’s distribution rate with its current and projected level of earnings,” according to a BlackRock spokesperson.

The fund was recently yielding about 5.6% and trading at nearly a 14% discount to its net asset

value, according to CEF Connect. Its one-year price return was recently minus 12.3%, but its net asset value had returned minus 1.7%.

It was hardly alone in cutting its distribution.

“Many of the funds in this sector have been reducing dividends and while it is factored into the market on some level, it’s important for investors to be aware of the possibility,” Jonathan E. Lewis, chief investment officer at Fiera Capital, noted this week.

The good news is that among fixed-income sectors, “muni closed-end funds may be one of the best values available,” asserts Lewis.

He points out that the 40 closed-end funds in which Fiera invests are trading at about a 14% discount to their net asset value, compared with an average discount of 5.4% since late 2004. The entire universe of these funds — about 180 in total — is trading at about an 11% discount — the cheapest level since the financial crisis, says Lewis.

Lewis, who advocates holding a basket of these funds as a diversification tool, says these discounts could narrow.

One possible outcome: “If rates are near an intermediate-term top, retail investor sentiment becomes positive in a search for yield,” he observes. These funds are predominately held by retail investors.

Under such a scenario, he says, investors could still earn a 5% yield and get some price appreciation, possibly bringing a 10% total return over the next 12 months. It’s important to remember that a 5% yield on a municipal bond is equivalent to a higher yield on a taxable credit. That’s because the interest on munis is exempt from federal taxes and often from state and local levies as well.

Of course, if rates continue to rise, it would pressure bond prices and the returns of these funds. And these funds can be volatile. “If somebody decides to sell a big position, they are going to take the price down,” says Marfatia.

**Barron’s**

By Lawrence C. Strauss

Nov. 1, 2018

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## Fitch Ratings: U.S. States Eye Midterm Election Outcomes

Fitch Ratings-New York-31 October 2018: Next week’s midterm elections will determine who will lead states in the coming years, with voters also deciding the fate of wide-ranging initiatives that are relevant for state, health care and public power credits, according to Fitch Ratings in a new report.

Votes for governor in 36 states and the majority of state legislative seats will be determined next week. Although Fitch rates to fundamentals rather than the political cycle, a material change in fiscal policy and/or increased or reduced contention in financial decision-making can be relevant for credit performance, particularly if and when the broader economy slides into recession. Due to

biennial cycles, most states will be debating budgets in 2019.

Voters in several states are considering limits on revenue raising powers, a trend that Fitch notes with concern because it reduces operating flexibility. States to watch in this area include California and Florida.

Medicaid expansion, a proven boost for health care providers in expansion states, will come to the forefront for voters in Idaho, Montana, Nebraska, and Utah, who are weighing in on Medicaid expansion under the ACA.

The broader wildcard headed into next week is party control at the federal Congressional level, which is relevant for state credit. 'Uncertainty at the federal level, particularly as it relates to Medicaid funding and tax and trade policy, continues to be a key risk for states,' said Managing Director Laura Porter. 'More clarity about future federal policy direction would support more informed forecasting and policymaking at the state level.'

'November State Election Results to Watch' is available at 'www.fitchratings.com'

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## Democrats Eye Push for Infrastructure Plan If They Retake House.

- **Leaders have discussed seeking major spending plan in 2019**
- **Disagreements on funding doomed past efforts and could again**

Democrats are planning to pursue a major U.S. transportation and infrastructure measure if they retake control of the U.S. House in the Nov. 6 midterm elections, but the same question that helped stall Donald Trump's trillion-dollar initiative remains: How would it be funded?

Representative Peter DeFazio, who's in line to become chairman of the House Transportation and Infrastructure Committee, has said Democrats would seek a spending measure for roads, bridges and other public works if they take power. Nancy Pelosi, who could become speaker again, said it may be something Democrats can do with the Republican president.

"One of my themes is build, build, build," Pelosi said at an Oct. 22 event hosted by CNN. "Build the

infrastructure of America from sea to shining sea. Not only surface transportation but broadband and water systems."

Trump said in an Oct. 17 interview on Fox Business News that "infrastructure is going to be starting after the midterms and we think that's going to be an easy one.''

Despite the bipartisan enthusiasm for the idea, several recent efforts to reach agreement on a major bill have all faltered — and ballooning federal budget deficits along with growing partisan rancor will make it even harder.

House Democrats could start hearings in late January if they take power, with the aim of crafting a bill that could pass by May, said Ed Rendell, the former Democratic governor of Pennsylvania who co-founded Building America's Future, a bipartisan coalition of officials that promotes infrastructure spending.

**Philadelphia Meeting**

Rendell said he and other transportation advocates met Oct. 23 in Philadelphia to discuss a potential Democratic bill with Representative Earl Blumenauer, an Oregon Democrat and member of the House Ways and Means Committee.

A spokesman for Blumenauer declined to discuss the meeting, but said the representative is exploring the idea of creating a subcommittee on infrastructure with his colleagues and stakeholders around the country.

DeFazio also didn't provide specific details but said in a statement that "it's well past time for Congress and the Trump Administration to get serious about our infrastructure needs."

**Broadband Access**

A Democratic majority "will prioritize investment to rebuild our transportation networks, boost affordable housing, and expand broadband access in towns and communities," said Representative David Price, a Democrat from North Carolina who serves on the the House Appropriations Committee and is the top Democrat on the Transportation, Housing and Urban Development Appropriations Subcommittee.

"I am hopeful that the Trump administration will show a willingness to engage Congress on meaningful infrastructure investment that finally matches their public rhetoric," Price said in a statement.

Trump promised to "build gleaming new roads, bridges, highways, railways, and waterways all across our land." He released a plan in February, but Democrats criticized it for allocating only $200 billion in federal money over 10 years — mostly to spur states, localities and the private sector to fund the balance of $1.5 trillion in investment.

**Funding Source**

There were a few committee hearings on the plan, but it stalled amid a backlash about a lack of federal investment and because it failed to specify a funding source, said Bud Wright, executive director of the American Association of State Highway and Transportation Officials.

Senate Democrats released a $1 trillion plan in March funded by rolling back tax cuts for the wealthy. But Republicans won't accept that, raising federal taxes has not proven feasible politically

and more borrowing is unlikely with the ballooning federal deficit, Wright said.

“It’s going to come down to the same question: Where is the money actually going to come from?” Wright said in an interview.

Trump surprised a group of lawmakers Feb. 14 by saying he would support a 25-cent-per-gallon increase in federal gasoline and diesel taxes — an idea also backed by the U.S. Chamber of Commerce and American Trucking Associations. But the president never endorsed the plan publicly, and prominent Republicans flatly rejected any tax increase.

The gas tax of 18.4 cents per gallon and diesel levy of 24.4 cents were last raised in 1993, even as many states — including those led by Republicans — have increased fuel levies. As a result of inflation, the federal tax provides just over half of its original value, according to government estimates.

**Retiring Chairman**

Republican Representative Bill Shuster of Pennsylvania, the retiring chairman of the House Transportation and Infrastructure Committee, released his own proposal July 23 to spur discussion about fixing infrastructure and shore up the Highway Trust Fund, which is projected to become insolvent by 2020.

His plan includes raising the federal gas tax by 15 cents a gallon over three years and the diesel tax by 20 cents, with a goal of replacing the fuel levies by 2028 with a per-mile-traveled fee or other sources of revenue.

If Republicans maintain control of the House, Representative Sam Graves of Missouri and Representative Jeff Denham of California are vying to take Shuster’s place as committee chairmen. Both have endorsed the need for infrastructure projects in previous statements.

**Political Blame**

There’s a question about whether Republicans will be willing to pass a major spending bill if they maintain control of the Senate as expected, but if Democrats take back the House, voters will be asking what results they produced beyond investigating Trump, said Rendell of Building America’s Future.

Trump and Republicans also will have to answer in 2020 if they don’t produce an infrastructure measure, he said.

“If we sent him an infrastructure bill that was a significant bill, I think he would sign it because he has talked about infrastructure ad nauseam but he hasn’t done anything about it for two years,” Rendell said.

The Association of Equipment Manufacturers, which represents companies including Caterpillar Inc., Volvo Construction Equipment Corp. and Link-Belt Cranes, has already launched a “Mission Not Accomplished” campaign reminding voters that Trump hasn’t kept his promise so far.

Improving infrastructure historically has had bipartisan support, and that’s needed today with the American Society of Civil Engineers estimating an additional $2 trillion is required by 2025, said Shailen Bhatt, president and chief executive officer of the Intelligent Transportation Society of America and a former state transportation director.

“It can’t be a Republican wins and a Democrat loses or a Democrat wins and a Republican loses, because then Americans lose,” Bhatt said in an interview.“On infrastructure, that just can’t happen.’’

**Bloomberg Politics**

By Mark Niquette and Alan Levin

October 29, 2018, 1:00 AM PDT

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## Why a Democratic Wave Could Be Good for Muni Investors.

Muni investors should be rooting for a Blue Wave.

The midterm elections are around the corner, and the stakes are high. The market’s consensus — as seen on prediction markets on Hypermind — is that the Republicans will keep the Senate, but lose the House to Democrats.

That might be good news for buyers of state and local debt, according to the muni research team at investment bank Barclays .

If Democrats gain control of one or both chambers, “we think that muni yields would likely decline slightly, outperforming Treasuries, as concerns about new tax reforms would be largely put to rest for now,” Barclays researchers led by Mikhail Foux wrote in a note dated Oct. 23. A “Blue Wave” is their baseline scenario.

But the alternative — a “Red Wall,” if Republicans keep control of both chambers — would send yields “significantly” higher, they wrote.

“Given that this outcome has largely not been priced in, we envision a rather dramatic move, with health-care credits likely underperforming. In essence, this would be a repeat of the late-2016 sell-off, but on a smaller scale.”

That would likely result in an expansion of the president’s policy agenda, including more restrictive moves in trade with China, Europe and other trading partners, as well as immigration at U.S. borders, they wrote. And Republicans may try for a second round of tax cuts, to push the buoyant economy beyond the 2020 presidential election. But, the researchers wrote, “the legislative path to pass another round of tax cuts could be tenuous.”

With a wide band between those potential outcomes, they recommend easing up on munis going into next month, especially in health care, and hedging with Treasuries.

As for the various races for governor seats, the Barclays strategists see Democrats adding three, with eight others so far too close to call. But any effect will be minimal, they say: “Given that most states are in relatively good financial shape, we do not believe that most of these races will have any meaningful effect on credit spreads.”

General obligation bonds in Illinois and Connecticut “might have room to tighten,” they say.

With the third quarter’s strong economic growth boosting tax revenues, U.S. state budgets are actually in decent shape, according to a new report by S&P Global Ratings.Trade tensions with China won’t hurt the overall U.S. economy too much, but that’s not true for some states and regions,

they said. S&P Global also says that it will be watching for a slowdown in housing permits.

“The positive tone should persist at least through the next six months-to-one year,” S&P Global Ratings analysts led by Gabriel Petek said in the report. But, they wrote, some of the gains, and the resulting increase in tax receipts, may be the product of a bunch of one offs that are not sustainable — like the federal tax cuts combined with higher federal spending. That effect will likely fade in the coming months, they said.

S&P’s economists revised their projection for real GDP growth in 2018, expecting a 2.9% increase instead of the 3% they forecast in June due to the trade dispute with China and the economic activity lost in the wake of Hurricane Florence. Hurricane Michael could weigh on GDP growth in the final quarter this year, they wrote.

S&P Global expects economic growth to slow to 2.3% in 2019 and 1.7% in 2020; as the expansion drags, a “renewed fiscal strain” will start to show across states.

“The currently more favorable macroeconomic backdrop presents a window of opportunity for state and local governments to consolidate,” according to S&P Global, “more than it does a new baseline.”

