
[MacKay Municipal Managers Announces Top Five Municipal Market Insights For 2017.](#)

PRINCETON, N.J., Jan. 26, 2017 /PRNewswire/ — MacKay Municipal Managers™, the municipal bond team of fixed income investment management firm MacKay Shields LLC, today delivered its top five municipal market insights for 2017. Key highlights include:

1. **Innovative Financing Accelerates:** We believe Public-Private Partnerships (P3) projects, a popular infrastructure financing structure outside of the U.S., will gain increasing momentum. The faster development pace of P3 projects combined with tax credit incentives will align well with the new administration's infrastructure development agenda. While P3 financing may displace some traditional tax-exempt issuance, we believe that the acceptance of P3 projects will be a net positive for additional two-way flow in the municipal market. P3 projects should introduce a multitude of new entrants, including private equity, developers, and non-traditional buyers to the municipal market. We expect that these entities will be enticed by municipal financing attributes, including attractive yields (for both borrower and lender), exposure to long duration, low correlation, cash flow stability, and low default rates.
2. **Liquidity Improves in the Municipal Market:** The team expects federal regulations and oversight of U.S. banking institutions will ease. As a result, we believe these entities will increase the amount of capital committed to trading activities, including the municipal bond market. However, we anticipate that a greater awareness of liquidity and capital costs will motivate those institutions to show greater preference for bonds rated by at least one rating agency. Therefore, we believe that the liquidity of non-rated municipal bonds will continue to decline.
3. **High Tax States Outperform:** We believe states with high income tax rates will outperform states with marginal to zero income tax. As federal tax rates are reduced, we expect municipal investors to become more keenly aware of the benefit of double exemption. We believe that demand for bonds in high income tax states will be even greater for those fiscally responsible state and local issuers that have maintained their credit strength. Outperformance of states benefiting from population growth momentum and underlying economic stability should protect investors against possible volatility from both legislative and market uncertainty.
4. **Municipals Outperform Treasuries and Lower-Rated Credit Outperforms Investment Grade:** The team believes that municipal to treasury yield ratios will decline during 2017, as tax policy uncertainty subsides. The relative value of municipal bonds, when compared to the taxable market, will move back to more normal historical levels. We expect that this outperformance will provide municipal bond investors with an offset against any negative impact of federal income tax rate reductions. Additionally, spread widening in the fourth quarter of 2016 in the BBB and lower-rated categories offers investors tremendous yield and potential total return opportunities in an uncertain market, where rates will likely be more volatile. Historically, lower-rated, revenue-backed bonds have outperformed general obligation and higher quality bonds in rising rate environments, as underlying fundamentals improve, spreads tighten, and ratings are upgraded.
5. **Alpha Generation from Active Trading and Timely Execution:** We believe the uncertainties of new legislation at the federal level will cause swings in perceived value across many sectors,

especially healthcare and education. As such, we believe that security selection and buy/sell execution will be key to outperforming. In these types of markets, a nimble active management style should be better positioned to generate strong relative performance. Investors employing a buy and hold strategy or investments in funds that have become too large to maneuver effectively will not be able to adequately adjust to the market changes and may underperform in our view.

The MacKay Municipal Managers™ team is led by John Loffredo and Bob DiMella, co-heads and executive managing directors. For over 20 years, the pair has worked together on portfolio strategy and municipal credit. In those two decades, the team has grown to include portfolio managers Scott Sprauer, David Dowden, Michael Petty and Frances Lewis.

"Uncertainty is abound in 2017. The new administration will usher in the possibility of new federal legislation that, if implemented, could impact the municipal market. Hesitation regarding these changes and the resulting impact on state and local governments could delay the budget processes, capital projects, and debt issuance of many municipalities. However, state and local governments with strong budget controls, long-term capital planning processes, and accumulated reserves will remain strong during this time, and we believe that value will rise to the top in this uncertain market," explained John Loffredo and Robert DiMella, co-heads of the MacKay Municipal Managers Team™.

To view the full year outlook, please visit: https://mainstayinvestmentsblog.com/2017/01/top-fiv--municipal-market-insights-for-2017/

About MacKay Shields LLC and MacKay Municipal Managers™ Team
MacKay Shields is a fixed-income focused investment management firm with $94.5 billion in assets under management as of December 31, 2016. MacKay Shields manages fixed income strategies for high-net worth individuals, institutional clients, mutual funds and other commingled vehicles. Its investment strategies include unconstrained bond, global high yield, high yield, high yield active core, municipal high yield, short duration high yield, low volatility high yield, municipal short term, core investment grade, municipal investment grade, core plus, core plus opportunities, convertibles, emerging markets credit, and bank loans. MacKay Municipal Managers™ is the investment team within MacKay Shields focused on municipal bond solutions and offers a number of specialized offerings designed to meet the unique needs of investors. The team currently manages approximately $20 billion in municipal bond mandates.

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Muni, State, Local Groups Worry About Tax Reform, Sanctuary Cities, ACA.

WASHINGTON – Republican lawmakers' aggressive 200-day agenda to overhaul the tax code by August and to repeal the Affordable Care Act, with some replacement by March or April, is certain to worry and mobilize muni market and state and local groups.

House Speaker Paul Ryan, R-Wis., and Senate Majority Leader Mitch McConnell, R-Ky., who laid out the agenda at the GOP retreat in Philadelphia and a follow-up news conference this week, acknowledge the schedule is ambitious. The Senate is currently tied up with confirmations of Trump's nominees for Cabinet positions. The chamber also needs at least 60 votes to limit debate and push through any legislation and has only 52 Republicans. The exception is a reconciliation bill that can be passed with only 50 votes and is therefore being considered as a vehicle for repeal of the ACA.

Ryan said the sweeping tax reform bill will lower individual and corporate rates, broaden the tax base and be revenue neutral, noting that will upset lobbyists.

"I think it's a cause of great alarm," said Emily Brock, director of the federal liaison center for the Government Officers Finance Association, referring to the timeline. "We are storming the Hill as we speak."

"This thing is moving," said Jessica Giroux, general counsel and managing director of Bond Dealers of America.

Muni market groups, which have been vigorously lobbying members of Congress about the importance of tax-exempt bonds, worry that a tax reform bill will eliminate or restrict tax exemption for certain kinds or all munis.

The Republican blueprint for tax reform proposed eliminating "special-interest" deductions and credits. The comprehensive tax reform plan proposed in 2014 by former House Ways and Means chair Dave Camp, who has some former staff still on the committee, would have imposed a 10%

surtax on muni bond interest for high-income households retroactively and eliminated advance refundings, bank-qualified bonds, and private activity bonds, including 501(c)(3) bonds for hospitals, universities and other nonprofits.

Reps. Randy Hultgren, R-Ill., and C. A. Dutch Ruppersberger, D-Md., co-chair of the Municipal Finance Caucus, are circulating a draft letter for signatures that will be sent to leaders of the House Ways and Means Committee to stress the "vital role of tax-exempt bonds" as tax reform legislation is drafted. The letter points out that nearly two thirds of core infrastructure investments in the U.S. are financed with municipal bonds, including $400 billion of munis in 2015 alone.

Meanwhile, state and local groups are up in arms about the executive orders recently issued by President Trump to block federal grants from cities serving as sanctuaries for undocumented immigrants and repeal the Affordable Care Act – both of which could seriously hurt their finances.

Trump's Jan. 25 executive order: "Enhancing Public Safety in the Interior of the United States," directed the Secretary of the Department of Homeland Security to designate jurisdictions as sanctuary cities. The Attorney General would deny them federal grants, except for law enforcement purposes.

Tom Cochran, executive director of the U.S. Conference of Mayors (USCM), along with the Major Cities Chiefs Association president Thomas Manger of Montgomery County, Md., said in a release: "Cities that aim to build trusting and supportive relations with immigrant communities should not be punished because this is essential to reducing crime and helping victims, both stated goals of the new administration."

Mayors in many of the nation's cities, including New York, Chicago, Los Angeles, Denver, Syracuse, and Austin opposed the executive order, with some of them, such as New York's Bill de Blasio and Denver's Michael Hancock stating or suggesting they will sue to block implementation of it.

The nation's 10 largest cities could lose an estimated $2.27 billion of federal grants, according to Reuters. But Trump's order does not include definitions of sanctuary cities or federal grants, as many mayors, the USCM, and some muni market participants pointed out.

Would the order affect federal subsidy payments for direct-pay bonds such as Build America Bonds or federal allocations of private activity bonds to states? Probably not, said sources, adding that there are many unknowns, according to the mayors and some market participants.

"I would say that a BAB payment is not a federal grant, it is a tax credit. But what will the Trump administration say?" asked Bill Daly, director of governmental affairs for the National Association of Bond Dealers. Daly pointed out that Trump cannot override legislation that provides federal grants. Congress would have to change the legislation.

"There's going to be a lot of litigation over this," said Daly. "It's going to be very unclear for a while what this means."

The USMC and MCCA suggested the executive order is illegal. "The U.S. Supreme Court has held that denying federal funds to cities to coerce compliance with federal policies may be unconstitutional," they said.

Trump's executive order on repeal of the ACA: "Minimizing the Economic Burden of the Patient Protection and Affordable Care Act Pending Repeal," was issued on Jan. 20. It orders the Secretary of Health and Human Services and other federal agencies, "to the maximum extent permitted by law" to "waive, defer, grant exemptions from, or delay implementation of" any provision or requirements of the Act that "would impose a fiscal burden on a state of a cost fee, tax, penalty, or regulatory burden" on families, individuals, and health care providers, insurers, and others.

The USCM sent a letter to Congress urging members "to build upon, not tear down the progress that has been made to our healthcare system and to ensure that none of the 20 million newly covered individuals is left without health care coverage." The group said the costs and effects of repealing the ACA "will be felt most heavily at the local level" because "it is the cities and counties that will see increases in indigent care costs for our hospitals, in uninsured rates and uncompensated care costs." The mayor said they also strongly oppose efforts to convert Medicaid to block grants.

The Bond Buyer

By Lynn Hume

January 26, 2017

[U.S. Muni Bond Market Sales Drop to $4.4 bln Next Week.]

U.S. states, cities, schools and other issuers in the municipal market are expected to sell about $4.4 billion of bonds and notes next week, down from about $7 billion this week, according to preliminary Thomson Reuters data.

Infrastructure deals rank high on next week's sales, led by $478.5 million of revenue and refunding bonds from the Oklahoma Turnpike Authority. New York City Municipal Water Finance Authority plans to sell $330 million of water and sewer system second generation resolution revenue bonds. There's also $300 million of District of Columbia Water and Sewer Authority public utility senior lien revenue bonds.

Large education deals will also go to market next week. There's $381 million of Board of Regents of Texas Tech University System taxable refunding and improvement bonds, and $323.6 million of general obligation bonds from North Clackamas School District No. 12. The University of Colorado Hospital Authority plans to sell $300 million of revenue bonds.

All of the top sales next week come from the negotiated calendar, which in total is expected to bring $3.4 billion to the market. An estimated $1 billion will hail from the competitive calendar.

The municipal market was a bit weaker on Thursday as munis posted losses in various spots along the yield curve, reported Janney Fixed Income on Friday. The benchmark 10-year and 30-year rates each increased by 1 basis point to finish at 2.39 percent and 3.19 percent. Municipal fund inflows were positive for the third consecutive week.

Reuters

Fri Jan 27, 2017 | 11:28pm IST

(Reporting By Robin Respaut; Editing by Bernard Orr)

How Healthy Are Your Hospital Bonds?

Bonds for health care systems have long been a staple of the high-yield municipal bond market. I believe that they are closer to low-risk tax-backed and utility revenue bonds, which have extremely low default rates which approximate .5% an issue over the entire life of those bonds.

Bonds for senior living communities, development district “dirt bonds”, tobacco bonds and corporate “industrial development bonds can have default rates over the life of those bonds that range from 8%-15%. It is estimated that hospital bond defaults in range between 3%-4% over their life.

There is a wide spectrum of health care bonds. Bonds issued by large multi-state issuers have the lowest risk, because no single hospital default would drag down the rest of the system. Lower risk however means lower yields. Then then there is an array of single site hospitals, with varying degrees of risk. I prefer hospitals that have national or international demand, perhaps because of the specialty they may offer such as state-of the art pediatric, heart and/or cancer services. I also look for balance sheets containing at least 150-200 days of cash on hand to meet recurring monthly expenses, and cash equaling or exceeding outstanding debt.

Finally, there are “Critical Access Hospitals”, small units in rural areas where patients cannot reach acute care facilities within driving distance. These hospitals obtain special subsidies to allow for their operation under sparse resources.

Risks in this sector are considerable because competition from new hospitals can drain resources from older hospitals. However, health care represents a vital public service, and will continue unless technology provides an alternative. At this point, it is fruitless to ascertain changes to ObamaCare until the President and Congress “show their cards.”

Dick Larkin, Credit Analyst for Stoever Glass

6:00 a.m. Monday, Jan. 23, 2017

Dick Larkin is a former Chief Municipal Rating Officer for S&P. Stoever Glass is a 54 year-old Investment firm specializing in Municipal Bonds located in New York & Florida. A registered Broker/Dealer, Member FINRA, SIFMA, & SIPC. Advisory Services through Stoever Glass Wealth Management, Inc., a registered advisory firm.

Mnuchin Says He'll Work to 'Enhance' PABs for Infrastructure Projects.

WASHINGTON – President Trump’s nominee for Treasury Secretary Steven Mnuchin told lawmakers in writing that he plans to “enhance” private activity bonds so that they can be used to encourage more private investment in infrastructure projects.

In written responses to questions from members of the Senate Finance Committee who will decide whether to recommend the Senate confirm him, Mnuchin also said that he would help administration officials consider all options to ensure the long-term solvency of the Highway Trust Fund.

In addition, he promised committee chair Sen. Orrin Hatch, R-Utah, who is very displeased with Treasury’s Office of State and Local Finance, that he will evaluate the office and its activities.

Mnuchin’s comments about private activity bonds came after Sen. Sherrod Brown, D-Ohio, asked him what steps he would take to modernize private activity bonds (PABs).

“There are areas where we can improve [PABs], including changing volume caps for certain types of projects,” Mnuchin responded. “If confirmed, I plan to review ways to enhance [PABs] with the goal of driving more private investment into American infrastructure.”

The Treasury nominee was less specific about governmental tax-exempt bonds. When asked by Sen. Maria Cantwell, D-Wash., if he considers the tax exclusion for municipal bond interest a “special interest deduction,” Mnuchin said, “The President is committed to rebuilding America’s infrastructure. If confirmed, I will work with Congress to determine the role of tax exempt financing vehicles under that plan and as part of broader tax reform.”

Trump and Republican lawmakers have vowed to eliminate special interest deductions as part of tax reform.

Sen. Mark Warner, D-Va., asked the Treasury nominee if he would commit to work to identify potential revenue sources to bring long-term solvency to the Highway Trust Fund (HTF).

Mnuchin responded, “As Treasury Secretary, I will help the administration consider all options for increasing investments in infrastructure and ensuring the long-term solvency of the [HTF].”

State highway officials have been worried that Trump’s proposed $1 trillion infrastructure proposal obscures the need to find a long-term source of federal funding for the HTF, which supports almost all federal highway and transit funding.

The HTF, which contains revenues from federal gas, diesel and other taxes, is anemic and will only remain solvent through 2020, according to the Congressional Budget Office. Those revenues have been dropping because cars are more fuel efficient and, during the Great Recession, families and individuals drove less.

Mnuchin promised to review Treasury’s Office of State and Local Finance at the request of Hatch who noted the office was established in April of 2014 “without notification or discussion” with him when he was ranking minority member of the committee.

“That office has engaged many of its activities in recent years to lobbying Congress for bankruptcy authority for Puerto Rico, including what in my view has been highly politicized rhetoric concerning ‘austerity’ versus creditor ‘haircuts,’ where many creditors happen to be innocent residents of Puerto Rico who purchased bonds issued by numerous component units of the Puerto Rico government,” he said.

The committee chairman noted that while the office was authorized to provide ‘technical assistance’ to Puerto Rico, it “recently tried to expand that authority” by requesting appropriation committee members to authorize it to give the same kind of assistance to states and municipalities.

Hatch said the office has been unresponsive to requests from his staff for briefings on the “technical assistance” it’s providing Puerto Rico “and why at least one Treasury official has signed confidentiality agreements with component units of the Puerto Rico government, including a bond-issuing unit.”

Hatch raised this issue last June in a letter to Treasury Secretary Jacob Lew, warning the agreements signed with the Puerto Rico Electric Power Authority (PREPA) “have the potential of granting select federal officials access to possibly market-sensitive information.”

Lew responded that the agreements were a “typical arrangement” that helped Treasury officials better understand Puerto Rico’s financial condition and that Treasury staff had provided the agreements to the committee.

Hatch, in his written questions, said, “troubling press reports” suggest the office’s activities may be “more political than what Congress would reasonably expect to be ‘technical’ assistance.”

Mnuchin responded, “I will be pleased to look into the Office of State and Local Finance and evaluate both its focus and effectiveness as you suggest.”

As for the Internal Revenue Service, Mnuchin told Warner that he “will seek to adequately staff and modernize” it. “I do not have access to all of the information, but it is likely that further cuts to the IRS will indeed hamper our ability to collect revenue,” he said.

The Bond Buyer

By Lynn Hume

January 25, 2017

Study: More Corrupt States Have Higher Public Debt.

The link between corruption and debt is particularly prominent for private projects, such as stadiums.

Corruption might not just land politicians in jail. It could also cost taxpayers more money.

According to new research published in the journal *Public Administration Review*, states with more public corruption convictions have greater levels of government debt. Fighting corruption, the authors argue, can help governments limit debt and lower the higher borrowing costs they’re subject to.

“Public corruption is far from a victimless crime. It costs money,” said John Mikesell, an Indiana University professor who co-authored the study.

Researchers found that the 10 most corrupt states would have owed an average of 9 percent less, or $249.35 per capita, if they cut levels of corruption to the 50-state average.

A link between public debt and corruption may exist for a number of reasons. Compared to operating budgets, issuance of debt typically isn’t as closely scrutinized. And, the report authors say, stealing a fraction of money from a large deal is often more profitable than siphoning dollars from a single line item in the budget.

From 1977 to 2008, the study found the relationship between corruption convictions and debt to be strongest for long-term debt issued for private purposes. Debt issued for private purposes typically involves more private-sector players, opening up more opportunities for corruption. For instance, deals involving private parking garages or stadiums — where profits are a major consideration — are more ripe for corruption than construction of new schools, said Mikesell.

There’s also a relationship between corruption and how governments spend their money. According to related research published in the journal Economics of Governance, developed countries with more corrupt political environments invest more in housing and physical capital projects than schools and health.

Interestingly, the new study didn't find a relationship between corruption and short-term debt, which is typically due within a year. That's because, according to the authors, short-term debt is generally subject to greater scrutiny.

To approximate levels of corruption, the study relied on numbers of convictions reported by the U.S. Department of Justice. One limitation of the study is that this data does not distinguish between public officials and all other types of government employees, such as postal workers and administrative staff caught stealing. The study further controlled for multiple political and demographic factors, such as incomes and the competitiveness of elections.

Governments can try to curb mounting debt levels, but it's difficult.

The report found some measures — such as limiting tax expenditures and general obligation debt, and giving governors strong veto powers — showed no significant effects on public debt.

Other research suggests rating agencies disincentivize corruption by giving lower credit ratings to bonds issued by governments viewed as more corrupt. Despite that, lower credit ratings, and thus higher borrowing costs, aren't shown to curb corruption either.

But it's likely, the report notes, that some legal determinants are easily avoidable when corrupt officials possess the will to do so.

Still, this doesn't mean that deterrents are futile. Other safeguard measures not studied might be more effective. Mikesell cited efforts such as aggressive internal audits, requirements for more than one person to sign checks and regular personnel rotations.

"It's very important to have robust systems in place to prevent the impact of public corruption as much as possible," said Mikesell. "Little things could prevent fairly massive theft."

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BY MIKE MACIAG | JANUARY 24, 2017

The Week in Public Finance: What We Don't Know About Sanctuary Cities' Funding, New Reasons to Save and More.

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

GOVERNING.COM

BY LIZ FARMER | JANUARY 27, 2017

S&P: U.S. Public Transportation Issuers Maneuver Around Obstacles To Maintain Stability In 2016.

The U.S. public transportation sector dealt with a lot of uncertainty in 2015, stemming from uncertain federal funding, fluctuating transaction volumes, and a continued slow economic recovery. Standard & Poor's Ratings Services believes the sector will continue to face some minor turbulence and bumps in the road in 2016, and with perhaps some positive news for certain grant anticipation revenue vehicle (GARVEE) bonds.

We define the transportation sector as consisting of seven categories. The three largest, by the number of entities that Standard & Poor's rates, are airports, toll roads and bridges, and ports. Other categories include bonds secured by parking systems, transit systems, special facilities (such as cargo or passenger airline terminals, as well as fuel farms at airports), and GARVEES, which are bonds backed by direct federal payments for highway and transit programs (GARVEES are grant anticipation revenue vehicles). Standard & Poor's expects 2016 to be another year of stable credit quality for the Transportation sector. The GARVEE category, however, is bifurcated as bonds rated 'AA' and higher are stable and 'A' rated credits may have upside potential.

Continue reading.

12-Jan-2016

Bloomberg Brief Weekly Video - 01/27

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

Watch the video.

Bloomberg

January 27, 2017

U.S. Governors Want Say on Trump's Infrastructure Plan.

CHICAGO — U.S. governors are flagging hundreds of "shovel-ready" projects they regard as high-priority for President Donald Trump's plan to fix the nation's infrastructure.

Scott Pattison, executive director of the bipartisan National Governor's Association, said on Monday his group, at the request of the White House, has assembled a list of 300 projects costing billions of dollars from 43 states and territories, with more expected to come.

"The good part from a bipartisan standpoint is there seems to be full consensus that we have a lot of infrastructure problems in the U.S., a lot of maintenance issues, also things that need building," he said in an interview.

In his inaugural address Friday, the Republican president said the nation's infrastructure "has fallen into disrepair and decay."

"We will build new roads, and highways, and bridges, and airports, and tunnels, and railways all across our wonderful nation," Trump said.

White House Press Secretary Sean Spicer on Monday told reporters that “infrastructure continues to be a huge priority.”

The American Society of Civil Engineers’ infrastructure report card has estimated the United States needs to invest $3.6 trillion by 2020.

Pattison said while it was still early in the process, disagreements are likely over how to fund infrastructure. He added that governors want “all the tools” to be made available, including cash, municipal bonds, public-private partnerships and federal matching programs.

“One of the biggest issues that has to be faced is that the gas tax has been primarily the way in which we funded a lot of our transportation projects, and that’s a declining revenue source,” Pattison said.

Governors also want to make sure their project priorities are immune from congressional earmarking, Pattison said, adding that states have developed “robust” prioritization programs.

By REUTERS

JAN. 23, 2017, 6:06 P.M. E.S.T.

(Reporting by Karen Pierog; Editing by Matthew Lewis)

The Hidden Risks of P3s.

They are an important part of the infrastructure toolkit, but they can’t replace tax-exempt debt.

State and local governments are eager to find ways to address the infrastructure deficit. While both the Obama administration and the incoming Trump White House have promoted a greater use of public-private partnerships (P3s), government officials are well advised to bring rigorous analysis and staff expertise to the negotiating table to avoid costly mistakes and minimize risks for taxpayers.

Recent news coverage highlights the importance of careful analysis. A recent article in the New York Times reported on a long-term deal that Bayonne, N.J., cut with a private equity firm in 2012 to manage the city’s water system. While the city got an immediate infusion of investment in its ailing water system, residents have since seen their bills rise by 28 percent. City officials had expected rates to be frozen for four years after an initial bump. The rate freeze did not occur, in part because residents had conserved more water than expected, which reduced the amount of revenue the private-sector partner had negotiated.

And in Virginia, the Washington Post reported that one of the state’s top transportation priorities has run into a financial hurdle. The state seeks to expand a tunnel in the notoriously congested Hampton Roads region. The project could be costlier than expected due to a non-compete clause negotiated in a 2011 agreement with Elizabeth River Crossings , a partnership between a Swedish construction company and an Australian finance group. The 58-year agreement stipulates that if ERC’s toll revenue falls after the tunnel project is built, the state might be required to make up the difference.

Of course, some P3 projects work out well for both the public and private sector. Can Chen and John

Bartle describe the successful Port Miami Tunnel project in a new policy white paper written for the International City/County Management Association (ICMA) and the Government Finance Officers Association (GFOA). The tunnel opened in August 2014 and features a 35-year concession agreement, service-quality standards and milestone payments to the concessionaire during the construction period by the Florida Department of Transportation, in partnership with Miami-Dade County and the city of Miami. The tunnel will be returned to the Florida DOT in 2044.

Clearly, P3 projects can be a good way to leverage advanced technology and innovation in the private sector, and they have the potential to bring greater efficiency to an operation. On the other hand, complete project costs and risks often are not anticipated, and many do not factor in the range of equity issues related to service provision and fees. Some states and localities acknowledge the need for more staff and outside expertise to develop and manage P3s. Recognizing that some P3 projects pose a significant risk to public-sector entities — sometimes for decades — GFOA last year issued an advisory to exercise caution when considering a P3 arrangement.

As useful as public-private-partnerships are, they still represent a small part of the infrastructure investment toolkit in the United States. Tax-exempt municipal bonds top the list, paying for everything from roads and bridges to schools, airports, water and wastewater projects, parks, sidewalks, infrastructure repairs, and public transportation. Between 2003 and 2014, states, counties, cities and other local governments invested $3.5 trillion through municipal bonds, while the federal government provided $1.46 trillion. And tax-exempt bonds are on a path to finance another $2 trillion in infrastructure over the next 10 years. In all, debt financing accounts for 90 percent of state and local capital spending, according to a 2015 ICMA policy paper.

None of this is to suggest that alternative financing tools shouldn't have a place in the toolkit. It's no secret that our investment in roads, water systems and just about every other critical infrastructure priority has fallen behind in recent years. Having a reliable revenue stream to finance the most pressing projects is essential. But while P3s and other financing tools are welcome additions, they cannot replace the role of municipal bonds in financing public projects.

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BY ELIZABETH K. KELLAR | JANUARY 18, 2017

The Week in Public Finance: Hartford in Crisis, Pension Rates Move Down and More.

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

GOVERNING.COM

BY LIZ FARMER | JANUARY 20, 2017

Why Urban Parks Are Essential Infrastructure.

As we talk about rebuilding our public works, we need to remember that parks are as important to our cities as roads and bridges.

The new presidential administration has signaled a strong desire to rebuild our infrastructure, especially in our cities. This is sparking a renewed and welcome national conversation on how to make it happen. But along with roads, rails, bridges and water systems, let's remember the profound role that city parks play as a necessary ingredient in those plans. Urban parks are not luxuries; they are essential infrastructure for 21st century cities.

Nearly 80 percent of Americans live in urban areas. Increasingly, many of our cities are challenged by aging water and transportation systems that are nearing or exceeding their designed capacity. Complicating the picture, a new focus on environmental resilience to flooding and other natural disasters is driving city planners to more strongly consider "mixed-use" infrastructure. Urban parks are the very definition of mixed use.

So strong is the case for urban parks in America's future that the bipartisan Mayors for Parks coalition wrote a letter to the Trump transition team calling for parks to be prioritized among its infrastructure plans. These mayors, and other leaders at the municipal, state and federal levels, know that community parks can grow local economies and attract businesses, workers and investment. And numerous studies have shown that the presence of a nearby park adds 15 to 20 percent to residential and commercial property values.

That's not all. Investment in mixed-use infrastructure projects — those that include both parks and green space — is building a strong track record of leveraging public funds with private capital to address many of our most vexing urban challenges, including those relating to transportation, stormwater management and access to recreation. Beyond the economic and environmental benefits of mixed-use infrastructure, there are the well documented human health benefits of proximity to nature. Studies show that people exercise more if they have access to parks, and including nature in the built environment improves quality of life and sense of community.

The outcome of this renewed emphasis on city parks is remarkable. The Historic Fourth Ward Park and Reservoir in Atlanta is a prime example of what is possible. Atlanta's Department of Watershed Management saved $16 million by constructing a water-retention pond to mitigate flooding, rather than tunneling and installing a single-use network of pipes to deal with the problem.

The park is one of many that are linked to the Atlanta BeltLine, which has been described as the most comprehensive transportation and economic-development effort ever undertaken by the city. This visionary project includes a 22-mile network of parks and trails connecting 45 neighborhoods and providing new transportation options. The park and the nearby Ponce City Market have attracted an additional $600 million in commercial investment and residential construction. Quality of life has surged and community services have improved dramatically.

Atlanta is not alone. Over the next quarter-century, Philadelphia's Green City, Clean Waters program will invest $2 billion in parks and green infrastructure to capture 85 percent of the city's stormwater runoff. The program not only will lead to green jobs but also will save billions that would otherwise be spent on underground pipes and tunnels. And Philadelphians will enjoy beautiful parks for decades to come.

While city parks are a clear win for everyone, they are not a new cause. For three years running, the U.S. Conference of Mayors has had the foresight to adopt resolutions calling for permanent and full funding of the federal Land and Water Conservation Fund, whose goal is to conserve land and improve outdoor recreation opportunities nationwide, and to emphasize parks in comprehensive urban policy and community development.

Americans are taking note. In poll after poll, voters agree that fixing our aging transportation and water infrastructure is a priority. As the new Trump administration promises to deliver infrastructure investment, parks deserve a prominent place in the mix of options to help revitalize our urban communities.

This summer, from July 29 through Aug. 2, more than 1,000 global park leaders will gather at the Greater & Greener 2017 conference in Minneapolis and Saint Paul to explore the power urban parks have to support healthy, resilient and sustainable cities.

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BY CATHERINE NAGEL | JANUARY 23, 2017

DeLauro Reintroduces National Infrastructure Development Bank Act.

WASHINGTON, DC (January 13, 2017) — Congresswoman Rosa DeLauro (CT-03) reintroduced the National Infrastructure Development Bank Act today with 73 original cosponsors supporting the legislation. DeLauro's bill would create and fund a public bank to leverage public and private dollars to help rebuild roads, highways, bridges, and environmental and energy projects of national or regional significance.

"With the nation's infrastructure in dire need of rebuilding and reinvestment, a National Infrastructure Bank would allow Congress to pursue a clear, comprehensive infrastructure policy that addresses the scope of the issue. Now is the time to invest in our nation, building better infrastructure systems and a stronger economy," said DeLauro. "Through this bill, we can take a step forward that addresses the tremendous shortfall in infrastructure investment, creates jobs, spurs long-term economic growth, and improves our competitiveness across the globe.

"Congress should work together to pass my National Infrastructure Development Bank Act and send it to President-elect Trump as soon as he is sworn into office," continued DeLauro. "Mr. Trump advocated for investment in our nation's infrastructure on the campaign trail, and this legislation is an opportunity for him to build on his promises."

The legislation, modeled after the European Investment Bank, would leverage private sector dollars from institutional investors, such as pension funds, to supplement current funding in our nation's infrastructure. It would provide loans and loan guarantees to projects, and issue Public Benefit Bonds with proceeds to fund projects, and make payments to help states and localities cover their bond interest payments.

The National Infrastructure Bank would finance surface transportation projects, as well as energy, environmental, and telecommunications projects. The bank would consider each project's economic and environmental impacts, social benefits, and costs objectively before selecting projects to finance.

Green Bonds Rise as Tool for Water Infrastructure, Resilience.

Environmentally conscious green bonds are a tool more issuers use to finance various means of purifying drinking water and buffering against rising seas.

Municipal issuers from transit agencies to small cities and towns have sought to manage water more effectively — notably after Hurricane Sandy struck in 2012 – with varying degrees of success.

Larger agencies with bonding capability, such as New York's Metropolitan Transportation Authority, have earned praise from climate experts and municipal analysts alike.

Other municipalities are still struggling.

"Municipalities have not figured that out yet," said storm financing expert Alan Rubin. "Unlike municipalities, the MTA can do it because they have their metrics and their own bonding without having to go through a referendum.

"Municipalities can use green bonds to purchase this kind of equipment," said Rubin, nicknamed the "Hurricane Czar" after working extensively in Miami-Dade County, Fla., when Hurricane Andrew caused more than $30 billion in damage in 1992. While working in Lehman Brothers' investment banking division, Rubin also helped design and underwrite the catastrophe fund for hurricane relief.

According to Rubin, municipal options include partnering with corporations and manufacturing firms, or working with other communities under shared-services arrangements.

Also on the table is matching state and federal grant and loan money. "[Andrew] Cuomo's got a lot of money available," Rubin said of New York's governor, who on Jan. 9 called for spending $2 billion to improve the state's water infrastructure.

According to S&P Global Ratings' Boston-based credit analyst Kurt Forsgren, water projects still represent about half of all par issued for green bonds as well as half of all issues in 2016 from January through August.

"One challenge is balancing the need for global consistency across and within asset categories while serving the often unique features of local infrastructure providers in different markets," said Forsgren. "For example, many U.S. municipal water utilities operate as combined enterprises with water, wastewater and storm water assets as part of an integrated system. Other water and wastewater utilities operate as separate enterprises."

London-based Climate Bonds Initiative is working to group similar asset classes into broader categories.

MTA post-Sandy initiatives included the issuance of a $200 million catastrophe bond late in 2013, the first bond that covered storm-surge risk arising from named storms.

The MTA, which operates New York City's subway, bus and commuter rail systems plus several bridges and tunnels, has beefed up capital spending, including $2 billion alone to seal off water entry points. Other actions have included launching a catastrophe fund, repairing several tunnels and rebuilding the South Ferry station in lower Manhattan – built below the water table, renovated in 2009, and which Sandy hammered in 2012. MTA officials expect to reopen South Ferry later this year.

"The MTA has figured it out. It has done a very, very good job," Rubin said of the authority, one of the largest municipal issuers with roughly $37 billion in debt.

In addition, the MTA took proactive steps by shutting down in advance of the storm and moving subway trains, commuter rail cars and buses to safe storage locations.

Water management includes preserving the quality of drinking water to buffering against sea surge. The sea level rose to 14 feet during Hurricane Sandy.

Municipal management of water is a different story, according to think tank Brookings Institution.

Only a handful of drinking water utilities in the largest cities performed well across six indicators of financial health, Brookings said in a report. Metrics, culled from American Water Works Association data, included operating and debt-to-asset ratios, and monthly residential water rates.

Brookings examined local water infrastructure investment in the U.S., notably large drinking water facilities. "As concerns continue to ripple from incidents in Flint, Mich., and beyond, cities remain at the forefront of many investment challenges, yet they often do not have a clear sense of where they stand relative to it."

Brookings cited a disconnect between investment demand and institutional capacity. According to Brookings, while more than 88% of Americans believe some kind of action is necessary to grasp the country's water infrastructure challenges and many analysts agree that the time is ripe for more infrastructure investment, only 17% of utilities are confident that they can just cover existing service costs – let alone necessary upgrades — through rates and fees.

"Publicly owned and operated utilities are increasingly running up against tight budgets, debt obligations and other barriers to investment as user charges, municipal bonds and traditional financing tools fail to keep up with the level of need," said Brookings.

Sea level rise, meanwhile, continues to threaten the tri-state New York region, which holds about 23 million residents with roughly 3,700 miles of tidal coastline.

"Relatively little has been done to address the inevitable permanent inundation of buildings, infrastructure and communities," transit-oriented organization Regional Plan Association said in its own report. According to RPA, the region could realize one foot of sea-level rise by 2050, possibly by the 2030s. Six feel of sea-level rise is possible early next century, the report said.

That, said RPA, could threaten the region's three major airports plus Teterboro Airport in northern New Jersey.

For MTA, the surprise nature of Sandy – the eye of the storm veered from sea and right-angled into metro New York – provided opportunity on two fronts: to improve its water resilience and to grasp overall operational flaws.

"My sense is that the structural deficiencies and other deficiencies were brought to light as a result of Sandy," Stuart Lerner, vice president of MTA contractor Stantec, said at a Jan. 10 workshop at the New York Transit Museum in downtown Brooklyn. "Sandy provided a whole new opportunity to solve two problems at once, which were water resilience and structural defects."

Compounding the MTA's difficulties was the corrosive salt in the water that gushed through the tunnels.

"Millions and millions of gallons of salt water are a bad thing for a 110-year-old legacy system," Iain Watt, director for recovery and resiliency at the MTA's New York City Transit unit, told the Transit Museum gathering.

Much of the damaged equipment was deep in the bowels of the subway tunnels. "Pumps, fan controls, signal systems, emergency equipment … much of it dates back longer than anyone in this room," he said.

According to Watt, the MTA is spending $2 million of its capital funds to seal off 3,600 water entry points, basing its work as suitable for a Category 2 flood zone, based on a National Weather Service model.

Entry points, beyond the obvious subway entrances, include "stairwells and manholes, some of them with our name on it, some with Time Warner's," said Watt, while structures also varied widely by nature of abutting property.

New equipment, said Watt, was tailored for MTA contemporary needs. "Nothing off the shelf," he said. "All of it was designed for us."