**Barron’s**

By Mary Childs

Oct. 31, 2018 12:08 p.m. ET

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## Quick Start Guide For S&P Global Ratings' Priority-Lien Criteria

To determine a priority-lien (PL) rating, our criteria incorporate three primary steps: Analysis of the revenue stream being pledged, expressed as the stand-alone credit profile (SACP); Analysis of the general creditworthiness of the entity pledging the revenue stream, expressed as the obligor’s creditworthiness (OC); and Assignment of the PL rating based on the relationship between the SACP and…

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Oct. 22, 2018

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## S&P U.S. Public Finance Criteria: Priority-Lien Tax Revenue Debt

S&P Global Ratings is publishing its methodology for assigning ratings and related credit products to priority-lien tax revenue* debt issued by U.S. municipal governments, state governments, or other U.S. public finance obligors where the pledged revenue stream is typically limited. These criteria supersede “Special Tax Bonds”, published June 13, 2007. All terms followed by an asterisk (*) are def…

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Oct. 22, 2018

## S&P U.S. Public Finance Criteria Guidance: Priority-Lien Tax Revenue Debt

Specifically, this Guidance Document focuses on providing additional information on the following sections from the criteria: Overview And Scope Assigning the stand-alone credit profile (SACP) (specifically, Coverage and Revenue Volatility) Linking Priority-Lien Debt Ratings To The Obligor's Creditworthiness (specifically, Determining the obligated or related entity; Capping the Priority Lien Rati…

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Oct. 22, 2018

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## S&P RFC Process Summary: Priority-Lien Tax Revenue Debt

S&P Global Ratings would like to thank investors, issuers, intermediaries, and all other parties who provided feedback to its "Request For Comment: Priority-Lien Tax Revenue Debt" and "Macro-Level Volatility Assessments Assigned To Six Types Of Tax And Fees," both published Nov. 13, 2017. Following careful consideration of market feedback, we finalized and published our criteria titled "Priority-L…

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Oct. 22, 2018

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## Muni Bonds Look Good Despite Annual Autumn Slump.

- **"Muni performance has been nothing to write home about, but it's been better than just about every other fixed-income segment," said Tom Hession, managing partner at Riverbend Capital Advisors.**
- **The market has benefited from a reduced supply of bonds, largely as a result of tax reform passed last year.**
- **In high-tax states such as California and New York, the new $10,000 cap on the deductibility of state and local taxes has sent demand for tax-free muni-bond income soaring.**

It's that time of year again for the municipal bond market.

The fall months are typically weak for muni bonds and although this year has generally bucked seasonal trends, it looks that way again this year.

"There's been a lot of unevenness in a usually more predictable market," said Peter Hayes, head of the Municipal Bonds Group at BlackRock. "However, October tends to be weak so we were cautious coming into September."

True to form, muni bonds have been sliding. The Bloomberg Barclays Municipal Bond Index is down 1.43 percent since the end of August and now has a return of -1.11 percent for the year. That won't

help send your kids to college, but relatively speaking, it's a pleasant surprise in an otherwise rough year for bond investors.

"Muni performance has been nothing to write home about, but it's been better than just about every other fixed income segment," said Tom Hession, managing partner at Riverbend Capital Advisors. Hession's firm sub-advises separately managed accounts of muni bonds for wealthy clients.

In the rising interest rate environment, the muni index decline compares very well with U.S. Treasury bonds -2.12 percent and U.S. investment grade corporate bonds -3.1 percent, through Oct. 16. "Munis tend to do relatively well in a rising rate environment," said Hayes, who credits their higher coupons and callability for insulating against rate increases. "They outperform when rates are rising and underperform when rates are falling."

The current weakness, however, could extend for a while if interest rates resume their rise and market supply and demand factors become more negative.

So far this year, the market has benefited from a reduced supply of bonds, in large part, as a result of tax reform passed last year. Because of uncertainty over the tax-exempt status of muni bond income, as well as other potential rule changes in the market, issuers flooded the markets with bonds at the end of last year, pulling roughly $30 billion of issuance forward, according to analysts.

That led to one of the worst Januaries for the muni market on record (-1.18 percent). But it also cleared a lot of bonds from the pipeline that would have otherwise hit the market through this year.

The tax bill also disallowed the common practice of advance refunding, which enabled municipalities to refinance debt at lower rates. It accounted for about 15 percent of muni bond issuance in the market.

"The low supply of bonds has definitely helped the market this year," said Brian Nick, chief investment strategist at Nuveen.

The current expectation that issuance is picking up, however, is now hurting it. With interest rates trending up, issuers may want to come to market before they rise much further. "We think supply will track up, but not as dramatically as it did at the end of last year," said Hayes.

On the demand side of the equation, the uncertainty over tax reform appears essentially resolved. The demand for munis from the institutional side of the market — about 30 percent of the total — has fallen. The lowering of the corporate tax rate to 21 percent from 35 percent has reduced demand for tax-free income at banks and insurance companies, but the market has now largely adjusted, according to Hayes. "The insurance companies have done their reallocations," he said. "Most of the selling occurred in the early part of the year and we haven't seen much in the last few months."

The lowering of marginal income tax rates also makes tax-free income relatively less valuable for individuals. However, the changes on individual rates are far smaller than on the corporate side and individuals continue to look to muni bonds for income.

Other tax rule changes may actually have boosted overall demand for tax-exempt income. In high-tax states such as California and New York, the new $10,000 cap on the deductibility of state and local taxes has sent demand for tax-free muni bond income soaring. The spreads on AA-rated California bonds with AAA muni bonds and U.S. Treasurys have fallen dramatically this year. "I think the tax bill was a net positive for the market," suggested Nick. "Many other ways to avoid taxes were stripped away, so demand for tax-free income is now higher."

The fundamentals underlying muni credit profiles are also improving thanks to the strong economy. Personal income tax revenues and property taxes are up 5 percent and 6.5 percent in the last year, according to Hession. Muni defaults have totaled less than $2 billion so far this year, with virtually all of that related to FirstEnergy Solutions, a power generating business of the Ohio-based utility that declared bankruptcy earlier this year.

“Muni issuers tightened their belts after 2008 and economic growth is now benefiting state and local governments,” said Hession. “The outlook for muni credit looks like it will stay positive for the foreseeable future.”

The more than $16 billion of asset flows into muni bond funds this year suggests retail investors are still keen on the market. Those flows, however, have recently hit a wall, with investors pulling a net $3 million from muni funds in September. Flows could fall further, said Hayes. “When the market turns negative, demand from retail investors often declines,” he said. “It will be interesting to see if that happens this time.”

Hayes thinks that the combination of higher rates and increasing supply of bonds could push yields higher by another 10 to 20 basis points, but he’ll be ready to lock in rates if that happens. With the muni duration curve much steeper than the Treasury curve, he currently favors a barbell investing strategy. He invests in 20-year-plus munis that are paying a significantly higher yield, and very short-term bonds of less than two years that he can rapidly redeploy at higher rates down the road. “The relative value on the front end of the curve is expensive and on the long end it’s cheap,” said Hayes.

With interest rates rising and worries about more supply of bonds coming to market, it could be a volatile finish to the year.

**CNBC.com**

by Andrew Osterland

23 Oct 2018

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## Prophet of Muni Market Doom Wasn’t Wrong - Just Early.

**A false alarm may have lulled investors and pensioners into a false sense of security as conditions have worsened significantly**

Eleven years ago next week, a then-obscure bank analyst made the call of a lifetime when she said Citigroup would be brought low by bad mortgage loans. By the end of the day hundreds of billions of dollars in value had been lost in U.S. stocks. The bank’s CEO would resign days later.

Maybe it was overconfidence, but when Meredith Whitney made her second big call three years later she violated the first rule of punditry—never mention a number and a date in the same sentence. Her prediction on “60 Minutes” that there would be “50 to 100 sizable defaults” on municipal bonds over the next year proved wrong. People in the municipal bond business, deluged by anxious clients, were merciless in their criticism of Ms. Whitney’s prediction.

Since then a dramatic decline in the finances of state and local governments has made it increasingly likely that she will be remembered as right but early. Municipal bond investors should

heed the warning.

Continue reading.

**The Wall Street Journal**

By Spencer Jakab

Updated Oct. 26, 2018 3:17 p.m. ET

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## Local Government Investment in Public Water and Sewer Hits a Record $123.7 Billion in 2016.

**Long-term infrastructure investment commitment to clean water and sewer/stormwater management tops $1.99 Trillion from 1993 to 2016**

Public spending on water and sewer/stormwater management continues to set new nominal dollar highs according to recently released local government Census data for 2016. Overall there was a 4 percent increase in spending from 2015 to 2016, and a 2 percent growth in revenues. Expenditures for water and sewer follow similar trajectories with some important distinctions, (Chart 1). For example, local governments consistently spend between $5 Billion to $15 Billion more on water than on sewer/stormwater management.

Read More

**The United States Conference of Mayors**

By Rich Anderson

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## Fitch Updates U.S. Public Finance Charter School Rating Criteria.

**Fitch Ratings-New York-24 October 2018:** Fitch Ratings has released an exposure draft detailing proposed changes to its rating criteria for U.S. Public Finance Charter Schools.

"The criteria revisions aim to communicate Fitch's credit evaluations more clearly and better express the characteristics that affect a credit's relative resilience through the business cycle. Fitch believes that this will facilitate a more forward-looking, predictable approach to ratings," said Amy Laskey, Fitch Managing Director.

The proposed criteria revisions are expected to trigger downgrades among up to one half of the 15 charter schools rated by Fitch. These do not include charter schools whose debt repayment is supported by a state moral obligation; those ratings will continue to be based on the relevant state's credit quality. Fitch's small portfolio of charter school ratings is not representative of the overall charter school credit universe.

Proposed changes include:

–Introduction of three key rating factors: revenue defensibility, operating risk, and financial profile;

–Individual assessments for each key rating factor;
–Financial profile alignment with business profile in rating assessment;
–Incorporation of FAST – States and Locals, an issuer specific scenario analysis tool measuring the effect of a moderate economic downturn on revenues and financial profile.

Fitch explicitly does not weight the assessments of individual key rating factors in coming to an overall rating conclusion. The ratings are not formulaic or model driven; they require qualitative judgment to place metrics in an overall context for each issuer.

Fitch invites feedback from market participants at criteria.feedback@fitchratings.com during the comment period, which ends Dec. 1, 2018.

Fitch will host a teleconference on the proposed criteria changes on Nov. 8 at 2:00 p.m. Eastern Time. To register, visit
https://event.on24.com/wcc/r/1866694/596D9033DBA4A271EE6ADD55E1B734B7

For more information, the full special reports titled “Exposure Draft: U.S. Public Finance Charter School Rating Criteria” and “Proposed U.S. Public Finance Charter School Rating Criteria: FAQs” are available at www.fitchratings.com.

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## Fitch Ratings: Aging Population an Adverse Tide Turn for U.S. States

Link to Fitch Ratings’ Report(s): U.S. States and the Growth Implications of an Aging Population

Fitch Ratings-New York-24 October 2018: The United States population is aging at a rate that will hurt revenue growth for states over time, particularly for several states that will be “super aged” within a decade, according to a new Fitch Ratings report.

The U.S. population is projected to age considerably over the next 10 years, with the over-65 population in 17 states eclipsing 20% (or what the United Nations refers to as “super aged”). This is a somewhat surprising statistic considering that no state was deemed “super aged” as recently as two years ago. A closer look also shows that several other states will be within striking distance of “super aged” status by 2026.

This rapid increase in aging populations will affect the finances of state governments in two general ways, according to Fitch U.S. Public Finance Group Credit Officer Olu Sonola.

“First, the working-age population shrinks as the population ages, constraining economic and revenue growth,” said Sonola. “Second, a rapidly aging demographic profile changes a state’s expenditure profile as expenses related to healthcare and retirement cost grow.”

Among the 17 states that will have “super aged” populations by 2026 are Connecticut, Michigan, Pennsylvania and West Virginia. Additionally, New York, New Jersey and Illinois are among some of the other states that will fall just short of “super aged” status less than a decade from now.

With several states facing declines in working age population in the coming years, improvements to labor utilization and productivity could help stem the prospect of falling revenue growth. “Economic growth prospects for many states with negative demographic trends will likely hinge on improvements to labor productivity,” said Sonola.

Another interesting wildcard could be immigration. Net positive international migration will likely mitigate domestic out-migration in many states. However, a more restrictive national immigration policy environment would likely accelerate population and working-age population declines in states like New York, Illinois, New Jersey, Pennsylvania, Massachusetts and Rhode Island.

“U.S. States and the Growth Implications of an Aging Population” is available at www.fitchratings.com or by clicking on the above link.

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## Citigroup, Barclays Warn of Muni Bond Selloff If GOP Wins Big.