The Bond Buyer

By Paul Burton

January 17, 2017

U.S. Voters Approve Billions for Transit and Green Space.

In November, voters across the United States endorsed numerous state and local ballot measures approving additional funding for green space, land conservation, and public transportation. Notably, voters also approved minimum-wage increases in four states and legalized medical or recreational marijuana ballot initiatives in eight states.

According to the Center for Transportation Excellence, which follows ballot measures related to public transportation, "November 8 was a historic day for public transportation in the United States as voters approved 34 of 49 public transit measures for an election-day passage rate of 69 percent." The success rate for transit ballot measures throughout 2016 was 71 percent. In 23 states and communities of all sizes, voters considered nearly $200 billion in local and state support for public transportation.

The largest ballot measures were in California, where San Francisco Bay area voters approved $3.5 billion for the Bay Area Rapid Transit (BART) regional transit system, while Los Angeles voters approved Measure M, a 0.5 percent sales tax increase that will generate an estimated $100 billion over 40 years, including $860 million a year for a big expansion of bus and rail transit.

It wasn't just in politically progressive California where voters endorsed transit funding. Voters in Atlanta approved $2.5 billion for transit including rail extensions, bus upgrades, and streetcar extensions. Voters also approved an additional $379 million over five years for bike trail and sidewalk improvements.

In Indiana, Indianapolis voters approved a 0.25 percent income tax increase that will fund a regional rapid transit network of expanded bus and bus rapid transit lines, including the next phase of the existing Red Line. Similarly, voters in Raleigh, North Carolina, and Columbus, Ohio, approved ballot measures providing additional funds ($1 billion over ten years for Raleigh) for expanded transit services.

Active transportation including bike trail development and sidewalk improvements also got a boost in several communities, including Atlanta; Portland, Oregon; Charleston, South Carolina; and Maine.

While transit measures received widespread support, park and open space measures received even stronger support. For example, Los Angeles Measure M passed with 70 percent approval, but another proposition, Measure A, passed with an even higher margin, earning nearly 73 percent of the vote. Measure A will boost investments in park space and will accelerate plans to open much of the Los Angeles River to public access for bicycling and outdoor recreation.

According to the Trust for Public Land, which follows state and local ballot measures for land conservation and parks, voters approved 68 of 86 ballot measures, providing $6.3 billion for conservation. Many of these measures involved tax increases or bonds. Will Rogers, president of the Trust for Public Land, said, “Tonight, we saw again that while American voters are divided on many issues, parks and natural areas are an issue that we can agree on. Whether they were voting for ‘red’ or ‘blue’ candidates, voters are ‘green’ when it comes to parks and close-to-home places for outdoor recreation.”

Earlier in 2016, voters approved 14 of 17 land conservation ballot measures, approving an additional $3.3 billion for parks and open space. This means that in 2016, voters endorsed 82 of 103 ballot measures for land conservation, allocating a total of $9.6 billion. Some of the green space initiatives approved by voters include the following:

- In Boston, by a margin of 48 percent, voters opted to join the Massachusetts Community Preservation Act, a statewide program that provides matching funds for local park, open space, historic preservation, and affordable housing projects.
- In Florida, voters in Lee, Alachua, and Brevard counties all gave approval to ballot initiatives providing upwards of $450 million in funding for land conservation and restoration.
- In Colorado, conservation ballot measures were approved in Boulder, Grand, and Pitkin counties.
- In Ohio, voters in four communities including metro Cincinnati and Columbus overwhelmingly approved new funding for parks.
- In New Jersey, voters in 13 of 16 towns or counties approved property tax increases for parks, open space, and farmland protection.
- Even in deep-red Alabama, voters overwhelmingly (80 percent to 20 percent) endorsed a constitutional amendment that prohibits the state from reallocating state park funds for other purposes.

The high approval rate (79 percent) for land conservation ballot measures is not surprising given the fact that over the last 25-plus years, 75 percent of all state and local ballot measures for conservation have also been approved. Since the Trust for Public Land started tracking ballot measures on land conservation in 1988, voters have approved nearly 2,000 ballot measures allocating more $75 billion for parks and open space.

ULI members should pay particular attention to measures supporting transit and parks because both are key drivers of real estate investment and community revitalization. In 2014, when the Institute surveyed industry leaders and public officials on infrastructure’s role in shaping the competitive city, “infrastructure quality” emerged as the top factor driving where real estate development happens. What’s more, “upgrades to public transit systems”—including bus and fixed-rail systems—emerged as the top infrastructure funding priority. Transit- and park-oriented development have both emerged as major forces shaping the cities of the future.

Urban Land Institute

By Edward T. McMahon

November 28, 2016

Edward T. McMahon *holds the Charles E. Fraser Chair on Sustainable Development and Environmental Policy at the Urban Land Institute in Washington, D.C.*

Pence Touts Big Infrastructure Bill; Poll Finds Tolls Not Supported.

DALLAS – Vice President-elect Mike Pence tried to sell to the nation's mayors on the infrastructure plan to be proposed by the new Trump administration, just before a national poll showed there is little support for the tolls on which the plan would rely.

Speaking at the US Conference of Mayors' winter meeting in Washington, D.C., Vice President-elect Mike Pence said the new Trump administration will propose a robust infrastructure bill with the ample funding needed for large projects. "I called him [President-elect Donald Trump] this afternoon to tell him I was coming by," Pence told the approximately 300 mayors on Tuesday. "In addition to urging me to send along greetings, he said, 'Tell 'em we're going to do an infrastructure bill, and it's gonna be big.' "

Pence provided no additional details to Trump's proposal from late October that would use $137 billion of federal tax credits to leverage $1 trillion of private investments in infrastructure over 10 years.

"It will have the funding to help communities and states all across America meet the needs that face too many communities and often times stifle growth," he said of the infrastructure bill.

Trump's proposed reliance on tolls from revenue-producing infrastructure projects to provide an attractive return on investment for private investors found scant support in a new Washington Post-ABC News poll of 1,005 respondents carried out from Jan. 12 to Jan. 15.

The tolling plan was strongly opposed by 44% of those polled and somewhat opposed by 22%. Only 11% said they strongly supported the Trump proposal and 18% were somewhat supportive.

The new administration will work with city and state officials to fund infrastructure projects that deliver results, Pence said.

"This administration is going to be a friend to America's mayors," he said. "I can assure you, our president-elect understands that America's mayors are facing serious challenges you can't always solve on your own."

Trump's experiences as a developer showed him the significant economic benefits that can result from large infrastructure projects, Pence said.

"Our president-elect believes, as I do, that the federal government can play a critical role in helping our cities thrive," he said.

"That's probably why he spent so much time in the campaign highlighting many issues that are facing America's cities," Pence said. "Remember, after all, he's a New Yorker, through and through."

Trump last week appointed two well-known New York City developers to leadership of a panel that would oversee the nationwide infrastructure plan.

Steven Roth of Vornado Realty and Richard LeFrak of LeFrak Organization have agreed to head up the infrastructure council, Trump told the Wall Street Journal last week.

"They're pros," Trump said. "That's what they do. All their lives, they build. They build under budget, ahead of schedule."

Vornado will merge this year with The JBG Cos to form JBG Smith, which is one of four groups to be short-listed by the General Services Administration for redevelopment of the FBI headquarters in downtown Washington.

The GSA intends to pay for a new FBI building in part through the swap of the 6.7-acre J. Edgar Hoover Building site to a private partner who would build a larger, more secure facility on one of three sites outside the city.

The total federal contribution to the project has been capped at $2.11 billion, which does not include the estimated $500 million value of the Hoover Building.

Mick Cornett, the Republican mayor of Oklahoma City who is president of the mayors group, said infrastructure funding is a bipartisan issue.

"Our nation's highways need work," he said. "America's people deserve an investment in their infrastructure. We're ready to go."

Transportation Secretary-designate Elaine Chao said at her Senate confirmation hearing last week that Trump would be agreeable to more direct federal funding of state and local projects than is contained in the five-year Fixing America's Surface Transportation Act adopted in 2015.

The Bond Buyer

By Jim Watts

January 18, 2017

U.S. Muni Bond Market Sales Pegged at $7 bln Next Week.

U.S. states, cities, schools and other issuers in the municipal market are expected to sell about $7 billion of bonds and notes next week after muni prices dropped sharply on Thursday and Friday.

The price fall boosted the 10-year yield on Municipal Market Data's benchmark triple-A scale 17 basis points over the week to 2.33 percent. The 30-year yield rose 15 basis points to end Friday at 3.06 percent.

Peter Block, a muni market strategist at Ramirez, said tax-free bonds were following a slump in U.S. Treasuries.

"It's really driven by Treasuries. It's hard to say what will happen next week," he said, adding that much depends on what messages emerge from Washington under President Donald Trump's new administration. Topping next week's negotiated calendar is a $486 million new and refunding city of Baltimore water and wastewater revenue bond issue pricing through Citigroup on Thursday after a retail presale period on Wednesday.

San Francisco’s Bay Area Toll Authority will sell $450 million of toll bridge revenue bonds through Bank of America Merrill Lynch on Thursday.

In competitive bidding, the Metropolitan Government of Nashville and Davidson County will sell $457 million of general obligation bonds on Tuesday. The bonds carry serial maturities between 2018 and 2036, according to the preliminary official statement.

The Los Angeles County Metropolitan Transportation Authority has set a $455.7 million sales tax revenue bond sale for Tuesday. The bonds mature in 2018 through 2042.

U.S. municipal bond funds reported a second straight week of net inflows, indicating investors were seeing relative value in munis, according to Block. Lipper reported $511.7 million of inflows in the week ended Jan. 18, down from $974 million in the prior week.

Reuters

Fri Jan 20, 2017 | 3:53pm EST

(Reporting By Karen Pierog; Editing by Chizu Nomiyama)

Why Muni Experts Need a New Crystal Ball.

Looking back, municipal experts compared the tax-exempt bond market in 2016 to a white-knuckle thrill ride – without seat belts.

“I would describe 2016 as a ride on a roller coaster – there were some wonderful highs and some very painful lows,” Dan Heckman, senior fixed income strategist at U.S. Bank Wealth Management, said in an interview on Thursday.

Tax-exempt professionals were caught off guard by three events in 2016: the consecutive inflows into municipal bond mutual funds, the spike in volume, and the selloff following the presidential election.

They were otherwise largely on target with most of their other expectations about the economy, demand, and credit spreads just as 2016 was getting under way a year ago. In retrospect, though, they said they couldn’t have predicted the volatility that surfaced by year end.

“The market initially expected at the start of 2016 that bond rates were likely to move higher in line with the Fed’s expectation for better U.S. growth,” Rich Ciccarone, president and chief executive officer of Merritt Research Services LLC, said in an interview on Wednesday.

“That trajectory was derailed just weeks later as evidence of subdued global prospects and weak oil prices appeared to suggest an unforeseen negative correction,” he said. “Bond rates fell and the stock market subsequently languished for much of the year as low inflation expectations, oil, Brexit and politics provided fertile ground for volatility and being defensive.”

Heckman said the market saw its share of major ups and downs along the way, starting with a dismal forecast.

“The market set up not to do that well after two previous strong performance years in 2015 and 2014,” Heckman said. However, the market “took a strong bid and saw lower interest rates from

February through June."

Many of the surprising events took place in the second half of the year, Heckman said.

"In July the market saw signs of weakening, and stayed weak as we went through September, October, and through November," he said. "In November, the market got sold off and the severity of it took us all by surprise," before rebounding in December, Heckman said.

Municipals were flat and total returns were zero heading into year-end as the post-election dip erased earlier gains.

Some analysts were on the right track when it came to their general predictions, but admitted they were off when it came to volume and the impact of the election.

"With the benefit of hindsight, as the year unfolded it largely went in the direction we thought it would, but we certainly didn't anticipate it would take the roller coaster ride it did," said Jim Grabovac, who co-manages portfolios with Dawn Mangerson at McDonnell Investment Management.

He was referring to the plunge in municipals following Donald Trump's victory in the Nov. 8 presidential election.

"Our fundamental outlook worked very well for us, but we certainly did not anticipate those deviations on the political front that took place" in the fourth quarter, Grabovac said in an interview on Tuesday.

Muni yields, which move inversely to price, surged on concern that Trump's victory in the presidential race and Republican control of the House and Senate would open the way to tax reforms that dissipate the value of – or eliminate – the bonds' tax exemption.

Muni yields rose by as much as 55 basis points a week after the election amid uncertainty over government spending and inflation, including a one-day jump in yields by 22 basis points in a single trading session on Nov. 14.

"We turned bullish on the market because we thought things had gotten very extreme," Heckman said. "Yields had gotten too high and prices too low" over concerns of personal income tax reform under the Trump administration as well as the expectations of the Fed's December rate hike and prospects for ratcheting up the pace of tightening with further increases in 2017.

The S&P Municipal Bond Index finished down 3.46% in November, the worst monthly total return since September 2008, according to S&P Dow Jones Indices.

"What I didn't predict was the big sell-off in the Treasury market," Heckman said. "People were positioned for rates to drop" under a Trump victory, but instead, the opposite occurred, he said.

Further significant market impact after the election surfaced when municipal mutual funds reported the biggest outflow in more than three years as investors withdrew $3.011 billion out of the industry in the week ended Nov. 16. That came on the heels of $62.837 million of inflows in the previous week.

Some of the unexpected activity arrived in the first half of the year – well before the election and the market sell-off.

"The number one surprise for everyone was the consecutive flows into muni bond funds," Heckman said. “It ran much longer than we anticipated and that consecutive streak set a record,” he said of the 54 consecutive weeks of inflows into municipal bond mutual funds.

That streak came to a close in the week ended Oct. 19 when $135.9 million fled the industry for the first time in over a year. It was the second longest stretch after weekly reporters saw 63 weeks of consecutive inflows back in 2010.

Meanwhile, Heckman was among those market participants that were off target with their predictions for volume – which turned out to be larger than he and others estimated. He assumed supply would total just over $400 million — but his guess was well under where it ended at approximately $446 billion.

Due to concerns over the Fed’s rate policy, issuers raced to market to get deals done – particularly between September and November, Heckman noted.

“The issuance total for 2016 took us a little off guard – it was larger than we expected and also broke a record set back in 2010,” he said.

As a result, Heckman expects issuance to taper off in early 2017 given the late 2016 flurry.

The McDonnell team anticipated 2016 supply would be closer to the $375 billion total of 2015. However, lower interest rates after the British vote to leave the European Union helped swell refunding issuance, which drove the record municipal volume in 2016, Grabovac said.

Like Heckman, the McDonnell team didn’t foresee the potential for interest rates to rise in 2016 as significantly and substantially beyond the general level the market had seen in the last few years, Grabovac said. That volatility was politically driven and changed the rate scenario dramatically through the year.

“It drove rates lower than they should have, and then the reaction to the election took them higher than we warranted,” Grabovac said.

In addition, he and Mangerson were surprised by the fluctuation in municipal valuations compared with their expectations for valuations to remain relatively stable over the year.

In late November, ratios of triple-A municipals to Treasuries soared above 100% from 10 through 30 years, according to Municipal Market Data.

“Because of the big increase in supply last year, munis underperformed Treasuries,” Grabovac said. Ratios of municipal yields to Treasury yields spent most of 2016 at 100%, after hovering at 85% in the 10-year range heading into the year.

“It was a reflection of higher-than-anticipated new-issue supply, and as a consequence, munis underperformed and valuations cheapened relative to Treasuries,” he said.

So far early in 2017, there has been a decent amount of supply and demand has strengthened following the November market sell-off, Mangerson said.

“As we enter 2017, munis remain attractive relative to Treasuries,” Grabovac said, adding that ratios across the yield curve are currently hovering around 90%.

“Right now, if we continue to see strong demand, valuations are likely to richen up from here,” Mangerson said.

She said overall the team’s fundamental outlook panned out in the end, but there was a little more volatility than they expected.

Aside from the effects of the political storm, Grabovac and Mangerson were close to their target predictions. McDonnell oversees $11.5 billion in client assets, 63% of which are tax-exempt municipal assets, including separately-managed accounts and two sub-advised municipal mutual funds.

The team anticipated that economic expansion would continue in 2016, although it ended up growing slower than they anticipated last year, Grabovac said.

“We thought inflation was well contained and in the process of drifting back toward the Fed’s 2% goal – and we believe the same in 2017 – largely driven by shelter cost and medical care inflation,” he explained.

They also predicted the Federal Reserve Board would continue to normalize rates at a gradual pace.

They believed the Fed would continue to raise short-term interest rates, but felt it penciled in too aggressive a rate path in the beginning of 2016. The Fed at that time had announced its plans for three rate hikes in 2016 – yet only accomplished one by yearend.

“Going forward we continue to think the rate path will be more gradual than the Fed’s summary of economic projections,” Grabovac said.

The firm’s other predictions – such as increasing exposure to spread sectors, such as hospitals, transportation, and power — worked in its favor.

“We thought the credit fundamentals were still solid and we felt comfortable going into sectors that offered more yield, but are historically more volatile,” Mangerson said.

The strategy allowed more yield into the portfolios from the hospital sector, for instance, where there was healthy issuance and attractive yields versus the plain-vanilla state general obligation sector — which underperformed for the year, Ms. Mangerson explained.

“Anything with yield performed better,” she said, noting that single-A and triple-B paper outperformed higher-quality paper in 2016.

For example, an A-rated hospital versus an A-rated GO – both due in 10 years – offered a 50 basis points yield pick up as spreads widened toward the end of the year, after compressing in the first two quarters, she added.

“Overall, the compression over the year helped performance,” as did the firm’s prediction that lower-quality sectors would outperform in a low rate environment with investors reaching for yield.

Heckman was more cautious and avoided some of the riskier outliers as he predicted some continued credit turmoil in 2016.

“I think we continued to be negative on Chicago, Illinois, and many of the states in the Northeast Corridor as we continued to see credit downgrade actions,” he said. “I believe we were spot on in 2016, and those things did occur,” he said.

He said troubled credits will gather more spotlight in 2017 – especially state pension funds will continue to raise a red flag due to liabilities growing faster than assets.

“We see that getting worse over the next few years if they are not addressed,” Heckman said.

Meanwhile, analysts, like Ciccarone, said years like 2016 are an example of why investor’s should always expect the unexpected.

“Economic and bond rate forecasts proved once again how difficult it is to confidently foresee the future when there are so many moving pieces that don’t always play out as expected,” Ciccarone said.

The Bond Buyer

By Christine Albano

January 20, 2017

S&P U.S. Public Power Sector 2017 Outlook: Low Natural Gas Prices And Increasing Renewables Drive Stable Outlook.

The public power sector in the U.S. has long been characterized by solid and stable ratings, as credit quality has been bolstered by widespread rate-setting autonomy and a lack of competition for retail customers.

Continue reading.

Jan. 19, 2017

S&P U.S. Municipal Water Utility Sector 2017 Outlook: Potholes, Policies, And Pensions.

In addition to saying that the outlook is stable, every year S&P Global Ratings anticipates the most likely drivers of credit quality for municipal waterworks and sanitary sewer utilities in the United States. While we always note that the sector carries relatively very low risk, we add that it is not without risk.

Continue reading.

Jan. 18, 2017

Bloomberg Brief Weekly Video - 01/19

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

Watch the video.

January 19, 2017

S&P Charter Schools Sector 2017 Outlook: Continued Growth And Stability.

S&P Global Ratings' outlook for the charter school sector in 2017 is stable. While the general charter school movement has seen growth over the past year and appears poised to continue that trend in 2017, we expect this growth to have little if any impact on the underlying credit quality of charter schools.

Continue reading.

Jan. 12, 2017

Municipal Finance Gains Traction at Smaller Banks.

Hire a talented executive and then find a business for him or her to run.

This method has worked well for David Becker, First Internet Bancorp's (INBK) chairman, president and CEO, over his nearly 18 years at the helm of the $1.8 billion-asset institution.

That credo was on display earlier this month when the company hired Timothy Dusing to lead its municipal lending team.

The Fishers, Ind., company has never been a prominent lender to local governments, but that did not stop Becker from adding an executive with a long track record in the business.

The decision to hire Dusing "wasn't a planned play," said Becker, who was introduced to the executive by another First Internet employee. "My mantra has always been, if you run across a good employee, find a home for him."

In doing so, First Internet joins a growing list of banks that are either entering municipal finance or significantly raising their profile in the space.

HomeTrust Bancshares (HTBI) in Asheville, N.C., earlier this month bought United Financial of North Carolina, a municipal lease finance company. Opus Bank (OPB) in Irvine, Calif., formed a public finance division last summer after hiring an executive from Umpqua Holdings (UMPQ).

Municipal lending is gaining broader traction. The number of municipal loans on banks' book increased by 10% over the first nine months of 2016, to $169 billion at Sept. 30, based on data from the Federal Deposit Insurance Corp.

Government finance can benefit banks in several ways, industry experts said.

Loans to municipalities typically have better credit quality compared to private-sector loans and they provide a way to diversify beyond areas such as commercial real estate. Those relationships could also pave the way for banks to bring in more municipal deposits, which could have greater importance in a rising interest rate environment.

"It's a new opportunity to generate quality assets for the bank," Becker said.

Municipal loans, however, tend to have lower yields compared to other types of credits, said Jerry Johnson, a former chairman and CEO of Mercantile Bancorp in Grand Rapids, Mich.

"We never made a municipal loan," Johnson said. Publicly traded banks "live and die by analysts' estimates, so return on assets and equity are very important."

First Internet found a banker with extensive experience in the municipal finance field.
Dusing previously spent 24 years at City Securities, an Indiana investment firm, where he focused on public finance. He cut ties with the company after it sold in September to Stifel Financial (SF).

While this is its first formal foray into public finance, First Internet has made municipal loans in the past. At Sept. 30, the portfolio had $8.1 million of loans, or less than 1% of the company's $1.2 billion in total loans, based on FDIC data.

Becker said the municipal book was built on an ad hoc basis as lenders came across deals for fire trucks, garbage trucks and other heavy equipment used by local governments in the course of their normal commercial lending activities.

Dusing now must boost that number, though he has largely been given autonomy when it comes to charting a course. Specific goals and strategy for the municipal operation are "TBD," Becker said.

"He'll take it to whatever level he can," Becker said. "He's certainly got the skill set."

Dusing plans to leverage his "experience and network of investors, public finance professionals and financial advisors," to expand the business, First Internet said in its release announcing his hiring.

BY SOURCEMEDIA | MUNICIPAL | 01/12/17 07:18 PM EST

By John Reosti

Municipal Bond Offering Disclosures after a Chapter 9 Filing - A Few Reflections on Orange County and the City of Detroit.

Although not intended to be classics of literature, we have found tales of two municipalities and their Chapter 9 bankruptcies. One was warm and prosperous and on the West Coast, whose housewives we have followed in the age of reality TV. The other was from a grittier place in the midwest with industrial gothic scenes and rappers who have captured its spirit. Please join us as we discuss the post Chapter 9 filing bond disclosures of Orange County, CA and the City of Detroit.

Please click here for video.

The purpose of this podcast is to briefly compare and contrast a couple of examples of primary market disclosure for securities offerings made subsequent to the respective Chapter 9 bankruptcy filings by two of the largest municipal issuers- Orange County, California and the City of Detroit.

The two bankruptcies are similar insofar as they both involved large general purpose governments and were high-profile.

The two bankruptcies and the related securities offerings which we will discuss were notably different in terms of timing (separated by about twenty years) and in the nature and timing of the causes that led to the bankruptcies.

Moreover, they are also notably different in that the Orange County example occurred before the County emerged from bankruptcy whereas Detroit had completed its bankruptcy case prior to the reoffering memorandum examined.

Part of the purpose of our podcast is to examine the impact on disclosures made to the markets when these issuers tried accessing the public markets after Chapter 9 filings.

A review of these issuers' disclosures may also be helpful context given a trend by many issuers in the municipal securities market toward greater disclosure about municipal bankruptcy notwithstanding that a Chapter 9 filing may be remote for the vast majority of such issuers.

We will turn some attention initially to a discussion of some points about Chapter 9.

Chapter 9 refers to the provisions of the Federal Bankruptcy Code which address the process where municipalities (which includes cities, counties and other entities) can seek protection under the bankruptcy laws through a voluntary filing.

Chapter 9 is relatively rare and although it draws upon other provisions of the federal bankruptcy code, such as Chapter 11 relating to reorganization, it has certain unique features.

For purposes of our discussion, it is helpful to keep two unique factors in mind. First, there is no involuntary filing under Chapter 9 initiated by creditors. Second, Chapter 9 does not have a liquidation concept. Chapter 9 presumes that a municipal entity will need to continue to operate and provide public services.

Chapter 9, even apart from Detroit, has taken on increased attention in recent years, particularly since the financial crisis from 2008.

The Orange County, California bankruptcy from the mid-1990s is remarkable in a number of aspects. First, it involved a large issuer in a very prosperous area. The bankruptcy was a surprising event not foreseeable based on a normal examination of the County's demographics, economy and tax base. The bankruptcy was also notable given its suddenness. Also, noteworthy is the relatively short time period before Orange County was able to return to the capital markets. In fact, as we will discuss further, Orange County was able to undertake a public bond offering while many uncertainties still existed during its bankruptcy case.

At a very high level, the Orange County bankruptcy can be summarized as stemming from an adverse turn in the County's investment pool which led to staggering losses. The County, through its popularly-elected Treasurer, had made ultra vires investments in derivatives and effectively had wagered on short-term interest rates remaining low. An increase in rates by the Federal Reserve Bank in late 1994 precipitated losses. The County's investment pool, after unwinding a number of positions to manage the risk of further losses incurred a total loss of approximately $1.7 billion, $600 million of which was for the County itself (with the remainder related to other County entities, such as local governments and school districts).

The City of Detroit's bankruptcy, filed in the summer of 2013, although involving a large general purpose governmental issuer was quite distinct from Orange County. The circumstances which gave rise to the bankruptcy were developing over a much longer period of time, arguably several decades, and could not be easily attributable to a single series of events or policy decisions.

It is also arguably the case, that even if the City, with the benefit of hindsight, had made the best policy decisions over the years, the City, if not facing Chapter 9, would have been under severe fiscal stress due to economic and demographic changes (e.g., loss of population).

Also in contrast to Orange County, California, and given what we've said already, the filing of the bankruptcy itself was not surprising as evidenced by considerable debate and involvement by the State of Michigan prior to the filing.

For purposes of our discussion we looked at one offering document each for Orange County and the City of Detroit.

In the case of Orange County, it was the official statement for $278,790,000 Refunding Recovery Bonds, 1995 Series A, dated June 13, 1995 which were publicly offered.

In terms of timing, Orange County had filed for Chapter 9 on December 6, 1994 and had not emerged from bankruptcy as of the time of the official statement. Consequently, this was a public offering document produced in the midst of a Chapter 9 proceeding.

In the case of Detroit, it was a reoffering memorandum, dated August 19, 2015, for $245,000,000 Michigan Finance Authority Local Government Loan Program Revenue Bonds, Series 2014F (City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bonds).

In terms of timing, Detroit emerged from Chapter 9 bankruptcy on December 10, 2014. Consequently, this was a public offering document produced subsequent to the bankruptcy proceeding.

A small amount of background on the related bonds is helpful for context.

The Orange County bonds were not ad valorem bonds but rather were payable from all lawfully available funds of the County and additionally secured by a pledge of certain motor vehicle license fees collected by the State of California. The bonds were insured and the County elected to participate in an intercept program related to the motor license fees. Moreover, debt service payments on the bonds, so long as the County remained in bankruptcy, were given an "administrative expense" priority treatment over unsecured claims against the County by order of the bankruptcy court.

The Michigan Finance Authority's bonds issued on behalf of the City of Detroit are secured by, among other things, certain Municipal Obligations issued by the City payable from certain income tax revenues (which are subject to a statutory lien) from a levy of an excise tax on income and a pledge of the City's limited tax full faith and credit.

The original proceeds from both bond offerings were used for refinancing purposes. In the case of Orange County, warrants were refunded. In the case of Detroit, it was to pay off certain classes of claims and to finance certain reinvestment and revitalization projects. In each case, and what is somewhat unique for general purpose governments, certain reserve accounts were also funded.

One interesting factor related to the disclosure and more precisely, the manner of the offerings, was that neither disclosure document indicated that any sort of investor letter would be required or particularly focused on matters of suitability. In each case, the applicable bonds were offered in $5,000 denominations.

This is likely largely due to certain favorable credit features. The Michigan Authority bonds received an investment grade rating. The County's bonds were insured by a then triple A bond insurer.

Both of the offering documents included a risk factors type section and addressed the risk of a potential second bankruptcy. This was not addressed so much in the context of identifying and discussing potential sources of further or recurring financial problems but rather more in the context of potential impact in terms of modifications of rights and the impact on the security of holders.

Due to the particular nature of the bankruptcies, the Orange County disclosure spent considerably more time discussing the factors which contributed to the bankruptcy. This is not surprising given that the Orange County bankruptcy was not anticipated and was due to very specific events which were not necessarily tied to underlying economic circumstances. In contrast, Detroit's fiscal deterioration was something which occurred over a longer period of time and could not be attributed reasonably to isolated events.

Both offering documents devoted substantial attention to recovery plans and governance matters, such as oversight and reorganization, under state law.

Orange County's disclosure addressed a restructuring of the County Administrative Office including the creation in February 1995 of a new Chief Executive Officer position and the establishment of a Treasury Oversight Committee which was comprised of five citizens "to review the Treasurer's investments and ensure adherence to stated policies."

Detroit's disclosure discussed a nine-member Financial Review Commission created in November 2014, about a month prior to the exit from bankruptcy and went into extensive detail about Michigan Act 436, and the role of the Emergency Manager and the City Council in the budget process, the Michigan Financial Review Commission Act 181 of 2014, and Act 182 which requires the City to adopt a multi-year financial plan subject to Financial Review Commission approval.

A somewhat unique aspect of the Detroit financing is its discussion of statutory liens under the Bankruptcy Code and the explicit discussion that Bond Counsel to the City provided a reasoned opinion that any residual interest in the pledged income tax revenues should be subject to a statutory lien in favor of the holders of the municipal obligations. The disclosure elaborated how bond counsel's opinion was based on certain "reasoned conclusions" such as that "both pre-deposit and post-deposit liens are created by Act 279 and that the pre-deposit lien created by Act 279 arises automatically under such Act upon the occurrence of "specified circumstances or conditions" which is a term of art in the definition of statutory lien under the Bankruptcy Code.

The Detroit offering memorandum also discussed in detail Act 279's provision of a statutorily-created trust for the pledged income tax revenues.

Again, it discussed how bond counsel to the City provided a reasoned opinion that the trust would be enforceable in bankruptcy and should not be reachable by general creditors of the City. Again, the disclosure indicated how the opinion of bond counsel was based on certain reasoned conclusions which were briefly outlined in the disclosure.

In terms of take-aways: disclosure is driven in part by the timing of the bankruptcy proceeding (i.e., where the case stands procedurally at the time of the offering document's disclosure).

For example, in the case of the particular Orange County official statement examined, the posture of various ongoing litigation and settlements were discussed with more prominence than in Detroit where certain settlements (including with bond insurers) were addressed in the City Appendix III.

Disclosure is also impacted by the causes of a bankruptcy which influence the discussion of remedial or preventative steps.

Orange County focused more on telling the front-end story of its bankruptcy than Detroit where the story slowly (and somewhat painfully) unfolded over a long period of time with very extensive attention in the general media.

The Detroit offering document is somewhat unique in public finance in that it has generally been atypical for reasoned opinions (rather than the typical “clean” opinions) to be given in public finance transactions and to be discussed in detail within an official statement or other offering document. The Detroit case is a leading example of increased attention paid to statutory liens (or other provisions that may give bondholders a stronger position vis a vis general unsecured creditors).

Recognizing that there are many other observations that can be added over time, I found it interesting that the risk factor disclosure, did not go into particularly great detail (or analysis) about economic and similar risks facing the City. There was a very high level and general identification of what reasonably seems to be all the key factors set out in a few clear and concise but modest paragraphs captioned “Uncertainty of Future Income Tax Revenue” and “Economic and Other Factors Affecting the Financial Condition of the City”– which took up less than a single page).

The Michigan Finance Authority disclosure, however, did take a forward-looking perspective on disclosure (which is generally not the case in bond issues for local governments that are tax-supported) by including a “Projected Pledged Income Tax Revenue” table that showed the then-existing projections for four fiscal years (through June 30, 2019) which lined up with the four-year scope of the City’s financial plan. The City Appendix III showed a breakdown of the projections over major revenue and expense categories throughout the projection period. I did not find in the Orange County disclosure any analogous use of projections.

Moreover, there was not a significant discussion (or identification) in the risk factors disclosure of the risks that may arise in relation to the somewhat amorphous area of competing claims of retirees and workers against other creditors. This may be due to two reasons. First, are the inherent uncertainties in this area. Second, and I think easier for me to appreciate, is the consideration (and I caution that I speculate) that statutorily created priorities for these bondholders may, in the City’s view, have obviated a need to try to parse out the uncertain landscape when dealing with unsecured creditors in the context of equities towards a municipality’s workers and retirees. The disclosure, however, was very focused on pensions and OPEBs and provided a detailed discussion in the City Appendix III about the nature of the pension and OPEB settlements and how the benefit plans were affected and aligned going forward out of the bankruptcy.

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1/10/17

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[Six Years After Daley, Emanuel Still Using High-Cost Borrowing Practices.]()

Mayor Rahm Emanuel is pitching Wall Street investors on the latest city borrowing plan, a $1.2 billion package that, like previous versions, pushes hundreds of millions of dollars of debt into the future at higher costs to taxpayers.

The mayor is continuing scoop-and-toss borrowing, which involves paying off old bonds with the proceeds from new ones — a practice akin to taking out another mortgage on a house to pay off the old mortgage, kicking payments down the road. An Emanuel budget spokeswoman said this year marks the last scoop-and-toss bond issue.

The administration also said it'll be the last time the city will borrow money to pay for a portion of routine legal settlements and judgments, adding millions in interest to what are short-term expenses. Some of that debt will take the form of taxable bonds, which carry higher interest rates. That's because the federal government doesn't allow the issuance of tax-free bonds for what are considered yearly operating expenses.

Beyond that, the mayor plans to borrow a to-be-determined amount to cover some of the initial interest payments on the new debt the city is taking out, which adds to the overall cost. It's the equivalent of taking out a loan to pay the initial interest on a mortgage.

Emanuel inherited the costly borrowing practices, detailed by the Chicago Tribune in its 2013 "Broken Bonds" investigation, from predecessor Richard M. Daley. Emanuel, now on his sixth spending plan, has used the techniques to prop up a sagging City Hall budget. In 2015, the mayor promised to end the costly financial moves by the end of his second term in 2019.

The administration's plans call for pricing the bonds on Jan. 18-19, when the market will determine the interest rates, and closing on the deal Feb. 1, Emanuel's Chief Financial Officer, Carole Brown, said in a web-based "roadshow" used to pitch the bonds. City finance officials also plan to meet with investors in Chicago, Boston and New York before the bonds are sold to make further pitches, a common tactic Chicago and other major cities have begun to use in recent years.

The city is likely to pay relatively high interest rates because municipal bond market rates recently increased, and continuing financial problems at Chicago Public Schools and the state of Illinois has investors concerned, said Matt Fabian, a partner at Concord, Mass.-based Municipal Market Analytics.

Fabian also said buyers would look more favorably on city debt if it stopped using "budget gimmicks" like scoop-and-toss and borrowing to pay initial interest payments "instead of just talking about how they're going to stop."

But he added that "the municipal market has come to see and talk about Chicago as a bit of a success story" after Emanuel set in motion plans to contribute hundreds of millions of additional dollars a year to its pension plans for police officers, firefighters, city workers and laborers.

At Emanuel's urging, the City Council in recent years increased telephone fees for emergency service, dramatically increased property taxes and enacted a new tax on city water and sewer service to help fund higher contributions to the four pension funds.

But there's uncertainty about how the city will come up with hundreds of millions of additional dollars in the early- to mid-2020s that will be needed to make even higher contributions to those funds in an effort to prevent them from running out of money. And the plans for the municipal workers' and laborers' funds have yet to be approved by a state government mired in partisan gridlock.

Nevertheless, Wall Street bond rating agencies have changed the city's debt outlook from negative to stable based on the efforts underway to stabilize the pension funds, all of which were at risk of going broke in the 2020s even if the city's general bond ratings remain low. That could result in the city paying lower interest rates than they otherwise would have when the bonds go to market this month.

Richard Ciccarone, president and CEO of Merritt Research Services, said interest rates also could go higher because of “intangible” factors not directly related to city finances, like a recent “60 Minutes” segment on Chicago’s spiking violent crime rate. “Those kind of things don’t help, even though they are very indirectly related to finance,” he said.

But Ciccarone praised the mayor’s efforts to fix the pension systems, reduce the city’s annual budget funding gaps, rely less on short-term borrowing and beef up city budget reserves. “The city moved forward in 2016 on making real incremental progress,” he said.

The City Council signed off last year on the latest round of borrowing, but the scoop-and-toss total is about $100 million higher than Emanuel finance aides told aldermen was in the works. The dollar amount went up because plans to refinance about $100 million in debt to save money were no longer possible after a recent rise in municipal bond interest rates, budget spokeswoman Molly Poppe said. The city still plans to refinance about $25 million.