- **But analysts see it unlikely Republicans will gain in election**
- **If they do, it could trigger repeat of post-Trump market rout**

The municipal-bond market has pre-election jitters.

That's understandable: President Donald Trump's surprise victory in 2016 drove state and local government debt to its biggest monthly loss since the 2008 credit crisis on speculation that his fiscal policies would fuel an increase in inflation. Both Barclays Plc and Citigroup Inc. strategists warned clients in notes this week that if Republicans buck forecasts and win big, it could cause another sell-off, just as the bond market is steadying from the one that erupted earlier this month.

Barclays strategists say that if the GOP maintains control of the House and Senate, yields could increase significantly in what could be "a rather dramatic move" due to the risk of lawmakers enacting more tax cuts. A Republican majority could be especially bad for debt issued by hospitals, given the potential for lawmakers to try to repeal the Affordable Care Act again, they said.

"In essence, this would be a repeat of the late-2016 sell-off, but on a smaller scale," wrote Barclays analysts led by Mikhail Foux.

After the 2016 election, state and local debt posted a loss of 3.7 percent in November, the biggest since September 2008, according to Bloomberg Barclays indexes. There hasn't been as bad a loss since.

Citigroup analysts led by Vikram Rai said most forecasters expect Democrats to win control of the House and Republicans to hold the Senate, a scenario that would pose no significant risks to municipal bonds given that the opposing sides would be unlikely to agree on big policy changes. Barclays said its baseline scenario is for a similar outcome, which it says would likely cause yields to decline slightly.

But Citigroup analysts said that if Republicans retain a "decent" majority in the House, that may lead investors to anticipate another round of tax cuts, which would diminish demand for tax-exempt bonds.

"That could spook investors into selling tax-exempts. And this kind of selling could not come at a worse time since the Treasury sell-off and the ensuing mutual fund outflows have already depressed annual returns," they wrote.

Representative Kevin Brady, the chairman of the House tax-writing committee, said Tuesday that Republicans will advance a 10-percent tax cut aimed at middle-income earners if they retain control. Changes to the tax code are viewed as a threat to the state and local government debt market because lower tax rates — such as the corporate rate cut last year — can translate into less demand for the tax-exempt income that the debt provides. There's also the risk that lawmakers could seek to tax income on municipal bonds to offset the cost of other cuts.

Some investors with election worries might be selling their holdings, given that mutual funds have seen cash pulled out for four weeks straight. Given the risk of an unexpected outcome on Nov. 6, Barclays said "it makes sense to lighten up" on state and local debt.

**Bloomberg Markets**

By Amanda Albright

October 24, 2018, 7:18 AM PDT

## One Investor Bets Big on Tiny Muni ETF Despite Market's Losses.

- **Hartford ETF reaps record inflow after seeing little all year**
- **Other mutual funds, ETFs see outflows as returns stay negative**

At least one investor has high hopes for the muni bond market.

He or she purchased 650,000 shares of the Hartford Municipal Opportunities ETF worth $25.5 million earlier this week, causing the fund to see a record inflow. A week earlier, an investor bought 450,000 shares worth $17.6 million. That pushed up the fund's assets to $76.4 million.

It's notable because until October, the Hartford fund hadn't attracted any new cash, barring a $2 million inflow shortly after it launched in December 2017. And it's curious timing for a municipal-bond ETF to suddenly pull in funds: state and local debt has posted a 0.9 percent loss this year as interest rates head higher. Other big municipal-bond ETFs have seen record outflows during the market's rout this month, which has started to stabilize.

The Hartford Municipal Opportunities ETF is an actively-manged fund that invests in both investment-grade and high-yield municipals and seeks to provide a "long-term total return."

The fund's effective duration is just over five years and its top revenue bond holdings include transportation and health care credits, according to a June fact sheet. The fund, which was listed by Hartford Funds in late 2017 and is sub-advised by Wellington Management Company, is managed by Timothy Haney and Brad Libby.

**Bloomberg Markets**

By Amanda Albright

October 25, 2018, 6:25 AM PDT

*— With assistance by Carolina Wilson*

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## Affordable For Now: Water And Sewer Rates At U.S. Municipal Utilities

S&P Global Ratings maintains revenue debt ratings on 1,600 public water and wastewater utilities in the U.S. This includes multiple security types and issues but with the same obligor (e.g., Baltimore issues both water and wastewater revenue bonds that are separately secured by dedicated revenue streams). However, it excludes debt issued by wholesalers, as well as debt issued by state agencies to

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Oct. 24, 2018

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## Municipal Liability Cap and Insurance: Butler Snow

Although attempts have been made to expand the meaning of "legally entitled to recover" when the municipal statutory damages cap is involved, plaintiffs have not been successful in recovering beyond the statutory cap in Alabama.

In *State Farm Mutual Automobile Insurance Company v. Causey*, 509 F. Supp. 2d 1026 (M.D. Ala. 2007), State Farm filed a declaratory judgment action seeking the court to declare that it had no obligation or duty to pay uninsured/underinsured motorist benefits to the defendants as a result of an accident with a municipal employee. The central issue presented was whether an insured can recover uninsured/underinsured motorist benefits from her own UM/UIM carrier when the alleged tortfeasor is a municipality and enjoys the benefit of a statutory cap on damages.

In *Causey*, the defendants were involved in an automobile accident with a street sweeper operated by a municipal employee. The defendants alleged the operator of the street sweeper negligently and wantonly caused the automobile accident which injured the defendants. As a result of the accident, the municipality on behalf of itself and its employee paid its policy limits of $100,000 to the defendants.

State Farm argued it had no liability to the defendants for any judgment in excess of the $100,000 since the undisputed evidence showed that the tortfeasor was acting in the line and scope of his employment with the municipality at the time the accident occurred and the municipal damages cap found in Alabama Code §11-93-2 applied, as a matter of law, to municipal employees acting in the line and scope of their municipal employment.

The municipal damages cap set forth above was held constitutional by the Alabama Supreme Court in *Home Indemnity Co. v. Anders*, 459 So.2d 836, 841 (Ala. 1984). In *Causey*, the Court held that the defendants had already received what they were "legally entitled to recover" as a result of the accident and affirmed the judgment in favor of State Farm.

The same issue was presented in the case of *Kendall v. United Services Auto. Ass'n*, 23 So.3d 119 (Ala. 2009), where the meaning of the phrase "legally entitled to recover" was discussed. The Alabama Supreme Court, in discussing its prior decision in *Ex parte Carlton*, 867 So. 2d 332 (Ala. 2003), held that "[t]oday we return to the point from which this Court never should have departed – the language of the statute. The language of the uninsured-motorist statute is plain and unambiguous." *Kendall* at 1112. In *Kendall*, the Alabama Supreme Court agreed with the holding in *Causey*, refused to expand the meaning of "legally entitled to recover" and affirmed the lower court's ruling that the insured was not legally entitled to recover damages from the county beyond the statutory cap she already received through settlement, and, thus, was not entitled to UIM benefits.

With the decisions of *Causey* and *Kendall* controlling, the statutory cap on recovery is preserved.

September 26, 2018

**Butler Snow LLP**

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## The Big Five: Key Tax Credits and Public Incentives

**When planning a new facility, accessing public incentives can help your company to**

**leverage capital and receive a higher return of your investment.**

When planning a transformative project, tax credits and incentives can go a long way toward boosting capital — especially when the project involves job creation or a major capital investment. While the Tax Cuts and Jobs Act of 2017 modified some longstanding programs, it also established the valuable new Opportunity Zones program. Other public incentive programs that may be applicable to your project include Property Assessed Clean Energy (PACE) loans, New Markets Tax Credits (NMTC), Historic Tax Credits (HTC), and Tax Increment Financing (TIF). What's the key to success? Investigating available incentives to find a good fit for you and your community and weighing your incentive options before making your location decision. In some cases, it even makes sense to modify a project to align with particular incentives that will make it more viable and result in a higher ROI.

**Know Before You Go**

The five most relevant public finance programs you should know about are Property Assessed Clean Energy (PACE) financing, Opportunity Zones, Historic Tax Credits, New Markets Tax Credits, and Tax Increment Financing. Following are updated details on each of these programs:

1. **PACE Financing.** More than 30 states and the District of Columbia have passed PACE-enabling legislation to provide low-cost loans for energy efficiency upgrades or installations repaid through special property tax assessments. Applicable to energy retrofits, renovation or new construction projects, PACE loans lower the cost of capital, cover up to 100 percent of the energy efficiency project costs, and are usually available with a 20-year fixed-rate and a high loan-to-value (LTV) ratio.
2. **Opportunity Zones.** As part of the Tax Cuts and Jobs Act, thousands of economically distressed communities across all 50 states, D.C., and U.S. territories were designated as Opportunity Zones. The Opportunity Zones program offers federal tax incentives for investing unrealized gains in Qualified Opportunity Funds, which are investment vehicles created specifically for this purpose. Benefits can include tax deferral, tax reduction, or even permanent tax exclusion.
3. **HTC Program.** The longstanding federal Historic Tax Credits program provides a 20 percent tax credit for certified rehabilitation of properties listed on the National Register of Historic Places. Modifications under the Tax Cuts and Jobs Act include spreading out the credit over five years and eliminating a 10 percent credit for old, but not certified-historic, buildings.
4. **NMTC Program.** The New Markets Tax Credit program is a 39% federal tax credit used to encourage investment in low-income census tracts. Competition for the credits is fierce. Project sponsors must demonstrate that their projects have a high level of community benefit, including job creation and retention, community services, and positive impact on the environment.
5. **Tax Increment Financing (TIF) Districts.** Designated by municipalities, TIF districts incentivize economic development and public improvement projects in blighted areas by providing some or all of the new tax revenue generated by the project to the developer as upfront capital or over time. It is important to note that the Tax Cuts and Jobs Act made upfront TIF proceeds taxable income for private developers unless the new development will be owned by a government entity or was part of an approved master plan before the Act took effect. The change will significantly affect the viability of some projects and may require creative new approaches to incentive strategies by municipalities and developers.

Don't let fear of government paperwork and compliance requirements keep you from considering public incentives. Many owners are pleasantly surprised to find that the requirements aren't as onerous as perceived. As you home in on a particular site, a key negotiating tactic is to demonstrate that a particular incentive — or combination of incentives — is a key factor in choosing a location. Proving your commitment to improving the community can help land these incentives and lead you

to realizing a higher ROI and more valuable project in the long run.

*Editor's Note: Area Development's Indianapolis Consultants Forum featured a presentation on tax credits and incentives in the financing package by Brad Elmer, CFA, Managing Director at Baker Tilly Capital. The preceding were some key ideas from Elmer's presentation and subsequent sit-down interview as compiled by Jennifer Harris, Area Development contributor, akrete communications.*

**Area Development**

by Brad Elmer, CFA Managing Director, Baker Tilly Capital

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## 10 Years Later: After the Fall, Muni Insurers Rebuilding Market Relevance.

Municipal bond insurers were among the biggest casualties of the financial crisis.

With seven triple-A bond insurers and at least 10 players writing new business, up to 57% of newly issued municipal bonds carried insurance in the years before the global collapse swept away most of the insurers.

The municipal industry, which had relied on the triple-A wraps to reduce borrowing costs, was forced to adapt to a 64% decline in insurance in 2007-2008, as companies like Ambac, MBIA (MBI) and Financial Guarantee Insurance Co. were stripped of their gilded ratings, a consequence of ill-fated forays into risky mortgage backed securities and structured finance.

"It was a very scary time for everyone in the industry," said Suzanne Shank, CEO of Siebert Cisneros Shank, an investment banking firm with a sizable municipal securities business.

Today, the ranks of municipal insurers have been reduced to two Double-A rated companies: Assured Guaranty (AGO), which purchased the former league leader Financial Security Assurance and continued selling in the muni market; and Build America Mutual, a mutually owned provider launched in 2012 by former officials of FSA. As of Sept. 30, the insurance penetration rate was 5.32% — about one-tenth the pre-crisis level.

The recovery of market share for municipal bond insurers has been hindered by two main factors: their lack of triple-A ratings, and the prolonged period of near-zero interest rates.