Some specifics about the $1.2 billion borrowing plan:

•$440 million in scoop-and-toss borrowing, a long-term delay tactic that adds millions of dollars in interest costs to be paid by taxpayers over the next 20 years.

•About $225 million to pay legal settlements and court judgments. Other cities with sounder finances pay such costs without borrowing that adds millions of dollars to the taxpayer tab.

•About $405 million for construction projects and equipment, including new police vehicles.

Poppe defended the city’s plans to borrow money to cover some of the initial interest costs, saying that’s “common practice” in cases where cities don’t anticipate the construction projects financed by the borrowing to be completed for a while. That way, “debt service expense does not begin until the project is operational and benefiting communities,” she said.

Laurence Msall, president of the nonpartisan Civic Federation budget watchdog group, lauded Emanuel’s pledge to end borrowing for scoop-and-toss and legal settlements and judgments, but expressed some skepticism as to whether the mayor could keep the promise.

“Even if the city is able to end most borrowing for operations by 2019, it faces significant financial challenges that could make it difficult to maintain its commitments in the future,” said Msall, who called on Emanuel to “present a plan” for covering future debt service payments and paying off legal settlements and judgments.

by Hal Dardick

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Chicago Tribune

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Obama Signs WIIN Act Authorizing Millions in Drinking Water Funding.

In December, President Barack Obama signed the Water Infrastructure Improvements for the Nation (WIIN) Act into law. The bill authorizes $170 million for communities facing drinking water emergencies, including funding for Flint, Mich., to recover from the lead contamination in its drinking water system.
The legislation also authorizes other vital water projects across the country to restore watersheds, improve waterways and flood control, and improve drinking water infrastructure.

The WIIN Act is a measure that includes the Water Resources Development Act (WRDA) of 2016, in addition to provisions to improve drinking water infrastructure around the country, address control of coal combustion residuals, improve water storage and delivery to help drought-stricken communities, address federal dam maintenance backlogs, and approve longstanding water settlement agreements for the benefit of taxpayers and Native Americans.

The WIIN legislation also includes both short-term and long-term provisions related to addressing the continuing drought in California. In the long-term, it invests in a number of water projects to promote water storage and supply, flood control, desalination and water recycling. These projects will help assure that California is more resilient in the face of growing water demands and drought-based uncertainty.

The WIIN legislation, S. 612, along with a four-month continuing resolution (CR) to keep the federal government operating through April (which had already been signed by the president earlier in December), will provide $100 million for lead removal projects in Flint through the Drinking Water State Revolving Fund and another $20 million to EPA to begin issuing loans under the Water Infrastructure Finance and Innovation Act (WIFIA).

The money for WIFIA has been available since funding was made available in the original legislation creating the program in 2014. In previous fiscal years, Congress had only appropriated money for the U.S. Environmental Protection Agency (EPA) to set up the program. However, the SRF money and other funds to help with Flint's lead crisis had to be authorized before they could be released.

Of the $20 million appropriated for WIFIA, $3 million is to be used for administrative purposes, leaving $17 million to seed loans. WIFIA leverages federal dollars so that for every dollar Congress appropriates, $50 to $60 is expected to be loaned out. That means up to $1.02 billion could be available for loans, according to the AWWA, which helped craft the WIFIA program.

"AWWA is thankful to all those members of Congress and water sector partners who championed WIFIA over the past several years," said Tracy Mehan, AWWA executive director of government affairs. "With more than $2 trillion needed to repair and expand water and wastewater infrastructure in the coming years, water utilities needed a smart new finance tool to help communities pay for large, critical water projects. Funding WIFIA is a tremendous step forward as we confront the nation's water infrastructure challenge."

Meanwhile, the CR will also extend most other federal department and agency budgets at their FY2016 levels through April 28, at which time Congress must finalize an FY2017 spending plan for the federal government.

WIFIA is actually authorized to receive $35 million in 2017 under the law creating the program in 2014. But under the WIIN Act, WIFIA will be funded at the $20 million level as part of Congressional negotiations for moving WIIN/WRDA and the CR forward. In all, the legislation provides:

• $100 million for making capitalization grants to Flint under the Drinking Water State Revolving Funds. These funds will address lead or other contaminants in drinking water, including repair and replacement of lead service lines and public water system infrastructure;

• $20 million for Water Infrastructure Finance and Innovation (WIFIA) grants to finance water infrastructure efforts, including those to address lead and other contaminants in drinking water systems;

• $20 million for a Lead Exposure Registry to collect data on lead exposure and an Advisory Committee to review programs, services, and research related to lead poisoning prevention;

• $15 million in additional funding for CDC's Childhood Lead Poisoning Prevention Program to conduct screenings and referrals for children with elevated blood lead levels; and

• $15 million in additional funding for HRSA's Healthy Start Program to reduce infant mortality and improve perinatal outcomes.

"We were hoping WIFIA would receive the fully authorized amount of $35 million," AWWA CEO David LaFrance said in a press release. "But this is a short-term spending bill, and it is a positive step. Still, there is more work to do, and AWWA will keep working for additional funding to address the country's water infrastructure needs. Because WIFIA is a loan program, it strikes just the right balance between federal assistance and local responsibility."

BY TRENCHLESS TECHNOLOGY STAFF ON JANUARY 12, 2017

Chao Says Trump Plans to Remove Obstacles to P3s.

DALLAS – President-elect Donald Trump will unleash the potential of private investments and use innovative financing tools to rebuild the nation's transportation networks, Transportation Secretary-designate Elaine Chao told lawmakers at her Senate confirmation hearing on Wednesday.

"As we work together to develop the details of President Trump's infrastructure plan, it is important to note the significant difference between traditional program funding and other innovative financing tools, such as public-private partnerships," she said in her opening remarks before the Senate Commerce, Science and Transportation Committee.

"In order to take full advantage of the estimated trillions in capital that equity firms, pension funds, and endowments can invest, these partnerships must be incentivized with a bold new vision," Chao said.

The Trump administration will look at how to remove current legal and regulatory roadblocks to P3s, she said.

"Private investors are encouraged when they see a bold vision and this president has a bold vision," Chao said. "At the very minimum we need to do away with these impediments."

The new administration will form a task force to look at a variety of financing options for infrastructure projects, she said.

"The government does not have the resources to address all the infrastructure needs in our country," Chao said.

Trump released a 10-year, $1 trillion infrastructure proposal in late October that relies on $137 billion of tax credits to attract private investments in transportation and other infrastructure projects.

She and Trump would support more direct federal funding for infrastructure beyond what is in the five-year Fixing America's Surface Transportation Act adopted in late 2015, Chao said.

"The Highway Trust Fund is in bad shape," she said. "The gasoline tax, which provides 90% of the HTF's revenues, is not as lucrative as it once was."

Restoring the HTF to financial health before the FAST Act expires will be one of Trump's top issues, Chao said.

"The fund will be broke in 2021 unless we do something," she said. "It's a huge issue."

Pressed to provide details on the potential for more direct federal funding by Sen. Bill Nelson, D-Fla., the ranking Democrat on the panel, Chao said she would give the committee a progress report soon after Trump is sworn in.

"I will try for a report in 30 days but I can't promise that," she said. "I can promise that there will be continuous and constant dialogue with Congress on this matter. We cannot do it alone."

Sen. Deb Fischer, R-Neb., said at the hearing that she will file a transportation funding bill in the coming weeks. Fischer in 2015 proposed a national infrastructure bank capitalized with $30 billion from tax revenues on repatriated corporate overseas earnings.

Committee chairman Sen. John Thune, R-S.D., said he expects the committee to approve Chao's nomination on Jan. 20, the first day of the Trump presidency.

Rep. Sam Graves, R-Mo., said at an aviation industry gathering on Tuesday that the proposed $137 billion of tax credits in the proposal would not be enough to bring in the amount of private investments in infrastructure that Trump is seeking.

"President-elect Trump has got a massive infrastructure bill that he wants us to work on," said Graves, who chairs a House Transportation and Infrastructure Committee panel on highways and transit. "He wants to spend $1 trillion. I do not think it will be that big. We just simply can't afford it.

"And we also have to figure out a way to pay for it," he said. "We can't do it all through public-private partnerships that the president-elect is talking about."

The Bond Buyer

By Jim Watts

January 11, 2017

[Market Spreads Side with Moody's as Chicago Picks a Fight.]

CHICAGO – Chicago Mayor Rahm Emanuel isn't happy with Moody's Investors Service, so he's trying to make the rating agency go away.

Emanuel's administration disclosed Tuesday that the mayor formally asked Moody's to withdraw all of the city ratings. The disclosure came ahead of investor meetings set for this week.

Moody's declined, according to a city official.

Moody's downgraded the city's GO bonds to junk-level Ba1 in May 2015. The rating remains there today, with a negative outlook.

Three other rating agencies assign Chicago ratings in the lowest investment-grade tier of triple-B.

In a stinging letter dated Dec. 8 to Moody's president and chief executive officer Raymond W. McDaniel Jr., Emanuel accused the rating agency of failing to recognize the city's strides on factors identified by Moody's as needed to win an upgrade. The city cited factors such as raising its pension payments to actuarially required contributions and increasing revenue to fund pension obligations.

"With each rating action or market comment, Moody's instead introduces new and sometimes unrelated factors to justify its negative view of the city's credit," Emanuel wrote. "All the while, measurable progress by the city to confront the fiscal challenges do nothing to impact our rating or our outlook.

"It has become increasingly clear that Moody's rating methodology and agenda are far from objective and independent…your current rating does not accurately reflect the city's credit or our ability to pay debt service when due," the letter continued.

If Moody's does not grant Emanuel's request, the mayor said it should be made clear that any opinions from Moody's are based solely on publicly available information.

The city has not sought Moody's ratings on new issues for more than two years.

Moody's rates the city's general obligation, sales tax and motor fuel bonds at Ba1 with a negative outlook. The city's GOs were already trading at speculative-grade levels before Moody's downgraded them to junk in 2015. Moody's rates the city water and wastewater debt in the lowest investment grade Baa tier and airport debt in the single-A category.

The city's 10-year GOs have traded in recent months at the junk-level spread of 250 to 300 basis points to the Municipal Market Data's top-rated benchmark, and its yields on tax-exempt sales over the last year and half have landed within that range. The BBB benchmark on Tuesday was at 3.17%, a 95 basis point spread to the AAA rate. The city carries ratings of BBB-minus and BBB-plus from the three other rating agencies.

The spread on its 10-year paper hitting 200 basis points in November 2014, six months before the Moody's downgrade, dropping some and then rising to 250 basis points in April, a month before the downgrade. After the downgrade, spreads steadily climbed upward, hitting 300 basis points. That marked a doubling of the 145 basis point spread on its 10-year in a primary market outing in March 2014.

A speculative grade spread is a moving target, said one market participant. Currently, a weak investment grade name should price in the mid-to-high 100s, one market participant said. Anything at 225 basis points is considered high yield, another trader said. Another said anything over 200 falls into the high yield category.

“This shows that the market is appropriately skeptical about the other three ‘investment grade ratings,’ since much of Chicago’s near-term outlook still hinges on what happens in Springfield. It’s certainly outrageous for Mayor Emanuel to try to bully Moody’s into withdrawing its rating and kudos to Moody’s for sticking to its ‘process,'” said Triet Nguyen, head of public finance credit at NewOak Fundamental Credit. “We believe there’s no imminent risk of default at this time, just ‘spread risk’ or underperformance risk.”

Market participants have said the city could see yield penalties narrow a bit if it loses its junk status, but they may not reach investment grade levels. One participant suggested it’s more about the city shedding the taint of the label or the risk of further negative headlines from a possible downgrade.

Moody’s spokesman David Jacobson said in response to a request for comment that “Moody’s has a process for handling requests from issuers to withdraw their ratings and follows that process when such requests are made” and it does not comment on potential future rating actions.

City finance spokeswoman Molly Poppe said Moody’s declined to withdraw the ratings.

The timing of the letter last month was aimed at staving off potential negative commentary or action ahead of the city’s $1.16 billion GO sale next week, even though Moody’s was not asked to rate the bonds.

“The point here is that the mayor is taking steps to protect taxpayers. As you know, investors do their own analysis on whether they are going to buy the city’s bonds, but they rely on rating agencies to extract yield,” Poppe said.

Moody’s in recent reports has made clear that Chicago’s path to investment grade requires improved pension funding status. “The city’s unfunded pension liability would need to begin to stabilize and decline. The actions the city has taken to date have only enabled their pension problem to get worse at a slower pace,” Moody’s has said.

The city has put tax-supported funding streams in place to raise contributions to its four pension plans that carry $33.8 billion of net pension liabilities, but payments based on actuarial requirements don’t kick in until 2021 and improved funded status in a long way off.

In a November report, Moody’s listed factors that could lead to an upgrade including: rapid economic and revenue growth; further budgetary adjustments that accommodate pension contributions sufficient to stop growth in unfunded pension liabilities; and operational stability and improved liquidity at Chicago Public Schools. None has occurred.

When it downgraded Chicago to junk, Moody’s described as factors that could lead to an upgrade or stable outlook city or state actions that halt the growth of the city’s unfunded pension liabilities and revenue growth and/or reductions in other operating expenditures that enable the city to accommodate increased pension costs into annual operating budgets. The city would argue that it has met the second criteria.

Jacobson countered the city’s assessment that the rating agency had wavered.

“We do not advise any issuer on how to improve their credit rating. In our November 7 report affirming Chicago’s Ba1 rating and negative outlook, we did note the 2016 pension reforms will help increase pension contributions and the city’s economy and liquidity remained strong. However, we also noted the unfunded pension liabilities will continue to increase for several more years, and the deteriorating credit of the Chicago Public Schools (B3/negative) now poses new risks to the city that did not exist earlier.”

Moody's dropped the city's rating to junk after the Illinois Supreme Court struck down state pension reforms. The opinion made clear the difficult path ahead for the city to solve its pension crisis. It marked a hard and steady fall from the Aa3 rating Emanuel inherited in 2011 after Moody's began giving greater weight to pension status.

The city faced further ratings fallout from other rating agencies because the drop to speculative grade triggered defaults and termination events on bank products. Still, the city held on to its other investment-grade ratings.

The ratings discrepancies sparked a spirited market debate over the role of rating agencies and how closely they represent investor sentiment.

"No local government's split credit ratings have—in recent memory—spurred as passionate of a debate as Chicago's," Municipal Market Analytics partner Matt Fabian wrote in mid-2015. "It strikes us that underlying this debate may be a discrepancy between what ratings are and what the industry ideally wants them to be."

After the downgrade, Emanuel delivered a stinging rebuke, highlighting the disparity in ratings, calling Moody's out of step and accusing it of trying to force the city's hand on increasing property tax rates.

Market chatter over the downgrade was underscored by Moody's release six days later of a special report to address "questions we are receiving concerning last week's downgrade." Moody's senior analyst Rachel Cortez then took center stage at a long-scheduled discussion of city finances hosted by the City Club of Chicago.

"To us it was pretty clear that benefit reductions under any circumstances are impermissible and in violation of the Illinois constitution," Cortez said. The rating agency turned out to be right as pending city pension reforms were also later shot down.

Some believed Moody's acted too swiftly while others said the market already perceived the credit as junk. The junk-level downgrade also shone a light on default risks. Moody's sought to tamp down concerns, highlighting its analysis that Ba-level credits show just a 5% likelihood of default in the coming years.

The Bond Buyer

By Yvette Shields

January 11, 2017

S&P U.S. Public Finance Transportation Sector 2017 Outlook: Stable-T--Positive As Enthusiasm For Infrastructure Investment Could Trump Funding Realities.

S&P Global Ratings' 2017 outlook for business conditions and credit quality across the transportation sector is stable-to-positive depending on the subsector. Specifically, we have a stable outlook across most subsectors with a positive outlook on the toll road and bridge sector as we anticipate traffic levels to grow faster than baseline GDP and the expansion of tolling technology and toll rate increases potentially allow for improved revenue growth. Exposure to disruptive trade or tariff policies, expanded capital programs, or spending by issuers without a commensurate increase in revenue sources, potential for inflation in construction labor costs, as well as industry dynamics in the maritime sector, we view as overall risks to our outlook. We also anticipate movement by policymakers toward a federal infrastructure investment program with varying impacts, though the funding sources and form of any stimulus under the Trump Administration and the new Congress remains unknown.

Key drivers for the transportation sectors continue to be economic and demographic trends that influence movement of people and goods, fuel prices that serve as a cost input for transportation companies and influence individual travel behavior, competitive factors that affect the business profiles of infrastructure providers, and federal transportation policies that facilitate investment by state, regional, and local governments. A fundamental credit feature in support of S&P Global Ratings' rated universe is the ability of public transportation infrastructure providers to set fees and collect their own revenues derived largely from users of their enterprises.

Continue reading.

11-Jan-2017

The Week in Public Finance: Trump's Infrastructure Plan, Risky Pensions and NYC's Surprising Fiscal Health.

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

GOVERNING.COM

BY LIZ FARMER | JANUARY 13, 2017

Water Act A "WIIN" For Infrastructure.

Last month, in a strong display of bipartisanship in an otherwise tense post-election political climate, Congress passed the Water Infrastructure Improvements for the Nation Act ("WIIN" or the "Act").1 President Obama signed the bill into law on December 16, 2016.2

The success of WIIN was fueled by bipartisan consensus for the improvement of the nation's water infrastructure and the need to provide federal support to Flint, Michigan and similar communities that have recently been affected by water contamination crises.

This client alert is an update to our two-part article published last October outlining the financing options for US water infrastructure improvements, Funding and P3s for Water Infrastructure Projects3, which described the bills passed by the Senate and the House of Representatives that formed the basis for WIIN. WIIN was the result of the conference committee between the two houses that followed the presidential election.

Below we provide a brief summary of certain provisions of the Act that may be of particular interest to private sector entities pursuing investments in the water sector, including investments through public-private partnerships (or P3s).

WIFIA

As discussed in our October article, the Water Infrastructure Finance and Innovation Act ("WIFIA") was passed in 2014 and authorized as a five-year pilot program. However, no appropriations were provided for WIFIA other than amounts to fund start-up costs at the US Environmental Protection Agency ("EPA"), which will administer the program.