Some attempts to launch municipal-only insurance units stalled. At the time of the crisis DEPFA Bank proposed a muni-only insurer that would have only general obligation bonds and water and sewer bonds in its books. The bank never came up with a name for the insurer, and the initiative ended after indications that the unit wouldn't garner a top-tier rating.

MBIA Inc. (MBI) started a municipal-only unit, National Public Finance Guarantee, in 2014. It stopped writing new insurance in 2017, after S&P Global Ratings lowered its financial strength rating to A from AA-minus and the long-term counterparty credit rating on MBIA (MBI) to BBB from A-minus.

"People tend to focus on the 50% par penetration reached during a few years before the financial crisis, but in addition to much higher interest rates, there were all those other AAA insurers," said Robert Tucker, senior managing director of communications and investor relations for Assured.

“Now, there are no AAA bond insurers, even though, in our case, our financial position is actually stronger, with lower insured exposure, lower leverage and higher claims-paying resources.”

The near demise of bond insurance hasn’t slowed down municipal issuance. Total long-term muni issuance has dipped below $300 billion only once since the crisis and that was in 2011, when muni issuance totaled $286.65 billion.

Shank said the muni market adapted to the decline in insurers.

“In light of what happened, the disclosure today is much better,” she said. “In a sense, the bond insurers were surveillance, and that role has expanded in the marketplace today. Not only doing research and analysis on credits prior to sales, but through the life of the bond.”

There are a few reasons insurance penetration is expected to rise in a higher interest rate environment. On the spread side, higher interest rates have historically been associated with wider absolute credit spreads, which will give insurers more capacity to charge premiums that deliver economic value to investors.

According to sources, that’s likely to be particularly pronounced in the higher-rated sectors, like AA-minus bonds, where there is a lot of volume where the industry’s double-A ratings can add value at the right price.

Another factor has to do with the buyer mix, as individual investors have been relatively less active in the market the last few years. Underwriting and trading desks say they are looking for at least 4% yields, and will get more excited at 5%. Because individuals benefit most from the guaranty (because they are not in position to do their own in-depth credit research), that shift should increase demand for insurance.

Rising interest rates and credit spreads will be more favorable for bond insurers, and now the Fed has bumped up the pace of rate increases since the tightening cycle began in late 2015. The Fed has raised the federal funds target rate six times since the start of 2017 and the market has baked in another hike for December of 2018. The Federal Open Market Committee’s Summary of Economic Projections suggests three increases will be needed in 2019, if economic data come in as projected.

Spreads between the S&P Municipal Bond Index and the S&P Municipal Bond Insurance Index show that the muni market places a higher value on insurance during uncertain times. Since 2008, the spread was the largest at around 30 basis points, in April of 2011, another difficult period for the markets. The spread between the two indexes was around 30 basis points once again in August and September of 2017, when the elimination of private activity bonds and advance refunding bonds were under consideration as part of tax reform. The spread for this year has declined from the high teens to closer to 10 basis points, as the market assigned less value to the wraps.

Stephen Winterstein, managing director of research and chief strategist at Wilmington Trust Investment Advisors, said the public, advocacy groups, retail and professional market participants and advisors need to be educated about how bond insurance works.

“It did its job through the crisis and continues to do so today,” said Winterstein. Municipals were not the problem when insurers ran into trouble, he said. It was the riskier structured finance products such as residential mortgage backed securities and collateralized debt obligations, which offered higher rates of return, that were the main culprits. Municipals had, and still have a very low default rate, Winterstein said.

“There were some real problems in a specific sector of the monolines’ pre-crisis business,” Assured’s

Tucker said. “For example, residential mortgages were much more highly correlated than was being assumed by many market participants, and they also became very illiquid when the market started to experience stress. Those problems were compounded by the fact that practically everyone in the financial industry — including the rating agencies — didn’t fully understand those risks and had too much faith in financial engineering.”

Tucker said that another major issue was a significant amount of fraud in that market. “Neither Assured Guaranty nor FSA insured those deals, as we did not see how those deals made sense, or how one could fully analyze them,” Tucker said.

Dominic Frederico, CEO of Assured, said one of the lessons of the financial crisis is how important it is to stick to disciplined underwriting criteria and business models, no matter what others are underwriting or other parties are encouraging the firm to do.

“It also reinforces the importance of having a diversified business model, limiting risk concentrations both by individual exposures and by sectors, and having large and strong capital resources, access to additional capital, if needed, and plenty of liquidity,” Frederico said.

Assured has paid about $9 billion in gross claims and continued to write new business all through the crisis and until now.

“The fact that our financial resources today, at over $12 billion in claims paying resources, are larger than before the crisis proves the strength of our company and its business model,” Frederico said.

Build America Mutual officials say the company’s mutual ownership structure provides a new way to insure municipal bonds, one that may help avoid the mistakes of the past.

“It was not exposure to municipal bond risks that led to downgrades in the bond insurance industry,” said Sean McCarthy, BAM’s chief executive. “It was the originally municipal-only companies that most aggressively diversified into structured finance and asset-backed securities who suffered severe losses that far exceeded their models and forced them out of business,”

McCarthy said it’s impossible and inappropriate to single out one industry sector or market participant as the root cause of the crisis.

“Across the market, there was an overreliance on models and not enough attention paid to conflicts between deal participants,” he said. “Looking back, it’s easier to recognize that not all structures merited a rating, and that it is impossible to align the interests of servicers, loan and mortgage originators, and investment bankers with those of the bond insurer.”

He said that going forward, insurers need to have a business model that works within their defined credit appetite.

“For BAM, that means we can support the municipal-only model because we have mutual owners whose top priority is protecting low-cost infrastructure financing and market access our guaranty provides, rather than realizing a high return on equity.”

Winterstein said if he buys insured bonds and something goes wrong — as happened when Puerto Rico defaulted — he will have an advocate at the bargaining table and the insurance company will have a good legal team looking out for his best interests. With uninsured bonds, he doesn’t “have that luxury,” he said.

Next: Local government isn't all the way back

By Aaron Weitzman

BY SOURCEMEDIA | MUNICIPAL | 10/24/18 07:07 PM EDT

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## 10 Years Later: Less-Trusted Rating Agencies Maintain their Central Role

The municipal market remains skeptical of the rating agencies 10 years after their bad calls on mortgage securities contributed to the worst economic meltdown since the Great Depression.

While S&P Global Ratings, Moody's Investors Service and Fitch Ratings have overhauled their practices since the Great Recession and still provide credit grades on about 92% of municipal bonds, market participants say they don't rely on the agencies as they once did.

"The rating agencies are better than they were before the financial crisis," said Marilyn Cohen, president of Envision Capital Management. "But we use the ratings as suggestions and not the Holy Grail."

RATINGS AND THE FINANCIAL CRISIS

In the years leading up to the Great Recession, the ratings agencies issued profoundly wrong ratings that played a decisive role in creating the recession. Most famous among these were triple-A ratings of mortgage backed securities. When the economy turned sour, large portions of the securities went into default and the lax standards that were used in approving the underlying mortgages became apparent.

"Perhaps more than any other single event, the sudden mass downgrades of" ratings for residential mortgage backed securities and collateralized debt obligations "were the immediate trigger for the financial crisis," an April 2011 Senate report on the origins of the crisis said.

The collapse of these securities had a cascading effect, leading to the collapse of the investment banks Bear Stearns and Lehman Brothers (LBM/2C09).

Lehman was rated A2 by Moody's, A by S&P and A-plus by Fitch when it became the world's biggest bankruptcy ever, in September 2008.

Most of the municipal bond insurers had expanded their offerings to include insuring the mortgage backed securities. The ratings agencies failed to foresee the risk and when the Great Recession hit, seven bond insurers that had pre-recession triple-A ratings collapsed.

Before the Great Recession, the ratings agencies gave the overwhelming majority of municipal issuers investment grades. For the most part, during the Great Recession the issuers showed themselves worthy of their rating. Since the recession, defaults among S&P Global Ratings-rated municipal bonds have been rare and default rates in the sector have remained extremely rare, said S&P spokeswoman April Kabahar.

However, in the last 10 years, in part because as a result of the economic crisis, several major obligors have defaulted. Five of the six biggest municipal bankruptcies in U.S. history have taken place since the Great Recession.

Moody's, S&P and Fitch downgraded Detroit to a speculative rating in January 2009, four and a half years before the city went into bankruptcy.

The agencies didn't give investors as much warning with the much bigger Puerto Rico bankruptcy. All three major agencies downgraded Puerto Rico's general obligation bonds to speculative grades in February 2014. In July 2016 the commonwealth government defaulted on those bonds. Since then most of the island's $74 billion of public sector debt has gone into default.

While Fitch defended its rating change, saying the timing "reflected Fitch's opinion of the issuers' ongoing credit deterioration," some analysts said the rating agencies' performance reinforced doubts.

"Puerto Rico was a travesty," Cohen said. "That was just a giant whitewash. And that is putting it nicely."

MUNICIPAL MARKET ATTITUDES

The agencies' misrating of mortgage backed securities, bond insurers, Puerto Rico and other entities fueled doubts that have lasted to this day.

"We believe the Great Recession has led to much greater skepticism about the rating agencies and greater scrutiny about their business model and rating process," said Triet Nguyen, managing partner at Axios Advisors. Nguyen said history has also made investors more wary of the bond insurers' ratings.

While PNC Municipal Strategist Tom Kozlik said that "generally the rating agencies do a good job" and that their ratings continue to command respect, others said the financial crisis changed that.

"Prior to the credit crisis, Merritt Research saw little interest for most subscribers to pay for general obligation credit data because of the sector's perceived low risk," said Richard Ciccarone, president of Merritt Research Services. "That's certainly not the case today."

LEARNING LESSONS

S&P and Fitch acknowledged learning lessons from the Great Recession and its subsequent impact, while Moody's declined to answer the questions.

"The vast majority of municipal ratings performed very well against the greatest stress any of us have seen in our lifetimes, which is the end-result we would expect from most municipalities to a stress of this magnitude," said Jessalynn Moro, head of U.S. public finance for Fitch Ratings.

"The lessons learned from the market crisis came from the few outliers that endured a Chapter 9 bankruptcy and bucked widely held municipal market conventional wisdom that GO bondholders are secured," Moro said. "Those lessons continue today as we're seeing with the evolution of structures like special revenues and statutory liens that attempt to separate bondholder repayment from operating risk gaining momentum."

S&P spokeswoman April Kabahar said S&P has also learned from the events of 10 years ago. In the aftermath of the downturn, "We've enhanced the integrity and validity of our rating methodologies and models. For example, we've established cross-functional teams of economists and analysts evaluating credit conditions around the world."

Justin Hoogendoorn, head of fixed-income strategy and analytics at Piper Jaffray (PJC), said that, in

the aftermath of the Great Recession, “The ratings agencies were ‘forced’ to transition from a mix of qualitative and quantitative ratings to predominantly quantitative models, including the publishing of issuer scorecards following the Great Recession.”

The Great Recession’s impact on the rating agencies stemmed from more than just the agencies’ own voluntary reforms. The U.S. government also responded to the Great Recession’s impact in taking actions on the agencies. The government’s main action was to pass the Wall Street Reform and Consumer Protection Act, better known as the Dodd-Frank Act, in 2010.

Parts of Dodd-Frank addressed municipal bond ratings. Some of its sections, but not all, have been carried out.

“One of Dodd-Frank’s original intents was to increase transparency about the rating process and force regulated financial institutions to reduce their reliance on agency ratings,” Nguyen said. “Banks in particular have been required to come up with their own internal risk assessment process to supplement agency ratings.

“Dodd Frank was also supposed to encourage greater competition by equalizing the playing field for smaller” ratings agency players, Nguyen continued. This hasn’t happened for several reasons, he said.

“S&P Global Ratings takes its regulatory obligations across our global operations very seriously,” Kabahar, the spokeswoman, said.

Other parts of Dodd-Frank Act relevant to munis haven’t been carried out. The Dodd-Frank law required the Securities and Exchange Commission to create a rule to make the ratings agencies liable for their ratings the same way accounting firms or security analysts are legally liable for their reports. The commission hasn’t done this yet.

“This requirement was misguided, in our opinion,” Nguyen said. “Agency ratings should be recognized for what they are, just an investment opinion, hopefully an informed one.”

The Dodd-Frank law also required the SEC to recommend an alternative to the “issuer pays” business model for the rating agencies, which observers have said provides an incentive to the agencies to grant high ratings. If the commission couldn’t come up with a superior model, it required the commission to create a board to randomly assign credit rating assignments among the rating agencies. It hasn’t done either of these things.

The SEC held a roundtable discussion in May 2013 on this general topic, but it hasn’t taken action on the issues the panel raised.

“Having the issuer pay for the rating remains a fundamental flaw in the rating agency business model, as it creates a built-in conflict of interest,” Nguyen said. “However, as many of the recent upstarts found out, getting the buy side to pay for ratings is also difficult.”

Finally, Dodd-Frank said that a rule should go into effect requiring rating agencies to adopt procedures designed so credit ratings weigh default risk “in a manner that is consistent” for all rated obligors and securities.

The SEC adopted Rule 17g-8(b) on Aug. 27, 2014, that essentially required this.

From 2010 to 2014 both Moody’s (MCO) and S&P engaged in recalibrations or applied new criteria to U.S. public finance, leading to broadly higher ratings for munis connected with these actions. On

average the changes were subtle.

S&P's changes in 2013 and 2014 to the local government rating criteria led to an average increase in ratings of about 0.1 notch across all municipal credits.

In 2010 Moody's (MCO) recalibrated some of its municipal issuer ratings to address the category's comparative lack of risk at different rating levels. In categories closest to government, like general obligation and public water and sewer utility bonds, it raised ratings about one notch in the Aa category, two in the A category, and about three in the Baa category. Speculative grade ratings were left unchanged. For non-utility enterprise, public university, mass transit and a few other categories, Moody's (MCO) raised the ratings by one notch around the Aa and A categories. It left ratings unchanged for several other categories like nonprofits and public electric power utility bonds.

Both agencies' upgrade movement took place within a stronger tide of downgrades.

If the ratings agencies were to use historical defaults as a guide, in order to make the ratings denote equal risk in munis as in corporate bonds, all ratings of BBB-minus or above would have to be converted to AAA. Speculative grade municipal bonds would also have to be drastically upgraded. This would leave the municipal ratings with little differentiation and thus little value for those focusing on munis.

While the SEC hasn't enforced the measure yet with regard to munis, on Aug. 28 the commission did find that Moody's had broken the SEC rule with regards to a different financial instrument, combination notes, which are collateralized loan obligations backed by corporate loans.

The SEC ordered Moody's to pay a $1.25 million fine and to "complete a comprehensive review of its policies, procedures, and internal controls that relate to the findings in this order in consultation with the Office of Credit Ratings" within 180 days. It also ordered the ratings agency to submit a report within 240 days describing its new policies for adhering to the SEC rule.

A Moody's (MCO) spokesman said: "We are pleased to have resolved these legacy matters, which reach back to 2010. Moody's Investors Service regularly reviews and refines its policies and procedures and is committed to maintaining strong controls around models used in the rating process."

EVALUATING CREDIT TODAY

The Great Recession led market participants to think about issuer credit differently. "The meltdown of monoline insurers resulting from losses in the subprime mortgage backed securities arena forced investors to look harder at the underlying credit of a municipality leading up to the crisis," said Justin Hoogendorn, head of fixed income strategy at Piper Jaffray (PJC).

"One tendency when looking at these separate Great Recession events was to describe them, at the time, as 'idiosyncratic,' " said Douglas Benton, who was an analyst at Moody's at the time and is now municipal credit manager for Cavanal Hill Investment Management. "However, an idiosyncratic list is an oxymoron. I believe we learned a lot about contagion risk that we as market participants hadn't fully appreciated."

The financial crisis and municipal bankruptcies in Vallejo, California and Detroit prompted investors to undertake more credit analysis themselves, said Michael Zezas, Morgan Stanley's (MS) chief U.S. public policy strategist and municipal strategist. "Once the bond insurers lost their high ratings and reminders that GOs could default started to pile up, it became clear that munis had credit risk that needed to be measured by the security holder, rather than simply rely on a third party."

Muni investors will continue to do more credit research than they did before the Financial Crisis, Zezas said. However, “for better or worse, ratings will be a common denominator for many investors trying to measure risk in a market with too many securities to follow.”

Richard Williamson contributed to this story.

Next: After the fall, remaining insurers fight for relevance

By Robert Slavin

BY SOURCEMEDIA | MUNICIPAL | 10/23/18 07:07 PM EDT

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## Higher Revenues, Restrained Spending Boost U.S. States' Credit Quality - Conning

NEW YORK (Reuters) – The credit quality of U.S. states is improving, with revenue growth and spending moderation helping to halt a downward trend, according to a report to be released later on Tuesday.

States’ revenue growth is higher than national economic growth in current dollars, the bi-annual report from global investment management firm Conning Inc found.

The boost in credit quality to “stable” is Conning’s first higher outlook, up from “declined,” on states in two and a half years. The firm manages more than $9 billion of municipal bonds in client portfolios.

“There’s no reason to believe that this shouldn’t continue for a while,” Paul Mansour, head of Conning’s municipal credit research, told Reuters.

Understanding credit trends can help investors determine how to buy and price bonds and businesses decide where to locate.

States struggled after the 2007-2009 recession, some cutting spending because businesses closed and residents lost jobs or earned less and therefore paid less in taxes.

Economies have improved since then. In late 2017, Moody’s Investors Service had a stable outlook for U.S. states because of modest, continued revenue growth.

Fitch Ratings also had a stable outlook, sounding a note of caution about uncertainty over federal tax policy and politics.

And while equities markets have taken a beating lately, that is not likely to be reflected in state pensions’ funded ratios because of a lag in reporting. Most of them will report later this year on fiscal 2018 results through June 30.

State revenues grew 7.4 percent during the 12 months that ended June 30, to $1.03 trillion, Conning’s report noted.

Strong consumer confidence manifested in sales tax growth as personal incomes rose. States are also exercising caution on both debt issuance and expenditures, Mansour said.

Many states have used their revenue surges to bolster rainy day funds, even Connecticut. Previously among Conning's five lowest rated states, Connecticut's rainy day replenishment helped it rise to the 44th spot, as did the weakening of some other states.

Mississippi, Louisiana and Kentucky are Conning's three lowest ranked states, with Colorado, Idaho and Utah ranked highest.

"Economic growth throughout the country has lifted all boats. The raw scores have all improved. Home prices increased in all states," he said. "But there are some laggards."

Illinois and New Jersey continue to lag behind. Both are ranked in the bottom 10 states, with high debt levels, low reserves and slow growth compared to others, leaving them more vulnerable in any future recession, he said.

By Hilary Russ

BY REUTERS | MUNICIPAL | 10:52 AM EDT

(Reporting by Hilary Russ; editing by Clive McKeef)

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## New $1M Water Utilities Workforce Development Grants.

**About 1/3 of the water utilities workforce is eligible to retire in the next decade. EPA and U.S. Army Corp of Engineers will establish a workforce development grant for the sector.**

SAN FRANCISCO — Mayor London Breed, the San Francisco Public Utilities Commission (SFPUC) and its partners announced the establishment of a federal grant program to fund training and career development for the water utilities workforce.

More than 30 percent of the nation's water and wastewater workers are eligible to retire in the next five to 10 years, making this grant program a vital opportunity to train the next generation of industry employees.

Included in the America's Water Infrastructure Act, the $1 million per year competitive grant program was championed by the SFPUC and its partner utilities in the Water Agency Leaders Alliance (WALA), the National League of Cities (NLC) and the National Association of Clean Water Agencies (NACWA), among other national organizations.

The original legislation was sponsored by U.S. Senators Cory Booker of New Jersey and Shelley Moore Capito of West Virginia. The bill authorizes the U.S. Environmental Protection Agency and the United States Army Corps to establish the competitive water utilities workforce development grant, according to Booker's website.

Continue reading.

**EfficientGov.com**

by EfficientGov Staff

October 24, 2018

## The Rise of Zombie Governments.

Just in time for Halloween, Truth In Accounting has updated its Zombie Index for state governments.

TIA's Bill Bergman explains what the Zombie Index is and why ranking at the top of the list is not a good thing for the residents of the states that do:

> This index is inspired by the work of Edward Kane, Professor of finance at Boston College. Kane wrote books warning about the developing crisis in the deposit insurance system in the late 1980s. Kane coined the term "zombie bank," referring to banks and thrifts that were effectively insolvent but allowed to remain open via untruthful accounting and regulatory forbearance.
>
> Kane called them "zombies" because they were really dead but allowed to walk among the living, and false accounting delayed loss recognition. Zombies had incentives to take large risks to try, in Kane's words, to "gamble for resurrection" – especially considering moral hazard generated by expectations that taxpayers would get the downside of the gambles. These incentives, in Kane's view, amplified the cost of the savings and loan crisis for taxpayers.

Becoming a zombie is bad for a bank, but at least the damage is contained to that private institution and its customers when it finally goes under. For a government, transforming into a zombie institution is exponentially worse, because the damage from the fallout when the Ponzi-like schemes of the politicians seeking to keep the state government running while hiding how bad its fiscal condition has become hits everybody when their financial deterioration can no longer be hidden.

Bergman identifies the states that have become the most zombie-like and what they could do to reverse their zombification:

> The biggest 'Zombies?' New Jersey, Massachusetts, New Mexico, Connecticut, and Illinois. Taxpayers and citizens in those states could benefit from more oversight of risk exposure in investments backing retirement funds.

The primary way that state governments hide the full extent of their liabilities is by omitting their pension obligations from their financial statements, where the states in the worst shape have an extended history of offering lavish pension benefits for public employees while failing to adequately fund them, counting on investment returns to carry the load of making good on the obligation.

Consequently, the worst-run governments turn to riskier and riskier investment schemes to try to make up the difference, which all too often turn into even bigger problems when they can't deliver the high returns they were counting upon. When they eventually go bust, as happened in Dallas, Texas just last year, essential government services like trash pickup appears to be suffering because the city's money troubles meant it couldn't buy enough new garbage trucks to replace aging ones.

On the plus side, reforms that Dallas has made to fix its public pension disaster appear to be working, so it is possible for a fiscally strapped government to repair the damage.

The real question for zombie government politicians is why wait until a crisis has forced the issue to

put themselves onto a fiscally sustainable path?

**The Beacon**

by Craig Eyermann | Monday October 29, 2018 12:10 PM PDT

Craig Eyermann is a Research Fellow at the Independent Institute and the creator of the Government Cost Calculator at MyGovCost.org.

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## U.S. Fund Investors Pull Most Cash from Bonds since February -ICI

NEW YORK, Oct 17 (Reuters) – U.S. fund investors dumped bonds during a market rout in the latest week, at the fastest pace since February, Investment Company Institute (ICI) data showed on Wednesday.

More than $7.1 billion dropped out of U.S.-based bond mutual funds and exchange-traded funds (ETFs) during the seven days ended Oct. 10 as a debt market selloff pushed yields to seven-year highs. Nearly $1.7 billion flowed out of municipal bonds alone, the most cash pulled since the end of 2016.

The week's withdrawals were the largest for bond funds since early February, a rout sparked by similar inflation and rate concerns.

Overall, bond funds have been a popular bet this year, taking in nearly $133 billion, according to the research service Lipper, as investors took advantage of higher yields but were skittish that economic growth could peak with the Federal Reserve raising U.S. interest rates to head off inflation.

Within stocks, fund investors shifted money abroad for a second straight week as the S&P 500 benchmark sagged 4 percent. Domestic equity fund withdrawals totaled $3 billion, while their counterparts invested abroad gathered $502 million despite the market swings.

The following table shows estimated ICI flows for mutual funds and ETFs (all figures in millions of dollars):

10/10 10/3 9/26 9/19 9/12/2018
Equity -2,542 -4,282 -1,182 10,193 -3,371
Domestic -3,044 -4,806 930 10,544 -3,829
World 502 524 -2,112 -351 458
Hybrid -1,812 -2,099 -1,768 -1,299 -1,673
Bond -7,137 6,497 1,697 4,348 7,190
Taxable -5,484 6,499 2,083 4,231 7,160
Municipal -1,653 -2 -385 116 30
Commodity 138 -188 253 -91 -57
Total -11,353 -72 -1,000 13,151 2,089

(Reporting by Trevor Hunnicutt; Editing by David Gregorio)

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## Water Bill Ready for President's Signature.