The new law changes that – WIIN includes $20 million in budget authority to WIFIA, with a corresponding appropriation being made in a subsequent continuing resolution passed by Congress in December.4 No more than $3 million of such amount may be used for administrative purposes. While this amount is less than the $70 million amount originally proposed by the Senate in its bill (which itself reflected only part of the $80 million authorized for the program over its first three years under the 2014 legislation), it is nonetheless significant because funds are now available to be loaned out by EPA for eligible projects. EPA estimates that its $17 million in budget authority could support more than $1 billion in credit assistance and more than $2 billion in water infrastructure investment.5

The new law makes other changes and clarifications to the WIFIA program that could be useful to eligible borrowers, which include governmental entities such as municipal water authorities as well as private sector entities. WIIN expands WIFIA eligibility to projects that prevent, reduce, or mitigate the effect of drought. The Act further specifies that financing fees can be covered under loan amounts and clarifies that project costs incurred before a WIFIA loan is received can be credited towards the 51 percent of project costs that must be provided by sources other than WIFIA loans.

The Act also clarifies that Congress intends for WIFIA appropriations to be in addition to, and not instead of, those made to the Clean Water State Revolving Fund (the "CWSRF") and the Drinking Water State Revolving Fund (the "DWSRF" and, together with the CWSRF, the "SRFs"). This statement, along with the additional appropriations to the SRFs described below, should help assuage the fear of stakeholders who have expressed the concern that WIFIA funding would result in the downsizing of the revolving loan funds. Finally, consistent with the Act's focus on Flint aid (described further below), it states explicitly that WIFIA eligible projects may include those to address lead and other contaminants in drinking water systems.

Flint Aid

A critical motivating factor for WIIN's passage was the desire among lawmakers on both sides of the political aisle to support Flint and other communities affected by contaminated drinking water problems. These problems, which the Flint crisis made more visible in 2016, have focused attention on the poor condition of the nation's water infrastructure. In response, the Act authorizes $100 million in capitalization grants to the DWSRFs to fund improvements for public water systems with lead exposure and other drinking water emergencies. An additional $50 million is authorized for various lead-related health programs. These amounts were appropriated in the December continuing resolution.

In order to mitigate future drinking water contamination issues, WIIN authorizes $150 million annually over the next five years for various grant programs to help local public water systems and communities with lead reduction projects and related assistance.

"Buy America"

WIIN maintains a one-year "Buy America" provision for iron and steel on public water system projects funded by the SRFs, consistent with existing law. In the run-up to passage, several prominent Democrats fought unsuccessfully to make such provisions permanent.[6] The Democratic position may nevertheless have support from the incoming Trump administration, which has espoused a “Buy American and hire American” policy since the November election.

Army Corps of Engineers Projects

Since passage of the last water legislation in 2014, the Army Corps of Engineers (“ACE”) has made recommendations to Congress for water infrastructure investment projects across the country. Consistent with the proposals of both the Senate and the House of Representatives, WIIN authorizes ACE to carry out certain of these recommendations, which total 30 new projects, as well as eight modifications to existing projects. These projects, which are subject to future appropriation, range across ACE’s major mission areas, including navigation, flood risk management, hurricane and storm damage risk reduction, and ecosystem restoration. Seeking to address the backlog in ACE projects, the Act also deauthorizes inactive projects that have not received funding and deauthorizes portions of other active projects that are no longer needed. WIIN also authorizes ACE to conduct feasibility studies for 30 proposed new water projects.

California Drought Aid

In addition to degraded systems, communities across the country—both coastal and inland—have significant water scarcity issues, spurred by both human and natural conditions such as overuse or drought. California, for instance, is in its sixth straight year of drought7 and, by at least one account, has its worst drought conditions in 1,200 years.8

WIIN directs the Departments of Commerce and the Interior to help increase the water supply by expediting review of proposed projects and drought reduction measures, while regulating the amount of water that can be diverted to farms and homes so as not to damage salmon stocks and other wildlife. The Act also authorizes the use of funds from the prepayment of federal water contracts for the expansion of water storage facilities and authorizes other amounts to be applied to water desalination projects and a recycling grant program.

Conclusion

WIIN is a significant development for water industry stakeholders. The bipartisan support for the passage of the Act, and President-elect Trump’s prioritization of national infrastructure improvements, suggest that WIIN will not be threatened by the upcoming change in administration.

The Act’s political legacy will likely be shaped by the impact of Flint aid and the related lead reduction programs. From an investor’s perspective, the appropriation of funds to WIFIA is an important step forward, as it unlocks a program which essentially has been stillborn since its establishment two-and-one-half years ago. Similar to TIFIA in the transportation sector, WIFIA’s low-cost, long term financing is likely to attract interest from local water authorities, and private entities contracting with them, seeking to finance greenfield or brownfield water infrastructure projects. To the extent WIFIA funding remains available over the longer term, it could also foster the development of new projects. In this regard, it will be important for the program to demonstrate some early successes in 2017 in order to lay the groundwork for further appropriations.

Special thanks to Shearman & Sterling associate David Ullman for his contributions to this client publication.

Footnotes

1 Water Infrastructure Improvements for the Nation Act, Pub. L. No. 114-322 (2016). The Senate vote, on December 10, 2016, was 78-21 and the House vote two days earlier was 360-61.

2 Statement by the President on the Water Infrastructure Improvements for the Nation (WIIN) Act (Dec. 16, 2016), https://www.whitehouse.gov/the-press-office/2016/12/16/statement-president-w-ter-infrastructure-improvements-nation-wiin-act.

3 Paul J. Epstein, Funding and P3s for Water Infrastructure Projects, Law360 (Oct. 17-18, 2016), http://www.shearman.com/en/newsinsights/publications/2016/10/epstein-authors-article-funding-partnerships-water.

4 Further Continuing and Security Assistance Appropriations Act, 2017, Pub. L. No. 114-254 (2016).

5 US Environmental Protection Agency, Learn About the WIFIA Program, https://www.epa.gov/wifia/learn-about-wifia-program (last visited Jan. 2, 2016).

6 Brody Mullins & Kristina Peterson, Bill's 'Buy America' Provision Sets Up Potential Clash for GOP, Donald Trump, Wall St. J. (Dec. 2, 2016), http://www.wsj.com/articles/water-bills-buy-american-provision-sparks-some-gop-concerns-1480709387.

7 Paul Rogers, 2016 in Review: California drought eased, but it's not over, Mercury News (Dec. 26, 2016), http://www.mercurynews.com/2016/12/26/fire-and-rain-california-drought-eased-but-not-over/.

8 Angela Fritz, Study: California drought is the most severe in at least 1,200 years, Washington Post (Dec. 4, 2014), https://www.washingtonpost.com/news/capital-weather-gang/wp/2014/12/04/stu-y-california-drought-is-the-most-severe-in-at-least-1200-years/.

Article by Paul J. Epstein

Last Updated: January 9 2017

Shearman & Sterling LLP

BAML, PFM Widen Their Leads in 2016 Rankings.

Bank of America Merrill Lynch and Public Financial Management Inc. widened their leads in municipal market rankings in a record-setting year for issuance.

Rankings

BAML closed 2016 with a par amount of $65.92 billion in 518 issues, or 15.6% market share, compared to $49.27 billion in 470 issues or 13.1% market share in 2015, to top the underwriter rankings, according to data from Thomson Reuters. PFM finished 2016 credited with $73.30 billion in deals, or 20.8% market share, up from the $62.42 billion and 20% market share for 2015.

For the year, BAML was the lead manager on four deals that were greater than $1 billion and 16 deals that were between $500 million and $1 billion. Among the largest transactions that BAML ran the book on were: the New York State Urban Development Corp.'s $1.65 billion sale in March; The state of Illinois' $1.30 billion in October; The commonwealth of Massachusetts's $1.11 billion in March; and the City of Chicago's $1.01 billion in November.

Overall, the top firms combined for a total par amount of $423.88 billion in 12,271 transactions in 2016, compared with $377.64 billion in 12,076 transactions during the same period last year. For the fourth quarter alone, BAML accounted for $16.55 billion in 107 deals.

Citi finished 2016 in second place with $48.89 billion in 529 deals, good for 11.5% market share and an improvement from the $43.50 billion in 486 deals the firm handled in 2015. Citi was also in second place for the fourth quarter, with $10.97 billion in 95 deals.

For the year, Citi was the lead manager on two deals greater than $2 billion and two deals bigger than $1 billion.

Although the largest deal the bank worked on was $2.70 billion from the state of California, the most talked about deal of the year was $2.41 billion from the New York Transportation Development Corp. of special facilities bonds, Series 2016A and B, LaGuardia Airport Terminal B Redevelopment Project, subject to alternative minimum tax.

"We expect to see more discussions around public-private partnership and how they can play a role in infrastructure," said David Brownstein, Head of Public Finance at Citi. "It's important to figure out how to maintain important projects while also coming up with creative ways to get other needed projects done."

JPMorgan finished in third for the year with $41.51 billion in 402 transactions, which compares to the $41.68 billion in 392 transactions the firm completed in 2015. For the fourth quarter alone, JPM finished in fourth place with $8.84 billion span across 80 deals.

"Market volatility post-election made for a challenging environment and we are very appreciative of the many issuers that put their trust in J.P. Morgan to lead them through that tumultuous period," said Jamison Feheley, JPM's head of public finance banking. "We are also very proud of the many value-added solutions we were able to deliver for clients this quarter and throughout the year that aren't reflected in the traditional league table."

Feheley said JPM expects a more challenging year ahead, with new issue volume expected to drop following a record year as uncertainties come into play with a new administration in Washington.

Morgan Stanley concluded the year in fourth place with $33.89 billion in 388 deals, up from $31.68 billion in 431 deals in 20155. Morgan Stanley finished the fourth quarter in third place with $10.63 billion in 93 transactions.

Wells didn't lose any ground in terms of rankings, even after a fake account scandal that prompted issuers including the state of California, the commonwealth of Massachusetts, the state of Ohio and the city of Chicago to curtail business with the firm. Wells Fargo rounds out the top five for the second year in a row, finishing the year with $26.09 billion, up from $24.83 billion a year earlier. Wells had a par amount underwritten of $5.03 billion for the fourth quarter alone.

RBC Capital Markets came in sixth place with a total of $23.61 billion for the year, followed by Stifel with $17.82 billion, Raymond James with $17.77 billion, Barclays with $17.06 billion, Piper Jaffray with $16.42 and Goldman Sachs with $15.80 billion.

Financial Advisors

Public Financial Management increased its par amount and market share from the previous year. For the fourth quarter alone PFM finished with $14.95 billion.

“PFM continues to focus on helping our clients achieve a level of strong financial stability that enables them to enter the market with a strong credit posture both to borrow for vital infrastructure projects and to refinance debt for savings,” said John Bonow, managing director and chief executive officer of PFM. “While the market in 2016 was conducive to economic refundings through much of the year, the recent uncertainty about federal economic policies may persist well into 2017.”

Bonow said expectations are growing that increased federal assistance to spur infrastructure investments may materialize soon and that the market seems to have found some footing in terms of interest rate stability. Volume may be strong again this year, he said, although it’s unlikely to rise to another record.

“We continue to focus on being a strong, independent voice for our clients, providing them with the information and analysis needed to make the major financial decisions. We are deeply appreciative of the trust so many clients have put in us, which has enabled our mutual success,” he said.

Hilltop Securities came in second with $34.96 billion after finishing in second in 2015 with $32.74 billion. Public Resources Advisory Group was right behind, finishing in third with $33.49 billion.

After the top three, the gap widens. Acacia Financial Group wound up in fourth place for the year with $13.78 billion, moving up one spot after finishing in fourth in 2015 with 9.11 billion.

Kaufman Hall & Associates Inc. jumped up into fifth place, after finishing ninth last year. In 2016, the firm had a par amount of $8.55 billion, up from $5.16 billion.

Top Issuers

The state of California was the top municipal bond issuer by par amount in 2016, well ahead of the next biggest issuer. The Golden State issued $8.92 billion in 2016, moving up from second place in 2015 when the state issued $6.38 billion.

“The office has greater responsibilities than just the state’s general obligation bonds. In total we were responsible for selling roughly $21 billion this past year for all state agencies,” said Tim Schaefer, California’s deputy treasurer for public finance. “We are pleased that we had a year of very favorable rates, eventually those refundings will save tax payers $1.8 billion in direct savings and $500 million in public benefits.”

Schaefer said the highlight of the year came in October when the state completed what is believed to be one of the largest competitive sales in more than 25 years. Although it came in three separate sales, they were all under a common plan of finance, which was various purpose.

“In total the combined sale just under $1.7 billion and that is an important size milestone for the state and for the market,” said Schaefer.

The Dormitory Authority of the State of New York finished in second place with $5.92 billion, slipping a bit one year after it finished in first place with $9.02 billion.

Another New York issuer, the Metropolitan Transportation Authority finished in third place with $5.19 billion, up from $3.11 billion in 2015, which was good for eighth place.

Massachusetts came in fourth with $4.83 billion, improving from $2.55 billion, while the New York City Transitional Finance Authority rounded out the top five with $4.75 billion.

The Bond Buyer

By Aaron Weitzman

January 9, 2017

Bloomberg Brief Weekly Video - 01/12

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

Watch the video.

Bloomberg

January 12, 2017

Uber Extends an Olive Branch to Local Governments: Its Data.

The ride-hailing company Uber and local governments often do not play well together. Uber pays little heed to regulation while city officials scramble to keep up with the company’s rapid deployment and surging popularity.

But now, with a new data-focused product, Uber is offering a tiny olive branch to its municipal critics.

The company on Sunday unveiled Movement, a stand-alone website it hopes will persuade city planners to consider Uber as part of urban development and transit systems in the future.

The site, which Uber will invite planning agencies and researchers to visit in the coming weeks, will allow outsiders to study traffic patterns and speeds across cities using data collected by tens of thousands of Uber vehicles. Users can use Movement to compare average trip times across certain points in cities and see what effect something like a baseball game might have on traffic patterns. Eventually, the company plans to make Movement available to the general public.

If urban planners embrace the data, that could work toward a future Uber has long dreamed of, one in which the company’s transportation options are woven into municipal planning.

“Our relationships with cities have typically been uneven, but there are a lot of places around the world where Uber and the cities we operate in have the same goals,” Andrew Salzberg, head of transportation policy at Uber, said in an interview. “We operate better in a world that has policy grounded on data.”

The collected trip data is made anonymous and aggregated, Uber said, which it hopes will assuage user privacy concerns.

That data, Uber said, will most likely be much more reliable than what is typically used by urban planners, many of whom hire third-party agencies to study traffic patterns over time. Often, that data is expensive, and it can be out of date by the time it is analyzed. Uber argues that its data is more reliable because all of its drivers use smartphones equipped with accelerometers and global positioning technology.

One challenge for Uber: improving upon the rocky partnerships it forged in the early, one-off data sharing deals it struck two years ago.

In a widely publicized move in January 2015, Uber announced a deal with the city of Boston in which the company planned to share some anonymous data, with many of the same urban planning aspirations it has today.

But that deal quickly soured. Boston officials said the agreement was not practical for city planning and development because it restricted what agencies the city could share the data with and because the data came only in quarterly batches. Boston city employees also grew frustrated with the lack of useful data being shared and Uber's seeming lack of understanding of how to deal with city governments.

"The totality of Uber and Lyft drivers in Boston represent what is effectively the addition of another transit line," Jascha Franklin-Hodge, chief information officer at Boston's Department of Innovation & Technology, said in an interview. "The fact that we're dealing with a whole new line that we don't have data on and can't integrate it into our planning is sort of ridiculous."

Uber seemed to take the criticism to heart. After the Boston partnership, the company created a Seattle-based team to develop an approach to sharing data with city planners across the world. Led by Jordan Gilbertson, a product manager at Uber, that project eventually became the new website, Movement.

City officials said that they appreciated user data privacy concerns but that they also hoped to see more useful information from Uber. Mr. Franklin-Hodge shared a list of detailed requests that could aid future urban development, like demand patterns around car-free tenant housing, locations with likely potholes and the most common pickup and drop-off locations.

Uber maintains that it plans to release more data to cities over time as it rolls out the Movement tool to a wider audience of researchers and to the public. But the company said it would balance that demand for information with concerns about user privacy and the need to protect competitive data that could prove valuable to rivals like Lyft, Hailo and Grab, which are vying for riders across many of the same markets.

"Ideally, we'll someday find what that middle ground looks like," Mr. Franklin-Hodge said.

THE NEW YORK TIMES

By MIKE ISAAC

JAN. 8, 2017

[U.S. Municipal VRDO Update, December 2016.]()

A brief historical stat sheet to the municipal ARS, FRN, and VRDO market ending December 2016. In excel (XLSX) format only.

View the Update.

January 3, 2017

Bloomberg Brief Weekly Video - 01/05

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

Watch the video.

January 5, 2017

Bank of America Expands Lead in U.S. Municipal-Bond Underwriting.

- Charlotte, North Carolina-bank increases market share to 15%
- Ramirez & Co. jumps 12 levels after joining NYC's senior banks

Bank of America Corp. is extending its lead in the municipal-bond business.

The Charlotte, North Carolina-based bank held its spot as the top underwriter of U.S. state and local debt for a fifth straight year by overseeing $67.8 billion of sales in 2016, boosting its share of new issues by 2 percentage points to 15 percent, a bigger gain that any other bank, according to data compiled by Bloomberg. Citigroup Inc. also captured a larger piece of the business, overtaking JPMorgan Chase & Co. to become the second-largest underwriter.

The banks benefited from a record pace of municipal-securities sales after yields tumbled to the lowest on record in July, spurring governments to refinance or borrow for public works before the Federal Reserve resumed raising interest rates, as it did last month.

Bank of America was the lead manager for the second-biggest issue of the year, a $2.74 billion sale by New Jersey's Transportation Trust Fund Authority to finance roadwork. Citigroup and Goldman Sachs Group Inc. served as joint senior managers on the biggest deal of the year, a $2.95 billion general-obligation issue by the state of California, according to data compiled by Bloomberg. JPMorgan's biggest deal was another $2.65 billion California sale, on which it served as a co-lead along with Bank of America.

Selena Morris, a Bank of America spokeswoman, declined to comment, as did Citigroup spokesman Scott Helfman. JPMorgan spokeswoman Jessica Francisco also declined to comment.

The pace of municipal-bond offerings are largely projected to decline this year, with refinancing expected to slow because of higher interest rates. Even so, first time borrowing may increase "slightly" as governments whose finances have benefited from the more than seven-year economic expansion pour more money into infrastructure, according to a forecast from Barclays Plc. U.S. state and local governments won approval to sell at least $55 billion of bonds in November ballot measures, debt that governments may start issuing in 2017.

The prices Wall Street banks charged U.S. cities and states to sell bonds in 2016 were little changed. Fees averaged $5.21 per $1,000 of long-term bonds compared with $5.08 in 2015. Among the 20 biggest underwriters of such debt, the weighted average disclosed fees ranged from $3.82 for Loop Capital Markets LLC to as much as $10.61 for Robert W. Baird & Co.

About three-quarters of the long-term debt issued in 2016 was arranged through so-called negotiated offerings, in which banks are picked ahead of time instead of competing against each other in an auction.

One of the firms that boosted its ranking the most was New York City-based Samuel A. Ramirez & Co. The dealer, which has about 80 people in its municipal securities division and was promoted to the ranks of New York City's senior underwriters, rose 12 places to 14th by managing $6.9 billion of bonds in just 30 deals.

In 2016, Ramirez hired Paula Dagen, Morgan Stanley's former lead banker for New York City and plans to expand "selectively and opportunistically," said Ted Sobel, head of municipal finance. New York, one of the largest issuers of municipal bonds, plans to sell about $29 billion of debt through June 2020, according to the city's financial plan.

"Our game plan has been very focused on providing great banking work — ideas, solutions, service, to major clients in core regions and in core competencies," said Sobel, who joined Ramirez in 2009 after 13 years at UBS Group AG. "We've found that's been a pretty good path to success."

Bloomberg

by Martin Z Braun

January 3, 2017, 8:46 AM PST

The Week in Public Finance: Repealing Obamacare, How a California Ruling Threatens Pensions and More.

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

GOVERNING.COM

BY LIZ FARMER | JANUARY 6, 2017

S&P U.S. State Sector 2017 Outlook: Protracted Slow Economic Growth Casts A Shadow.

Credit pressure across the U.S. state sector is likely to remain elevated throughout 2017 as slow tax revenue growth compounded by growing pension contribution requirements and Medicaid expenditures is contributing to fiscal strain for many states. A more pronounced slowdown in state tax revenue growth that began in mid-2015 persisted through 2016 and, following bouts of stock market volatility, is seen in the performance of many states' fiscal 2017 revenues. In the coming year, revenue growth is likely to remain slow and below the rates at which key expenditures are growing. Some of these pressures, years in the making, are already evident in state financial and credit profiles.

In S&P Global Ratings' view, the low-grade fiscal stress that has come to plague the state sector as a manifestation of evolving demographic and structural economic forces is unlikely to abate within our forecast horizon. In addition, the presidential election results raised the prospect that longstanding areas of federal-state fiscal integration will undergo a fundamental reconsideration. And, if enacted policy changes make good on the rhetoric heard in the campaign, federal funding flows are poised to become less responsive to economic cycles. In that case, we would expect state credit ratings to exhibit greater sensitivity to cyclical economic conditions. A shift toward block granting federal Medicaid funds, for instance, could diminish the program's role in functioning as a countercyclical automatic stabilizer. On the other hand, financial markets have–initially at least—been bullish following the presidential election. Equity market appreciation and reflationary signals from the bond markets have favorable implications for states, though it's unclear when—or to what extent—any related capital gains will translate to tax revenue. Nevertheless, the possibility of faster economic growth throughout the next one to two years represents the main source of opportunity for states to strengthen their financial and liability profiles before the next recession.

Continue reading.

05-Jan-2017

Why School Districts Are Operating as Landlords.

As Colorado's housing costs skyrocket, a growing number of school districts, local leaders, and lawmakers are taking steps to make housing more affordable for teachers and staff.

For years, resort communities like Aspen, Colorado, and a rural district in the state's Eastern Plains have leased housing to employees at below-market rates. More recently, subsidized housing for educators has cropped up in pricey urban areas such as San Francisco, Boston, and Baltimore.

But lately, Colorado districts big and small are looking at building their own housing or collaborating with external partners to do so. Such projects are underway now in three rural districts, and Denver Public Schools, the state's largest district, is exploring the idea.

Driving these plans are fears that recruiting and retaining good teachers will shift from hard to impossible as housing costs rise. Compounding the problem is Colorado's perennial school-funding squeeze and the lagging teacher salaries that go with it.

"This year when it comes to hiring season, I will probably struggle to replace four to six teachers because of housing," said David Blackburn, the superintendent of the Salida school district in central Colorado. "It's in the middle of every conversation about quality staff."

In Denver, where an influx of new residents and a wave of gentrification have pushed up housing prices across the metro area, district officials say they're in the earliest stages of figuring out how the district could help employees with housing.

Currently, the Denver-based Donnell-Kay Foundation is compiling information for the district about models of subsidized teacher housing used across the country. Some have been spearheaded by school districts and others by real-estate developers with little involvement from districts. (Chalkbeat, which originally wrote this story, is a grantee of the Donnell-Kay Foundation.)

Allen Balczarek, who works on special projects for Denver Public Schools, said specific recommendations could go before the school board or district leadership team in 2017. He said the lack of affordable housing for teachers isn't yet a crisis in Denver, but called it a very serious issue.

City officials say growing concerns about affordability spurred a new ordinance to raise $150 million over 10 years to create and preserve affordable housing for a wide range of Denver residents, from homeless individuals to families earning $64,000 to $96,000 a year.

Federal tax credits have already helped create affordable housing around the city, though many teachers make too much to qualify.

"There's some we can help, but there's probably many we can't because of their income," said Brent Snyder, the manager of the company that developed and owns the new WeltonPark apartment complex in Denver's Five Points neighborhood.

Most of the 223 units, which start around $840 a month, are restricted to tenants earning up to 60 percent of the area's median income—around $34,000 a year if they're single. There's a huge need for housing for middle-income Denver residents—those making more than 60 percent of the area median income, Snyder said.

Jim Wilson, a Republican state representative from Salida, said he plans to introduce a bill during the 2017 session that would give tax credits to employers that offer employee housing. While that wouldn't directly help school districts or other public entities that don't pay taxes, he said he'd like to find a way to do that.

Affordable housing is a statewide issue, he said. "It's going to be a big topic of conversation at the statehouse this year."

While there's limited data showing that housing costs directly impact teacher recruitment and retention, there's plenty of anecdotal evidence that it's a factor.

The first-year Jefferson County teacher Krista Degerness, 34, said she had no problem finding a job after earning her master's degree in special education last spring. But paying the bills has been trickier. She moved in with her sister to cut costs, paying $700 of the $1,700 rent for their Centennial, Colorado, townhouse. She earns $42,000 a year.

Degerness loves her job, but says, "The money is very hard."

Alex Saldivar faced similar challenges when he moved from Indianapolis to Denver for a teaching job with Denver Public Schools in 2015. He and his girlfriend paid $1,250 a month for their one-bedroom apartment, leaving when the rent increased to $1,450 the following year.

"That frankly is untenable," he said. "They essentially pushed us out."

Saldivar left his teaching job after a year and now works for a nonprofit organization in Denver.

Some superintendents say they start teacher-candidate interviews with heart-to-hearts about the reality of housing costs in their communities. They don't want candidates, especially those from out-of-state, jumping in with visions of majestic mountain peaks and not the dollar signs that go with them.

Custer County Superintendent Mark Payler said when he surveyed the southern Colorado district's newer teachers recently, most indicated they planned to stay for only two to three years. One factor, he said, is the difficulty of securing decent housing on a starting salary of $29,500.

In Denver, a recent exit survey taken by teachers sheds some light on the subject. Of 219 teachers who left the district after the 2015-16 school year, 23 said Denver's high cost of living was a big factor in their decision. Nearly 50 cited moving as a key reason for leaving, though there is likely overlap because respondents could cite multiple reasons.

Additional evidence comes from a September report from the National Housing Conference and the Center for Housing Policy that examined housing affordability for school employees in the nation's biggest cities. Denver was among 24 cities where buying a house was unaffordable for teachers as well as lower-paid workers.

The "Paycheck to Paycheck" report also found that renting an apartment in Denver requires an annual salary of at least $49,000. While the district's average teacher salary is around $54,000 with an average of $5,800 in additional stipends and incentives, the base salary for a beginning Denver teacher with a bachelor's degree is about $40,000.

The concept of providing subsidized teacher housing has a long history in some Colorado districts.

Take tiny Woodlin on the Eastern Plains. The district owns 14 housing units, including trailers, houses, and apartments—most built around 1960 right on the school campus. Most employees pay rent of $70-$105 per month and the district covers water and propane.

Other rural districts, such as Karval and Deer Trail, offer employees similar deals. Then there's Aspen, which has 43 units of subsidized housing going for $850-$1,500 a month. Market rate rents easily surpass $2,000 a month there, said the superintendent, John Maloy.

In the last 18 months, three other Colorado districts have launched projects to build employee housing—often with significant support from local civic leaders, banks, and the business community.

One area is converting a vacant district-owned building—formerly a preschool—to four apartments with the help of community volunteers and high-school students in the district's building-trades class. The one-bedroom units will be ready next July, with rent at $550 a month.

Another district embarked on a similar project this fall, breaking ground for 10 new housing units in a nearby town. They'll eventually be sold to district employees at below-market rates.

And in western Colorado, the Roaring Fork district has the largest project underway, with plans to build a total of 60 new subsidized apartments in three locations using $15 million from the district's 2015 bond issue. Those units will become available in 2018.

Superintendent Rob Stein said district officials initially shied away from including money for staff housing in the bond issue. They didn't think the public would support it. But when two local educators, a beloved principal and his wife, a teacher, departed because they couldn't afford a house in the area, things changed. "That single story may very well have allowed us to move forward with going to voters for a bond," Stein said. In turn, such projects may soon spread closer to Denver, and, perhaps, elsewhere.

“I think the mountain towns … are the harbingers of what’s to come,” said Tony Lewis, the executive director of the Donnell-Kay Foundation.

Leaders in districts that already offer subsidized housing say it makes a big difference—serving as extra enticement to prospective teachers and making it easier for veteran teachers to stay.

“I’ve suddenly got a new tool I can go to market with when I’m looking for new teachers,” said Payler, the superintendent of Custer County Schools.

But it also brings up lots of questions: Which employees get first dibs on the housing? Can some units be set aside for hard-to-fill positions? Will employees be allowed to stay in the units indefinitely? What happens if too few district staff need the housing?

For districts that have wrestled with these questions, the answers have evolved. For example, in 2015, the Aspen district established a five-year time limit for employees renting its subsidized units, in the hopes of making it a stepping stone as opposed to a permanent solution.

Beyond eligibility criteria, there’s also the fact that school districts with subsidized housing double as landlords, either hiring property-management companies to handle leasing and maintenance or doing it themselves. Rose Cronk, the superintendent in the Woodlin district for more than a decade, said of the district-owned housing, “Sometimes I’m the one over there cleaning rainwater out of the bottom of the basement.”

In some districts now considering subsidized housing, administrators worry such projects could distract from their educational goals. Balczarek said one of the key questions for Denver is, “How do we get into this without drifting too far from our mission?” One possibility, he said, is to work with an external partner—maybe the city’s housing authority or a nonprofit group—to develop and manage housing on district property.

Even with the many complications involved in financing and managing subsidized housing, some district leaders note that, unlike the state’s intractable school-funding system, it’s a problem that can be addressed locally. “It’s another creative solution to the fiscal crisis schools are facing” Stein said.

THE ATLANTIC

ANN SCHIMKE | JAN 6, 2017

This post appears courtesy of Chalkbeat Colorado.

Would Trump's Infrastructure Plan Fix America's Cities?

Public-works projects have historically improved urbanites’ access to opportunity and quality of life. But they’ve also helped the privileged at the expense of the marginalized.

Throughout his campaign, and again in the wake of his victory, President-elect Donald Trump pledged to rebuild America’s infrastructure. “We are going to fix our inner cities and rebuild our highways, bridges, tunnels, airports, schools, hospitals,” he said on election night, promising to put millions of people to work building an infrastructure that would be “second to none.” In the weeks since his election, infrastructure has emerged as a potential bipartisan meeting ground for Trump and national Democrats. Senate Minority Leader Charles Schumer, for one, said recently that Trump's trillion-dollar plan "sounded good" to him.

But would a federal infrastructure plan be good for America's cities? Infrastructure has played a crucial—yet at times problematic—role in the making, and remaking, of the modern American city. Public works have expanded access to essential goods and to economic opportunities, and they have contributed to universal improvements in the standard of living. But they have also conferred advantages on privileged parts of American society at the expense of the marginalized—a history the Trump administration would do well to consider as it plans for the future. For cities to continue growing and innovating, they need an infrastructure capable of serving as a platform for sustainable development. And they need an infrastructure that serves everyone.

Continue reading.

THE ATLANTIC

MASON B. WILLIAMS | JAN 7, 2017

What Infrastructure Projects Might Appeal to Trump?

Airports, high-speed rail, and roads, particularly in dense metropolitan areas, could be particularly appealing targets for infrastructure funding under soon-to-be President Donald Trump.

The President-elect's words on the campaign trail and tendencies as a public figure over decades informed those conclusions from stakeholders and infrastructure experts trying to gauge how Trump might be most interested in directing the 10-year, $1 trillion infrastructure plan he campaigned on. The campaign's only formal plan to date is a relatively brief paper proposing $137 billion of tax credits to be authorized by Congress and available only to investors in revenue-producing projects such as toll roads, toll bridges, and airports.

But while Trump's actual infrastructure plan remains light on specific areas of focus, he has left clues in his words and in his actions as a real-estate developer. Trump made very negative mention of the state of U.S. airports during the campaign, characterizing them during the Sept. 26 debate at Hofstra University in New York as "third world." Trump specifically mentioned several large airports, including LaGuardia Airport and John F. Kennedy International Airport in New York City, Newark Liberty International Airport in New Jersey, and Los Angeles International Airport as being inferior to facilities in the United Arab Emirates, Qatar, and China.

"We've become a third-world country," Trump said from the debate stage.

Kevin Burke, president and chief executive officer of airport industry group Airports Council International-North America, said his group believes that major U.S. airports need $75 billion of investment just through 2019.

"We have been happy during the campaign hearing the President-elect talk about infrastructure," said Burke, who believes that Trump recognizes that airports serve not just as transportation hubs but as important economic drivers for the regions where they are located.

"They really are centers of commerce," Burke said. "This is not only helping to build new airports, but it is helping the local economy."

Airports are also highly visible types of infrastructure many millions of people see while traveling through the U.S. Burke said that American hub airports handle about 800 million passengers annually, with that number estimated to grow to more than a billion in the next 20 years. A lot of the upcoming infrastructure investment will be aimed at adapting airports to modern needs, such as post 9/11 security, Burke said, as well as at other land-side infrastructure such as parking garages. Airports use tax exempt bonds for many of their infrastructure improvements, and rely on passenger facilities charges capped by federal law to generate much of their revenue. Trump could be influential as president both in maintaining the tax-exempt status of munis through any tax reform proposal and in supporting the uncapping of PFC charges to allow localities to set them at levels they feel appropriate.

Backers of bullet-trains, popular internationally but not so far in the states, also see hope under a Trump administration.

“We actually think high-speed rail is perfect for Trump,” said U.S. High Speed Rail Association president and CEO Andy Kunz. “It’s big, it’s flashy, it’s transformative.”

The U.S. currently has no “true” high-speed rail service comparable to the bullet trains operating in some other countries. Amtrak’s Acela service along the Northeast Corridor between Washington D.C. and Boston can reach speeds of up to 150 miles per hour, but realistically does not maintain those speeds for the majority of the route. The Japanese Shinkansen trains, by contrast, are capable of 200 miles per hour and have reached even greater speeds on occasion. Efforts to build new high-speed lines have met with resistance and financing troubles, as exemplified by an under-development line connecting cities in Northern and Southern California that has come in over the original cost estimates and been fought every inch of the way by some landowners potentially affected by its construction.

Kunz pointed out that Trump’s campaign statements appealed heavily to blue-collar workers concerned about declining manufacturing opportunities that a widespread high-speed rail program could help with. Kunz said that his group sent Trump a letter shortly after his election victory urging him to be a leader on the issue and pointing to a specific project linking Los Angeles and Las Vegas as one that could benefit from Trump’s backing right now. That project, XpressWest, has been in development for over a decade and would use electric trains traveling more than 150 miles per hour to cover the distance between the two cities in about 80 minutes.

Kunz said that Trump, as a longtime multi-billion dollar real estate developer, understands the value of train stations and could see the appeal of a project like the XpressWest that could be finished within Trump’s first term if expedited.

“He could be showing up at a ribbon-cutting,” Kunz said.

Toll roads are also a sector primed for investment under Trump because of the structure of his proposed plan, which emphasizes projects with a revenue stream. But toll roads, especially for heavily trafficked interstates, could face a lot of resistance that could discourage a strong push in that sector.

“Tolling the interstates is a total non-starter,” said Chris Spear, president of American Trucking Associations. “It is toxic and we will fight it, tooth and nail. We need national connectivity and tolling is the worst type of approach.”

“I can assure you he’s going to get a lot of pushback from taxpayers who are tired of these crony-capitalism deals that guarantee huge profits to contractors and investors,” said Terri Hall, founder and director of Texans for Toll-free Highways. “Voters trust Mr. Trump will read the tea leaves and advance a transportation vision and policy that’s pro-freedom, pro-taxpayer, and pro-worker.”

Cato Institute infrastructure expert Randal O’Toole said he didn’t believe Trump’s plan would significantly increase toll road investment, and that Trump’s tax-credit plan doesn’t change the fact that the states and localities still largely control what they want to invest in. Muni groups have urged Trump not to support eliminating or capping the tax exemption on muni bonds, preserving them as a cost-effective means of finance. Trump told the U.S. Conference of Mayors earlier this month that he plans to maintain the tax exemption.

“Trump may have a few ideas for selected projects, most of which I would probably disagree with, but the tax credit plan really leaves all decisions to state and local governments,” O’Toole said. “Right now, those local governments can issue tax-free municipal bonds; the tax-credits idea just provides an alternative method of funding.”

The Bond Buyer

By Kyle Glazier and Jim Watts

December 23, 2016

GAAP Update Digital Recording Now Available.

Thank you to thousands who participated in GFOA’s 21st Annual Governmental GAAP Update. GFOA has released a digital recording of the 2016 GAAP Update presentation.* For those who participated in the original program, the recording is a great way to refresh your memory of the material. If you were unable to participate, the recording is a great way to catch up and is ideal for in-house training. Download your copy today!

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5 Hot Topics Hitting Public Finance in 2017.

In what could be a tumultuous year for state and local finances, these five issues are likely to take center stage.

Tax Reform

Many Capitol Hill watchers expect federal tax reform to roll forward in some fashion in 2017 now that a Republican will be in the White House. There are two major proposals on the table that could directly result in higher costs for states.

For starters, many in Congress have been supportive of limiting the tax-exempt status of municipal bonds. Removing this tax perk for bond investors would force governments to offer higher interest rates on the debt, thus increasing their cost of paying off that debt.

It's hard to overstate the potential impact of such a move. One estimate pegged the current tax perk savings for state and local governments at about $714 billion from 2000 to 2014. For its part, the federal government estimates it loses as much as $30 billion in potential income tax revenue each year as a result of the perk.