The U.S. Senate passed a comprehensive water infrastructure package Oct. 10 to authorize the Water Resources Development Act (WRDA) by a vote of 99-1. The NACo-supported, bipartisan legislation now heads to the president's desk for his signature. This is the third WRDA bill passed in the past six years, moving WRDA back to a two-year authorization cycle.

The bill, America's Water Infrastructure Act of 2018 (S. 3021), was pieced together from a previously passed House WRDA package (H.R. 8) and a Senate WRDA bill (S. 2800). S. 2800 was unable to move independently through the Senate due to a hold by Sen. Richard Burr (R-N.C.) on an unrelated issue — reauthorization of the Land and Water Conservation Fund, which expired at the end of September. As a workaround, committee staff on both sides of the aisle negotiated a new bipartisan bill which was passed by the U.S. House of Representatives last month.

**Learn More**

- Read the bill
- Read the section-by-section summary
- NACo's letter of support for WRDA 2018

The compromise version would authorize a wide variety of water resource projects and policies administered by the U.S. Army Corps of Engineers (Army Corps) for navigation, flood control, hydropower, recreation, ports, harbors, inland waterways, water supply and emergency management. As major owners and operators of much of this infrastructure, counties are directly impacted by the policies and projects authorized in WRDA.

Most notably for counties, the WRDA legislation includes numerous provisions that would require the Army Corps to consult with impacted stakeholders, including local governments. The bill would also authorize $6.1 billion for 12 Army Corps projects and 65 feasibility studies for potential projects. It also includes $4.4 billion for the U.S. Environmental Protection Agency's (EPA) Drinking Water State Revolving Fund program, which provides funds to states and utilities to improve drinking water infrastructure.

Other provisions of interest to counties include the following:

Requiring the Army Corps to develop a process to consult with stakeholders, including states and local governments, on future and pending WRDA projects, annual district budgets, deauthorized projects and guidance documents.
Authorizing study of the existing cost-benefit analyses used by the Army Corps and the White House Office of Management and Budget to determine which water resource projects are submitted to Congress for WRDA authorization.
Allowing communities to work with the Army Corps on decertified levees. The bill would allow the Army Corps to provide technical assistance, on a reimbursable basis, to local governments that own levees not accredited by the Federal Emergency Management Agency. Decertified levees lead to higher National Flood Insurance Program costs for homeowners. This provision would authorize the Army Corps to identify barriers to certification.
Increasing the focus on natural and nature-based features. For projects in an aquatic ecosystem or estuary, the Army Corps could consider and include natural and nature-based features into projects.
Increasing the focus on renewable energy projects. The bill would require the Army Corps to identify dams that can be used for hydropower and ports that can be used for wind energy. This would increase the use of renewable energy nationwide.
Requiring drinking water systems with more than 3,300 users to undertake risk assessment and

emergency response plans to assess the risk to and resilience of its system from both natural and manmade hazards.

Absent from the legislation are provisions addressing the Harbor Maintenance Trust Fund (HMTF) and EPA's Integrated Planning (IP) Framework, which NACo had advocated. HMTF is a tax levied against importers and domestic shippers using ports and harbors in coastal and Great Lakes areas. Even though the HMTF has a large surplus, only a portion of its total is appropriated by Congress every year for operations and maintenance in the nation's harbors. The IP Framework, on the other hand, was designed to help communities struggling to comply with tighter Clean Water Act (CWA) requirements. IP would help communities prioritize CWA investments, while meeting CWA mandates and environmental goals. Congressional leaders have indicated a willingness to continue to work on HMTF and IP moving forward, separate from the WRDA 2018 bill.

WRDA legislation is historically passed every two years. However, in recent years, Congress has only been able to enact three WRDA bills: in 2007, 2014 and 2016. WRDA currently has a backlog of nearly $100 billion worth of projects that have been authorized but have not yet received appropriations. The current WRDA legislation would be added to the list of projects awaiting congressional appropriations. NACo is encouraged by congressional efforts to move WRDA back to a two-year authorization cycle.

**National Association of Counties**

By Julie Ufner | Oct. 15, 2018

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## How Climate Change Threatens to Leave Water Bonds High and Dry.

Hurricane Florence caused record flooding at water and wastewater plants in North Carolina. Saltwater intrusion from rising sea levels is wreaking havoc on Florida's water supplies. The nearly two decades of drought afflicting the Colorado River Basin will soon require Southern California to cut its draw from the river by as much as 8%.

Climate resiliency is becoming an increasingly material issue for utilities that manage water infrastructure and investors who buy the bonds to finance these assets. As climate risks rise, utilities and their bond buyers must address growing questions about the long-term resilience of existing and planned water infrastructure, to prevent these investments being left high and dry.

Last fall, Moody's warned New Orleans, Miami and other Gulf Coast cities to prepare for climate impacts or risk a downgrade on their bond ratings. In July, a University of Pennsylvania study warned of broader credit rating downgrades for all coastal communities that do not manage flooding and rising sea level risks.

"What are we going to do when sea level rise is constantly battering cities? Declare a chronic emergency? We're talking about hundreds if not thousands of cities at risk," said UPENN's John Miller, who wrote the "Credit Downgrade Threat" report.

These actions linking credit worthiness to climate resiliency are an important wake up call to water utilities that they must prepare for climate change.

And momentum is clearly growing. Among the more recent breakthroughs is new guidance issued this spring by the National Federation of Municipal Analysts (NFMA) regarding utility disclosures.

The guidance asks for stronger disclosure on potential climate impacts to physical assets, water supplies and revenue streams. It also asks utilities to share more about their plans to protect critical water sources as well as planned conservation measures to ensure water availability.

The NFMA's *Recommended Best Practices in Disclosure for Water and Sewer Transactions* guidance follows in the wake of an evaluation tool Ceres has developed to help bond investors assess the resiliency of water utility-related investments. The *Water Risk Framework for Municipal Water and Wastewater* is part of a new open-source water risk toolkit created in collaboration with a group of over 40 asset managers and owners.

Another development that will shape the future of the municipal water bond market is the finalization of new water infrastructure criteria for green bonds. The new standard, which use specific scoring criteria to rank water projects on climate adaptation and environmental impacts, come as the green bond market is taking off globally, hitting a record $162 billion in 2017. Several utilities have already issued $1.5 billion of green water bonds, including San Francisco, Washington, D.C., and Cape Town, South Africa.

Still another development is a recent change by the Governmental Accounting Standards Board to its guidance for bond financing for distributed infrastructure investments. The clarification makes clear that green roofs, smart meters, water efficient devices and other water-saving measures are assets that can be capitalized and debt-financed by water utilities. Having this financing flexibility will make it easier for utilities to deploy these types of assets at far greater scale.

The bottom-line takeaway should be clear: as climate impacts create bigger challenges for the water sector, it is incumbent on bond investors to understand these risks — and for utilities to disclose and plan for them.

By Brooke Barton

BY SOURCEMEDIA | MUNICIPAL | 10/16/18 07:06 PM EDT

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## Fitch Ratings: U.S. Transportation Growth Outweighs Rate Hikes

Fitch Ratings-New York-18 October 2018: All three major U.S. transportation segments are looking at continued healthy growth in the coming months even with the prospect of further interest rate hikes, according to Fitch Ratings in its latest annual report.

Airports, toll roads and ports are all facing potential increases in borrowing costs should the Federal Reserve continue to increase interest rates (three increases this year to date). That, coupled with increasing capital improvement spending needs, has the potential to slow growth. That said, 'the transportation sector's high ratings, along with high rate of fixed-rate debt, should limit the effects of potential interest rate escalation,' said Fitch Director Stacey Mawson. This comes as all three segments continue to see healthy growth that is outpacing that of U.S. GDP so far this year. 'As the economy continues to expand, growth is felt across transportation sectors, although higher fuel prices are muting some of that affect,' said Mawson.

Enplanements for U.S. airports nearly doubled yoy, up a healthy 5% for the first six months of 2018 compared with 2.6% growth during the same period last year. Fitch expects a similar rate of growth for second-half 2018, with medium and small hubs having the potential to outperform. Strong medium and small hub performers include Rhode Island, San Jose, Cincinnati, Albuquerque and

Burbank, while Ft. Lauderdale, San Diego, Tampa and Orlando have been leading the pack for large-hub airports.

Growth among U.S. ports has been solid through the first six months of this year (4.8%), though lower as compared with the robust performance seen in the first six months of 2017 (6.9%), though volume is still ahead of real U.S. GDP growth. There may be some more immediate volume shifts between ports with trade agreements still being renegotiated and steep tariffs imposed. Over time, however, any initial move in volume should level off.

Traffic and revenue growth for toll roads will stay on an upward trajectory. Facilities in the Southeast and Southwest recovered rather quickly following hurricane-related travel interruptions in the latter half of 2017 with year-to-date 2018 traffic growth averaging 5.0% and 3.8% respectively, easily ahead of toll roads throughout Northeast (1.5%). More people moving to the Southeast and Southwest will add to toll road traffic and revenue over time. As in past years, one factor that could temper growth for toll roads is a material increase in gas prices.

Fitch's 'U.S. Transportation Trends – Fall 2018' report is available at 'www.fitchratings.com'

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## Why the Muni-Bond Market Cares About the Midterms.

- **Infrastructure bill, return of refinancings a possibility**
- **But gridlock could return in politically divided House, Senate**

With Democrats hoping for a wave election next month that would roll back Republicans' power in

Congress, analysts are gauging how the return of a divided government — or a narrower Republican margin — could ripple through various corners of Wall Street. Among them is the $3.9 trillion state and local government bond market, a crucial niche of American finance that could be affected by tax legislation, a big infrastructure buildup or the collateral damage a surging federal budget deficit may have on the billions of dollars of aid that states receive each year.

**Below are the things to watch:**

***Infrastructure***
President Donald Trump campaigned on a pledge to pump more federal money into infrastructure like roads, bridges and airports. Yet his plan — which proposed about $200 billion over a decade to kick-start private and local-government investments — went nowhere, even with his fellow Republicans in charge of the House and Senate.

But infrastructure is one area where the partisan divide may be bridgeable. Former White House economic adviser Gary Cohn last month predicted that Trump would likely sign a Democrat-backed plan, even if it was costlier than the one he proposed. The Democrats earlier this year unveiled a $1 trillion infrastructure program, paid for in part by higher taxes on the top earners, that would provide big grants to state and local governments, as well as create new subsidized securities similar to the Build America Bonds that were issued after the recession. Whether Republicans would get on board is uncertain.

Matt Fabian, partner at Municipal Market Analytics, wagers there's a more than 50 percent chance of an infrastructure bill passing the House if Democrats take control. Even so, it could easily die in a Republican Senate, given that a politically divided Congress is historically prone to gridlock.

"If you couldn't get something done with control of both houses of Congress and the executive, it's going to be difficult to get it done with a divided Congress," said Ian Rogow, a municipal strategist at Bank of America Merrill Lynch.

***Return of Refinancing***
A major surprise of last year's tax-cut law was that it did away with subsidies for municipal debt issued in so-called advance refundings, a tactic used by state and local governments to refinance bonds before they can be called back from investors. That did little to cover the cost — saving the government only about $17 billion over a decade — but it's had a big impact on the muni-bond market, where new sales slipped this year. While that's arguably been good for bondholders, with the drop off helping the market outperform during this year's downturn, it means states and cities won't be able to profit much the next time interest rates fall.

Emily Swenson Brock, director of the Federal Liaison Center at the Government Finance Officers Association, and Beth Pearce, the Vermont treasurer and president of the National Association of State Treasurers, said restoring the subsidies is something their groups will lobby for in the next Congress. A bill introduced in February to do that has made little headway, though it has support from both Democrats and Republicans.

***Tax-Exemption***
The tax exemption that investors receive from payments on state and local bonds has long been seen as a potential target for a budget-cutting Congress. Some Republicans have proposed doing away with it outright, while former President Barack Obama wanted to roll it back for the highest earners. The exemption, however, evaded the chopping block during last year's big tax cut.

Citigroup Inc. analysts say that even if Congress musters the bipartisan support to enact a follow up

to last year's cut, the tax-exemption is unlikely to be at risk. However, the bank said lawmakers could roll back the subsidies for new private activity bonds — or those sold on behalf of qualifying projects for businesses. That would sharply reduce the supply of new tax-exempt debt, potentially making it more valuable, since the securities account for about 25 percent of the market, by Citigroup's estimate.

***Federal Deficit***

A potential squeeze at the federal level could affect states if it results in a pressure to cut funding for education, health-care and other programs. The federal deficit swelled 17 percent to $779 billion in Trump's first full fiscal year in office. The Congressional Budget Office, a non-partisan congressional research body, has estimated the shortfall will top $1 trillion in 2020. That will likely embolden Republicans to push for deeper cutbacks that could roll downhill, or undermine a push for new spending on infrastructure.

"Federal spending has to come down or taxes have to come up and either way it's a threat to state and local economics," Fabian said.

**Bloomberg Markets**

By Michelle Kaske

October 15, 2018, 8:15 AM PDT Updated on October 15, 2018, 12:09 PM PDT

*— With assistance by Danielle Moran, and Amanda Albright*

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## How Wall Street Drove Public Pensions Into Crisis and Pocketed Billions in Fees.

**Public Pensions for Sale – Part 1**

Public pensions squander tens of billions of dollars each year on risky, poor-performing alternative investments like hedge funds.

Continue reading.

**The Intercept**

by Gary Rivlin

October 20, 2018

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## How to Evaluate the Strength and Performance of Bond Insurers.

**The last time a bond insurer was rated AAA was in 2010 when Assured Guaranty was downgraded by S&P following the financial crisis of 2008. Active bond insurers today are not rated AAA but have dramatically improved their capital adequacy and underwriting practices.**

This article addresses how to evaluate the financial strength and performance of bond insurers so you can decide if the benefits of their financial guarantees are worth accepting the lower yield of insured bonds.

Continue reading.

**municipalbonds.com**

Joshua Hudson

Oct 17, 2018

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## Freddie Mac Introduces Finance Mechanism to Mitigate Construction-Loan Risk for Workforce Housing Developers.

**New non-LIHTC Forward Commitment Program is part of a coordinated delivery of new products intended to innovate workforce housing finance and spur investment.**

Call it the chocolate float.

When CBRE Affordable Housing announced in July a $26.7 million forward commitment from Freddie Mac to help finance the mixed-income, adaptive reuse of the Lowney Chocolate Factory in Mansfield, Mass., not much was broadcast about the financing beyond term-sheet basics.

At the time, the 10-year fixed-rate loan (which included two years of interest-only payments) was just part of a larger capital stack that included EB-5 program equity and commitments from the National Park Service, the Massachusetts Historical Commission, the MassHousing Workforce Fund, and construction lender Citizens Bank.

As it turns out, Freddie Mac was test-driving the viability of a new financing vehicle targeting workforce housing developers and modeled after similar programs already proven successful within the low income housing tax credit (LIHTC) arena. “When we launch any new products, we typically have already done a deal or two to make sure what we’ve come up with works successfully,” explains Freddie Mac vice president of targeted affordable sales and investments David Leopold. “Backing up further, we try to make sure any offering isn’t just our own thinking but addresses real gaps in the market. When we hear about good ideas or needs not yet met, that’s when we engage.”

**Targeting Higher AMIs**
Officially rolled out in September, Freddie Mac’s Non-LIHTC Forward Commitment program provides unfunded forward commitments for affordable housing developed by nonprofits as well as subsidized, rent-restricted affordable housing developed by for-profit developers for new multifamily construction or substantial rehabilitation. Specifically, Freddie underwrites and commits to making permanent mortgage loans on affordable rental housing projects prior to construction, offering developers a unique tool to manage the interest-rate exposure from construction lending, even for properties not funded with tax credits.

“Our goal is to provide liquidity to the whole market from a product-development standpoint,” says Leopold. “The need for non-LIHTC forwards has been growing, and the market evolutions that have made it acute include the increased efforts by more states and local jurisdictions to create new ways to subsidize affordable housing targeted to higher area median incomes (AMIs), so [as to provide]

more workforce housing in comparison to standard LIHTC-driven affordable housing."

While Freddie Mac non-LIHTC forwards are available to nonprofit affordable housing developers that commit all units to either workforce or affordable housing rent levels as defined by the Federal Housing Finance Agency (FHFA), the program is also open to for-profit developers who are willing to cap 80% of unit rents at 100% to 150% of the AMI (depending on the market), with another 10% of units subject to FHFA rules for uncapped volume and the remaining 10% of units open to market-rate rents.

The idea, Leopold says, is to provide loan mechanisms to help developers mitigate construction-loan interest-rate risk and variability and offer additional liquidity to maximize the value of state and local workforce housing subsidies. "More and more programs are expanding into workforce housing," Leopold says. "There's strong interest on the borrower side that corresponds with local and state agencies providing tax abatements, allocations of HOME funds, and locally generated subdebt, all of these subsidies that a decade ago were paired with LIHTCs that are now stand-alone with restrictions above the 60% AMI level."

**Costs a Driving Factor**

Development costs are also driving demand for new workforce housing–financing mechanisms. Elie Rieder is CEO of Castle Lanterra Properties, a Suffern, N.Y.–based owner–operator of a workforce and market-rate housing portfolio that includes assets in Colorado, Texas, Georgia, Alabama, New Jersey, Florida, Virginia, and Maryland. He says the dramatic increase in construction costs makes it no longer economical to build workforce housing in the absence of innovations in finance. "Without the direct government subsidies that are often provided to affordable housing," Rieder says, "workforce housing generally doesn't benefit from the same types of financing structures that affordable housing can enjoy."

According to Rieder, land costs across his markets have spiked 62% since 2012, with a corresponding 25% increase in labor and materials, creating a so-called "missing middle" market as developers veer toward high-end luxury or heavily subsidized affordable housing to get deals to pencil out. "With this supply-and-demand mismatch, we're now faced with an acute shortage of reasonably priced rental housing for those who earn too much to qualify for subsidized housing but fall well short of the necessary income requirements to purchase a home or afford to rent a luxury unit," Rieder says.

Freddie Mac expects the total volume for 2019 Non-LIHTC Forward Commitments to reach $250 million, further signaling the government-sponsored enterprise's focus on workforce housing–finance innovation. In May, Bridge Multifamily Fund Manager and Freddie Mac Multifamily announced the closing of a transaction by which Freddie Mac will purchase and aggregate a year's worth of loans (up to $500 million) for Bridge to acquire, improve, and preserve workforce and affordable housing across the country.

"That's the context of the non-LIHTC forward program—an ongoing expansion to cover all affordability and liquidity gaps across all levels in multifamily," Leopold says. "It's one of a coordinated delivery of products that will be aimed at providing capital and expanding our relevance within workforce housing."

Back at the Lowney Chocolate Factory, the 36-month forward commitment from Freddie Mac will provide 130 units of mixed-income housing in the building that originally produced Oh Henry! candy bars and the chocolate chips for Chips Ahoy! cookies before closing down in 2011. Certainty of execution and interest-rate mitigation provided by the commitment also allowed for a total construction loan of $32.5 million, offset by $9 million in combined tax credits from the National

Park Service and the Massachusetts Historical Commission.

“Leading this program off with the Chocolate Factory has been a great splash,” Leopold says. “Adaptive reuse is always cool; historic preservation is cool for those of us who love real estate, but, more importantly, it was a priority of the community and we wanted to help them do it.

“Like so many markets across the country, this is a high-cost area, and the more we can help to create new, affordable units in areas of opportunity, the better.”

**multifamilyexecutive.com**

By Chris Wood

Oct 2, 2018

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## CDFA Announces Winners of the CDFA Excellence in Development Finance Awards.

Read the CDFA Press Release.

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## Stanford’s New Sustainable Finance Initiative to Help Unleash Capital Needed for Decarbonization.

**A new Stanford program, supported by Bank of America, will fund research to develop the finance and policy tools needed for the transition to a decarbonized and climate-resilient global economy.**

The global transition to low-carbon economies is dramatically transforming the investment landscape, especially in the enormous sectors of energy, agriculture and transportation. To unlock the massive amount of capital needed for that transition, Stanford University’s Precourt Institute for Energy is launching a research program to develop new economic and financial models to more effectively manage risk and drive successful investment.

The Sustainable Finance Initiative at Stanford will work with leading public and private financial institutions, companies and governments to engage Stanford researchers in economics, law, business and computer science to accelerate the transition toward decarbonization and climate resilience. Bank of America, a founding member of Stanford’s Strategic Energy Alliance, is supporting this initiative.

“A global expansion of capital deployment in low-carbon infrastructure is one of the most important prerequisites to building economies that will serve humanity for our children, grandchildren and beyond,” said Sally Benson, co-director of the Precourt Institute and Stanford professor of energy resources engineering. “We value the support and the knowledge of collaborators like Bank of America as we all try to figure out the technologies, finance and economic structures needed for this new era in sustainability.”

Continue reading.

STANFORD NEWS

BY MARK GOLDEN

OCTOBER 4, 2018

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## Where States and Prospective Governors Stand on Infrastructure in the 2018 Election.

States play a central role in overseeing America's infrastructure. They own roadways and many other transportation assets. They regulate a wide assortment of transportation, water, energy, and telecommunications systems. They manage billions in federal infrastructure funds and are increasingly looking to jumpstart new investments, while also choosing how and where to support local infrastructure efforts.

That's what makes 2018 such an important year. With 36 governor mansions up for grabs, a slew of new or incumbent executives will have four years to set their states' infrastructure agendas. Issues such as roadway design, environmental resilience, and overall funding levels will all run through the offices of these new governors.

But these infrastructure conversations and activities do not simply start after November 6. In many states, they have been a central feature of debates throughout a heated campaign season.

Continue reading.

**The Brookings Institute**

by Adie Tomer and Joseph Kane

Friday, October 19, 2018

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## How to Control the Fiscal Costs of Public-Private Partnerships.

"While in the short term, PPPs may appear cheaper than traditional public investment, over time they can turn out to be more expensive and undermine fiscal sustainability, particularly when governments ignore or are unaware of their deferred costs and associated fiscal risks."

Read the full article on: International Monetary Fund

by Tim Irwin, Samah Mazraani, Sandeep Saxena | October 19, 2018

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## Intermediaries Are a Missing Ingredient in Conservation Finance.

*Note: The article below covers an event hosted by Conservation Finance Network (CFN). The 6th Conservation Finance Practitioner Roundtable was held using Chatham House Rules, which require*

*that quotes be anonymized. Select panelists from the session agreed to do on-the-record interviews. The Conservation Fund is a partner of CFN's and is represented on this website's leadership committee and review team.*

Financial intermediaries can make new markets come alive, according to a key discussion from CFN's 6th Conservation Finance Practitioner Roundtable. From April 25-26, conservation, agribusiness, and impact investing experts gathered at the McKnight Foundation offices in Minneapolis, to share how they are building financing for conservation practices into mainstream agricultural systems.

The discussion of financial intermediaries was sparked by the panel "Copying the S-Curve." The panel featured experts specializing in clean energy and affordable housing. This panel sought to analyze how lessons learned from the growth of these sectors could be applied to conservation finance markets by focusing on the question, "How do practitioners scale ventures into investment-grade opportunities?"

CFN interviewed panelists Ben Healey, Catherine Godschalk, and Sean Penrith for this article. They each agreed during the panel and in follow-up interviews that the presence of intermediary institutions is part of what made their respective sectors able to grow and create nationwide impact.

**What Is an Intermediary?**

Ben Healey, director of clean energy finance at Connecticut Green Bank, defined an intermediary as "any number of institutional players that can help arrange capital such that project developers can then have access to it."

Banks are classic examples of intermediaries. One function of a traditional banking structure is pooling capital from different sources. The bank can then act as an access point for individuals or organizations that need financing. Essentially, a bank is an agent that plays a role in connecting the supply of capital with the demand for funding.

There are several examples of existing intermediaries in the conservation finance space. Penrith and Godschalk both mentioned The Conservation Fund's Conservation Loans Program. Solvitect, a credit aggregator described in a recent CFN piece on the new Stormwater Retention Credit Program in Washington, D.C., is a great example of an innovative intermediary seizing on an emerging opportunity.

However, each of the panelists agreed that a fundamental missing piece from the conservation finance market are the kind of intermediaries that can connect projects on the ground to the largest capital markets.

"When it comes to conservation finance, the entire infrastructure still needs to be built," said Sean Penrith, CEO of Gordian Knot Strategies.

The panelists supplied expert analysis of the value of impact sector-specific intermediaries during the event and in follow-up interviews. They emphasized that intermediaries serve key functions beyond capital collection and allocation, most importantly by providing market infrastructure that helps to structure, package and scale transactions.

Through this process, intermediaries become the backbone of a growing market.

**What Opportunities Are Emerging?**

The conservation finance field is wide open for intermediaries. Project aggregators with field expertise are needed to serve the substantial interest at the investor level. As CFN has previously reported, there is substantial interest in the conservation space within the impact-investing world. The infrastructure may still be developing, but building out intermediary institutions represents a massive opportunity for entrepreneurs willing to take the leap.

Panelist Catherine Godschalk, vice president of investments at Calvert Impact Capital, said, "We need on-the-ground discovery to understand what is going on – to unlock, de-risk and solve problems."

In doing so, intermediaries encourage the replicability and standardization that spread impact throughout a sector. They can help seed and grow projects on the ground while providing access to the kind of large-scale financing that new markets need to truly grow.

"How do you move beyond everybody needing to understanding your beautiful snowflake of a project?" Healey said. "The capital markets just want to make big decisions and allocate large sums. You make projects simple, replicable, scalable. That's the intermediaries' job. They can take the risk on the front end and then move it forward."

**How Do Intermediaries Provide Replicability and Standardization for Investors?**

"An intermediary can deliver a service on a turnkey basis for both buyers and suppliers," Penrith said. In this case, the buyers are capital markets and the suppliers are project developers while the service is the package of impact projects that the intermediary sells.

When asked for an example of how a successful intermediary can build an industry, Penrith said the emergence of energy service companies (ESCOs) is one of them. "In commercial industry and for commercial building owners, it is a clear advantage to have energy-efficient buildings."

However, at the individual-building level, it is not always worth the upfront cost for the building owner to install efficiency upgrades. The payoff from lower energy bills accrues slowly over time. While energy-efficiency projects yield savings over time, they can be inconvenient or unfamiliar at the individual level.

Intrepid entrepreneurs recognized the opportunity at hand. "Along came the ESCO model," Penrith said. "[ESCOs] were established to pay for the upgrades and manage them. These companies were paid through energy savings achieved."

Key to the ESCO business model is attracting enough project-level business to scale revenues over time. ESCOs developed expertise and created replicable energy-efficiency projects. By streamlining the upgrade process, ESCOs found a niche and became hyper-efficient in that space.

Importantly, ESCOs were able to package their projects as investable securities. With successful pilot projects and steady future streams of cash flows through energy cost savings, the ESCO model proved to be an attractive investment.

ESCOs had replicated their base revenue model to the point that projects were standardized, understood and packaged. Thus, they were able to attract the attention of capital markets to scale operations to the next level. With the help of large-scale financing, ESCOs created even greater impact on energy use.

"This is a great example of an intermediary providing a service on a turnkey basis," Penrith said.

**How Can Projects Bridge the Gap to Capital Markets?**

There was wide consensus among Roundtable attendees that one of the keys to building the conservation finance sector is finding ways to access capital markets. Godschalk said, “We think the role that private capital has to play in solving our environmental challenges is massive. We will require massive amounts of scale to solve the world’s problems.”

Intermediaries need to play a part in channeling those funds to conservation projects. They accomplish this by acting as the conduit between major investors and concrete impacts.

“Fundamentally, in developing a market-based solution, the problem is not a lack of capital. It is that the capital does not have a path into financing projects,” Healey said.

Large financial institutions investing billions in capital do not want to get bogged down in the details of individual investments. In well-developed markets, investors depend on financial intermediaries to provide on-ramps to investment opportunities and to source interesting ideas.

As an example, Godschalk said her firm has a role as an intermediary on the capital continuum. “There are two levels of intermediation that are critical to moving capital efficiently from the private sector into impact opportunities. The first level [consists of] market-serving intermediaries, like Calvert Impact Capital, who structure products that can tap existing capital markets.”

**What On-the-Ground Expertise Makes These Investments Work?**

As the go-between for capital and projects, intermediaries also work at the project level. Godschalk said, “Market-serving intermediaries provide capital to the second level of intermediaries, community-serving intermediaries. Community-serving intermediaries offer products to serve businesses operating on the ground in communities.”

“At this level, intermediaries are closer to the community and the science, and understand the… risk that the capital takes,” said Healey.

Intermediaries are able to de-risk and standardize projects to connect them to the waiting capital markets. According to Godschalk, intermediaries serve a variety of functions at this on-the-ground level; they provide upfront venture and risk capital showing they have a stake in the outcome, advise and guide project developers, and help structure projects to make them more attractive to investors.

Because intermediaries have deep familiarity with their investment ecosystems, they are well-positioned to design investable products that meet their clients’ needs. Market-serving intermediaries know what capital markets require in terms of risk-adjusted returns. Community-serving intermediaries know what the project on the ground needs.

Healey went further. “The capital markets need to see some kind of package. That package can only be sold by [an] expert.”

The previously described ESCO model exemplifies how an expert intermediary can package and sell small projects to the capital markets.

“Community-facing intermediaries take capital and solve for requirements on the ground of highly local or sector-specific risks.” Godschalk said. “This community-serving intermediation is critical to a well-functioning market and is what the conservation finance sector needs more of.”

**Conservation Finance Network**

by Jeffrey Conti

October 17, 2018

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## How a Blue Wave May Help the Muni Market in 2019.

WASHINGTON – The federal policy making environment for the muni market will be more favorable next year if Democrats win back majority control of the U.S. House of Representatives in the November election.

With a Democratic majority next year, the new chairman of the tax policy-making Ways and Means Committee would be Rep. Richard Neal of Massachusetts who would succeed Republican Rep. Kevin Brady of Texas. Colleagues told The Bond Buyer that there is a stark contrast in the way the two men view tax-exempt bond financing.

Neal is a former mayor with 16 years of experience in local government whom colleagues describe as knowledgeable and supportive of tax-exempt bonds..

And Neal's re-election is assured in the general election because he is running unopposed after winning a September Democratic primary for western Massachusetts' 1st Congressional District with 71% of the vote.

Brady last year led the failed effort to terminate the tax exemption for private activity bonds. Republican colleagues say Brady is among the least sympathetic to tax-advantaged bonds among GOP members of Ways and Means.

Neal told The Bond Buyer last month Democrats are "confident but not cocky" about regaining the majority in the House. The outlook for the Senate is uncertain.

If Republicans retain their majority, Sen. Charles Grassley, R-Iowa, might succeed retiring Senate Finance Committee Chairman Orrin Hatch, R-Utah. And if Democrats eke out a majority the committee's ranking Democrat, Sen. Ron Wyden of Oregon, would take the chairman's gavel.

That potential change in leadership will have a profound impact because, as the nonpartisan Congressional Research Service noted, a chairman sets the panel's agenda, calls hearings and determine which bills will be marked up.

Democrats in the House, such as House Democratic Caucus Chairman Joe Crowley, D-N.Y., say there's no doubt Neal would ascend to the chairmanship.

"I think Richie is highly respected, not only in Democratic circles, but certainly throughout people who know tax policy," Crowley said.

Neal spoke about how he would approach 2019 during a brief interview with The Bond Buyer following the markup of Tax Reform 2.0 in late September.

"One of the first things that we would do," Neal said, "is that we are going to do hearings on their tax bills, both parts of it including 2.0. And I think that would shed some light on exactly why there are so many requests now to do some repairs on it."

Mayors and governors would be asked to testify on the impact of last year's federal tax bill on their

cities and states if Neal chairs the committee.

“We’re going to hear from a wide array of sources,” Neal said, listing the National League of Cities, U.S. Conference of Mayors and “the bond market people” among those he would invite to testify.

Tax Reform 2.0 is an anathema to state and local government groups because it would make permanent the $10,000 cap on the federal deduction for state and local taxes.

The transfer of power to Democrats from Republicans, if it happens, also would come at a time when Congress is expected to take up major infrastructure legislation.

The tax treatment of bond financed infrastructure will be a key part of any package. Muni groups hope the legislation will expand the use of tax-exempt private activity bonds and will lobby for inclusion of a provision to restore advance refundings.

Infrastructure is one of the areas where lawmakers and President Trump will most likely be able to work together.

Senate Democratic Minority Leader Chuck Schumer of New York had high hopes of working with Trump on infrastructure in the early months of the new administration, before the White House and Republican Congress decided to focus on taxes instead.

Neal has “not just an empathetic ear but an informed ear” on muni issues, said Mayor Steve Benjamin of Columbia, S.C., chairman of the Municipal Bonds for America Coalition and president of the U.S. Conference of Mayors.

Benjamin said Neal “recognizes that protecting the tax exemption for muni bonds is sacrosanct for our federal tax policy.”

“We do believe Representative Neal would be an able chairman if in fact the people of America decide that the House will go Democratic and we look forward to working with him and also our friends on both sides of the aisle,” Benjamin said. “We’ve found some thoughtful, articulate members on both sides of the aisle and we look forward to maintaining all of those relationships.”

Muni groups have contributed to Neal’s re-election campaign, as well as other House and Senate lawmakers who are considered allies. Neal has received $2,500 from the Bond Dealers of America Political Action Committee, $1,500 from the American Public Power Association PAC and $1,000 from the Securities Industry Association PAC.

The Airports Council International-North America PAC, which has given 55% of its 2018 campaign donations to Republicans, gave Neal $1,500.

Control of the House last flipped after the first two years of President Obama’s first term, noted Republican Rep. Tom Reed of New York. He acknowledged this year’s election could produce a result similar to 2010 when Republicans regained the majority in the House.

Reed, a former mayor of Corning, N.Y., said he has “a lot of respect” for Neal, saying he is “one on the other side of the aisle who you can work with.”

“He’s a good faith legislator and as a mayor I think that you recognize what you’re here for,” Reed said. “And that’s fundamentally to help people. And he’s of that ilk.”

Neal and the former Sen. John Kerry, D-Mass., successfully worked to include a provision in the

February 2009 Economic Recovery and Reinvestment Act that exempted private activity bonds from the Alternative Minimum Tax for two years.

“Airports saved well over $1 billion in financing costs over that time” because of that provision, said Annie Russo, senior vice president for government and political affairs of the Airports Council International-North America.

“He has spent a lot of time working on projects in his district that have an infrastructure and transportation focus, especially redevelopment projects,” Russo said.

One former senior House staffer pointed to Neal’s longtime work to redevelop the historic Union Station in his hometown of Springfield that serves as an Amtrak stop for the Northeast Corridor, which extends from Boston to Washington.

Neal launched his first campaign for local elected office in 1977 with a pledge to save the station. The redevelopment took more than 35 years to complete.

Neal served 16 years in local government as mayor of Springfield, Mass., as a city council member and mayoral aide before running for Congress.

Another former mayor on Ways and Means is Rep. Bill Pascrell, D-N.J., a former mayor of Paterson, N.J. who described Neal as a “very moderate Democrat who does the right thing.”

“He knows his stuff before he opens his mouth,” Pascrell added. “I think he’ll be very fair to everybody and will want input from the other side.”

Pascrell said the municipal bond market has a friend in both him and Neal. “I was a mayor,” he told The Bond Buyer. “I’m very familiar with what your readers are all about.”

Pascrell said he thinks Neal already has talked to mayors about the role of bonds, which Pascrell said “have been responsible in large part for the growth and rebirth of many cities in this country.”

Republicans “don’t think much of cities,” Pascrell said. “They never talk about them except when you ask them a question. It’s like the president never talks about labor standards when he talks about NAFTA in terms of Mexico. We know where their priorities are.”

By Brian Tumulty

BY SOURCEMEDIA | MUNICIPAL | 10/17/18 07:02 PM EDT

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## CBO Report: Federal Support for Financing State and Local Transportation and Water Infrastructure.

Sixty percent of state and local investment in transportation and water infrastructure is financed using tools that impose costs on the federal government: tax-exempt bonds, tax credit bonds, state banks, and direct federal credit programs.

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**Congressional Budget Office Report**

October 17, 2018

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October 15, 2018

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