President-elect Donald Trump recently told a group of mayors he would protect the tax exemption. The comment was the first time he'd specifically mentioned the issue and it was immediately met with hopeful praise from industry groups like the National Association of State Treasurers and the Council of Development Finance Agencies.

But how far that pledge will go remains to be seen.

Second, the tax reform discussion may also include eliminating the ability for tax filers to deduct their state and local taxes from their taxable income at the federal level.

Naysayers of the deduction argue it subsidizes high-tax states. While eliminating this perk wouldn't have an immediate impact, said Michael Mazerov, senior fellow at the Center on Budget and Policy Priorities (CBPP), it would have a long-term impact on states' ability to raise additional revenues through tax hikes. This is particularly true for higher-tax states where citizens would no longer get a substantial tax break at the federal level.

"Certainly," he said, "the elimination could have one of biggest impacts on state and local finances."

Budget Shortfalls

Weak revenues are causing the highest number of state budget shortfalls since the Great Recession, and that trend is expected to weigh on lawmakers as they draw up their fiscal 2018 budgets in the coming months.

According to the National Association of State Budget Officers' annual state spending survey, half of all states saw revenues come in lower than projected for fiscal 2016. And nearly as many states (24) are seeing those weak revenue conditions carry into fiscal 2017. It marks the highest number of states falling short since 36 budgets missed their mark in 2010.

Unless lawmakers make significant corrections, some believe the picture could look bleaker as 2017 wears on.

"I tend to think it's going to skew toward worse nationally," said Matt Fabian, a partner at Municipal Market Analytics. "That means more budget gaps and reduced aid to local governments." Any changes at the federal level, Fabian added, "are probably going to make it worse."

Medicaid funding could also cut into state finances. Trump and other Republicans have proposed converting the program into a block grant. A Congressional Budget Office (CBO) assessment of earlier Medicaid block grant proposals projected declines of between 4 and 23 percent in federal funding over 10 years. Aid from the feds makes up approximately 15 percent of total state expenditures.

If the CBO's estimates are accurate, Fitch Ratings said, "reductions of this magnitude would have a significant effect on states' budgets."

Tax Break Transparency

A new accounting rule, called GASB 77, will result in more hard data than ever on what was a previously murky part of state and local finances.

The rule requires governments to report the tax breaks they give to businesses as forgone tax revenue on their balance sheets.

While some wish the rule included more specific requirements — such as naming the companies receiving the breaks — most believe the new disclosures will be a watershed moment for transparency. The new data will likely inform policy discussions for years to come.

New York City has already reported its foregone revenue, disclosing that it waived more than $3 billion in potential tax revenue in 2016 alone, mostly in uncollected property taxes.

Noting that many states already produce tax expenditure reports, the CBPP's Mazerov predicts that the new reporting requirements will be particularly revealing at the city and county level, as "there's so little information locally about economic development giveaways."

Increasing Pension Contributions

State and local retirement benefit expenditures have grown roughly twice as fast as revenues and most other spending areas in recent years, according to a new analysis by Fitch Ratings. While much of this growth has been driven by pensions, a rise in health-care and Medicaid costs have also played a part.

Meanwhile, the last two years have seen pension plans significantly miss their target rate of return (7.5 percent), which will trigger higher pension bills in the coming years. Governments with well-funded plans are much better positioned to absorb any increases. But many plans have less than three-quarters of the assets they need to fully meet their liabilities. The lower-funded the plan, the more extreme the impact of low-investment returns will be on a government's pension bill.

The last 10 years have seen retirement benefit expenditures growth exceed or crowd out growth rates for all other major spending categories.

"With tax rate increases remaining politically challenging and due to the historically slow economic and revenue recovery after the financial crisis, state and local governments have been forced to hold the line on spending for other services," Fitch said. "This trend is likely to continue over the near term."

Online Sales Tax Battles

After more than a decade of badgering Congress to solve the issue nationally, states have taken it upon themselves to win the right to tax online purchases made by their residents.

Generally, consumers are only taxed on purchases from retailers with a physical presence in their state. But legal challenges by states are moving forward on several fronts.

First, Colorado recently scored a win when the U.S. Supreme Court effectively upheld a 2010 law by refusing to hear the case and letting the lower court ruling stand. The law makes collecting an online sales tax from Colorado consumers more palatable than going through the reporting requirements for companies that don't do so.

Other states have already begun to follow suit, and both Louisiana and Vermont have enacted similar laws that take effect in 2017.

"At this point," said Matt Walsh, Sovos Compliance's vice president of tax, "we would also expect to see many states move to enact similar legislation early in 2017."

Meanwhile two other states have cases moving forward that also challenge the status quo.

One company is challenging Alabama's new sales tax rule that bases the tax on revenue, not location. In South Dakota, several companies are challenging the state's 2016 law that outright permits it to collect a sales tax on Internet purchases from remote retailers who have a so-called "economic presence" in the state.

Many believe the South Dakota case could be fast-tracked to the Supreme Court as early as 2017.

GOVERNING.COM

BY LIZ FARMER | DECEMBER 29, 2016

Kroll: Chicago Transit Authority's Second Lien Sales Tax Receipts Revenue Bonds, Series 2017 Rating Report.

Read the Report.

CDFA Notches Legislative Victory with MAMBA's Senate Introduction.

Read the press release.

CDFA | Dec. 28

Will the Muni Market Have a Voice on Trump's Infrastructure Task Force?

LOS ANGELES – Donald Trump could and should include municipal finance experts on an infrastructure task force that sources say the president-elect is interested in putting together, lobbyists and industry sources said.

Trump's administration appears to be in the early stages of forming a task force to determine how to carry out his promised $1 trillion infrastructure agenda, a force which The Washington Post reported may include son-in-law Jared Kushner, senior counselor Stephen K. Bannon, and others who are close to Trump but do not have experience in planning or financing public assets. According to a lobbyist familiar with transportation finance issues, the muni industry is likely to have an opportunity for input as well.

“It’s not surprising that the transition team would begin thinking now,” said Michael Decker, a managing director and co-head of municipal securities for the Securities Industry and Financial Markets Association. “It’s a topic that can draw on lots of different areas of focus” including the private sector and state and local government representatives.

Decker said infrastructure finance will be a big issue for SIFMA, and that the group has been thinking about and compiling ideas on policies that it believes make sense.

Jessica Giroux, general counsel and managing director for federal regulatory policy at the Bond Dealers of America, said that her group is interested in learning more about the task force and especially in reinforcing the need to protect the municipal bond tax exemption, something Trump has said he supports.

Trump’s published infrastructure plan, which experts generally agree is incomplete if he wants to reach his 10-year $1 trillion investment goal, relies heavily on tax credits to incentivize private sector investment in projects like toll roads and others that produce isolatable revenue streams. And while it is still far from clear who will be on Trump’s task force and how its role would differ from or complement the Department of Transportation and other departments handling infrastructure, it appears those close to Trump are seeking advice from the muni finance community.

“We are aware that some people on the transition team have been asking those in the industry for some thoughts on what can be done in the immediate sense, meaning, what can the administration do to make immediate changes that doesn’t require new legislation or regulations,” said the lobbyist, who spoke on condition of anonymity.

While an infrastructure task force could produce some recommendations for the Trump White House, much of the power will remain in the hands of legislators. The Republicans who now control both houses of Congress, may not support large spending increases or reauthorization of a Build America Bonds-type program, options that experts believe Trump may attempt but which Republicans have declined to embrace during the Obama administration.

Marcia Hale, executive director of Building America’s Future, an infrastructure advocacy group, said she has heard that the Trump administration plans to huddle with the House and Senate and have a unified infrastructure plan. Trump seems likely to want to call the shots, she said.

“I know the president-elect is very serious about more infrastructure funding,” Hale said. “No congressman or senator is going to be able to tell him how to get projects done or buildings built. That’s his comfort zone.”

The Bond Buyer

By Kyle Glazier

December 28, 2016

Jim Watts contributed to this story

[A Budgeting Break for Small (and Big) Governments.]

With less people and money, small towns are prone to making big and expensive errors. One company wants to change that.

Small towns and districts know all too well about limited resources. Their departments are made up of just a few employees; they have almost no support staff; and they can't afford fancy software that might help speed things along.

For finance directors, this makes budgeting a difficult and time-consuming task. In most less-populated places, the process is stuck in the 20th century: Budgets are created on Microsoft Excel, and directors are expected to consolidate versions between different departments.

At best, it's arduous work. At worst, it leaves a lot of opportunities for errors.

"As different people set up different accounts in the ledger, they might get the set up wrong," said Connie Maxwell, the budget director for Burnet, Texas. "Airplane revenue might show up under 'interest earned' because someone selected the wrong code."

Indeed, the low-tech process has lead to costly oversights.

In 2013, a Massachusetts school district was forced to suddenly lay off nearly a dozen employees after it discovered an error in the previous year's $34 million budget. The mistake had left the Groton-Dunstable Regional School District with a $400,000 shortfall halfway through the 2013-2014 school year.

In the small Napa Valley city of St. Helena, the discovery of a bookkeeping error last year exacerbated the California city's budget woes by adding another $500,000 to the existing $1 million deficit. The total shortfall represented 15 percent of the city's annual spending.

Maxwell said she typically spent nights and weekends finalizing the next year's budget proposal. But that changed this year when Burnet and a few other governments beta-tested a new tool from OpenGov that does for government budgets what TurboTax does for individual tax filers.

Among other things, [OpenGov's Budget Builder] automatically pushes relevant data into a government's accounting system, eliminating the need for finance directors to do that manually when there are changes. Instead of reconciling multiple spreadsheets to create a master one, the budget is stored as a project on OpenGov's cloud and users within each department can add budget requests to that one project. Changes are tracked, which helps people catch any errors. Users can also see the critical budget numbers in real-time — such as whether the proposed or current budget is running a deficit — and the system automatically builds charts and graphs to help users visualize their work.

A critical component is the price, which is where small localities often get left behind. According to OpenGov cofounder Nate Levine, the Budget Builder's cost depends on the size of the government and the annual fee can range from $10,000 to six figures.

"Typically, the solutions out there are sold as add-ons to existing products," he said. But the best, "government-centric [add-ons] are expensive and only accessible to larger governments."

For OpenGov, the product is another tool to lure governments to its growing web of resources and services. The end goal for the company is to create the world's first smart government platform — a cloud-based one-stop shop for budgeting, reporting and open data.

Now that the product has moved out of beta, it's rapidly catching on. This month, more than 20 other local governments including Harford County, Md.; Long Beach, N.Y.; and Culpeper, Va., announced they're rolling out Budget Builder.

The promise of less hassle has had tangible results. Those who have used the test version say they finished their budget at least one month earlier than usual.

With the extra time, Judy Smith, finance director of the Jackson County, Ga., Water and Sewerage Authority, said she's had more time to conduct her year-end financials and get ready for the new year. She's also been able to do helpful extras, like an inventory analysis.

In Burnet, which gets audited every year but doesn't produce a comprehensive annual financial report (CAFR), Maxwell said she hopes to publish such a report for the first time.

"After months of doing budgeting, CAFR was a dirty word," she said. "That potential is much more realistic for us now."

GOVERNING.COM

BY LIZ FARMER | DECEMBER 27, 2016

Fitch: Declining Consumption Manageable for US Public Power.

Fitch Ratings-New York-27 December 2016: Public power issuers will likely manage the projected long-term decline in residential electricity consumption by using their inherent rate flexibility and lowering capex, according to Fitch Ratings. Despite expectations of higher electric sales during the next four months, average household electric demand is forecast to decline by 11% through 2040, according to the US Energy Information Administration (EIA).

The long-term decline in electricity demand will likely be driven by conservation efforts, more efficient lighting technologies, increasing efficiency standards and growth in distributed generation, particularly rooftop solar. Improvements in battery storage technology, expanded federal investment incentives and favorable net metering arrangements in some states, could push electric sales down even further.

The EIA's Short-Term Energy Outlook forecasts the average residential customer will consume 4% more electricity from December 2016 through March 2017, than the same period last winter. The projected increase reflects the record warmth of the winter of 2015-2016 and not a reversal in the trend of declining residential consumption.

The EIA has forecast that overall residential electricity will grow by just 9.0%, or roughly 0.3% per annum, from 2015-2040 on growth in the number of households alone. Average household electric demand is forecast to decline by 11%. Residential users represent the largest customer segment for public power and cooperative issuers.

Fitch's outlook for the public power and electric cooperative sector is stable through 2017, despite expectations of declining consumption. While lower electric sales could pressure public power issuers' unit costs, and force changes to budgeting and resource planning, factors including the sector's autonomous rate-setting authority and improved rate design should limit this risk.

We also believe potential long-run consumption declines will be managed through reductions in planned investment, particularly new generating capacity. Many issuers already adopted this strategy. Capital investment, as a percentage of depreciation, steadily declined throughout the public power sector since 2010. Among other factors, consumption trends and ample access to excess energy production led to this decline. We expect capex spending to remain low during the near term as issuers delay plans for new production units and leverage opportunities to exploit market overcapacity.

Together, these strategies should reduce revenue requirements and moderate required rate increases throughout the sector, while supporting the sector's fundamental mission of providing safe, reliable and low-cost electric service.

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27 DEC 2016 10:52 AM EST

In American Towns, Private Profits From Public Works.

In American Towns, Private Profits From Public WorksDesperate towns have turned to private equity firms to manage their waterworks. The deals bring much-needed upgrades, but can carry hefty price tags.

BAYONNE, N.J. — Nicole Adamczyk's drinking water used to slosh through a snarl of pipes dating from the Coolidge administration — a rusty, rickety symbol of the nation's failing infrastructure.

So, in 2012, this blue-collar port city cut a deal with a Wall Street investment firm to manage its municipal waterworks.

Four years later, many of those crusty brown pipes have been replaced by shiny cobalt-blue ones, reflecting a broader infrastructure overhaul in Bayonne. But Ms. Adamczyk's water and sewer bill has jumped so much that she is thinking about moving out of town.

"My reaction was, 'Oh, so I guess I'm screwed now?'" said Ms. Adamczyk, an accountant and mother of two who received a quarterly bill for almost $500 this year. She's not alone: Another resident's bill jumped 5 percent, despite the household's having used 11 percent less water.

Continue reading.

THE NEW YORK TIMES

By DANIELLE IVORY, BEN PROTESS and GRIFF PALMERDEC. 24, 2016

Early Views On The US Energy And Infrastructure Sectors Under A Trump Administration: Sherman & Sterling

Energy and infrastructure policy was as at the forefront of the presidential election discussion and has continued to be highlighted as a focus for the Trump administration. Here, we take an early look at how a Trump administration could affect the US energy and infrastructure sectors.

Renewables

- The current renewable energy industry continues to rely on tax credits for growth. The Production Tax Credit (PTC) is primarily utilized by the wind energy industry, while the Investment Tax Credit (ITC) is utilized by investors in both wind and solar. Predictability for these tax credits has been critical for future investment – for example, investment in wind has historically significantly slowed in past periods leading up to an expiration date.
- The FY16 Omnibus Appropriations Bill passed in December 2015 included the extension, step-down and, ultimately, phase-out of both the ITC and the PTC. Despite the phase-out, the renewal of the ITC and PTC programs is expected to spur new investment into the 2020s.
- The advent of the new administration, at a minimum, plays a role in creating a degree of uncertainty around the previously assumed stability of the tax credits. While Congress has the power to repeal the credits, including as part of a comprehensive tax reform which has been discussed by Trump, there are many factors that make major changes to the tax credits unlikely.
- Over the past eight years, wind turbines and solar panels have begun moving into states held by GOP politicians, lending renewable energy increasing bipartisan support in key geographic areas of the country.
- In 2008, just 12 US House Republicans represented districts where utility-scale solar facilities are located; in 2016, the number has risen to 89.1 In that same time span, the number of House Republicans with utility-level wind power facilities in their districts increased from 34 to 67.2
- In terms of the production capacity of wind power, the top states in 2015 were Texas, Iowa, California and Oklahoma.3 The states opening the greatest number of wind power facilities between 2008 and December 2015 were Texas and Iowa (opening 74 and 60 wind facilities, respectively).4 Since 2008, North Carolina has opened 281 solar-power facilities, second only to California.5 In terms of state-by-state representation, Republican senators now represent approximately half of the top wind energy states and half of the top solar energy states.6
- There are, of course, Republicans and Republican organizations that oppose credits as an unfair subsidy. And while Trump himself has been a vocal opponent of President Obama's executive actions on climate, Trump did not openly oppose the tax credits and even supported the wind credit, as phased out over the next years.
- On balance, the changeover of agency control at the IRS and Treasury could be more likely to have an effect on the ITC and PTC. Treasury and IRS have the ability to affect the implementation of the credits, by issuing guidance on their use. However, these changes in guidance cannot alone repeal the credits.
- Another potentially powerful factor to consider is the effect of Trump slashing corporate tax rates from 35% to 15%. If corporations have a drastically lower overall tax liability, there could be less need for corporations to engage in tax-equity investments to round up offsetting credits. While, in the past, demand for tax-equity outpaced supply, the tax-equity investment market in renewable energy could lose momentum at a time when wind and solar projects are expected to require approximately $56.2 billion over the next four years.7 Those in the industry expect that demand

will not fall so much that tax-equity will run dry, but investors should keep an eye on this space.

Oil, Gas and Coal – Outlook

- Throughout his campaign, Trump has promised to “unleash America’s $50 trillion in untapped shale, oil and natural gas reserves.”8 However, Trump’s energy plan by itself may not have the ability to achieve this goal. In the current economic climate, many oil and gas companies have slowed down on new drilling activity because there is already a glut of supply brought on by the shale revolution. Last year, the US produced its highest average of oil per day since 1972, doubling the 2008 average.9 Crude prices hit a low of $26.21 a barrel in New York in early February.10 Continued increases in production resulting from a Trump plan to further lift regulations on the oil and gas industries could have the effect of driving prices down. Additionally, any changes in US policy will need to be viewed in light of macroeconomic forces such as the recent OPEC decision to reduce production.
- It also has not necessarily been clear that production activity was significantly affected by environmental regulations. Oil and gas companies have in many cases scrapped significant projects because of the low price of oil rather than burdensome regulation. Investment is expected to increase only as it becomes commercially attractive again, whether or not environmental rules and regulations have been nullified.
- One part of the oil and gas market that may grow under a Trump administration is the midstream pipeline market. Trump has pledged to approve certain pipelines currently blocked by the Obama administration on the grounds of environmental concerns. Trump-led agencies are also expected to be an asset to midstream players, incentivizing investors to lower the risk premium currently imposed on companies seeking to build out this type of infrastructure. In turn, the enhanced infrastructure and transportation for petroleum products would also improve economics for major upstream operators.
- The coal industry has celebrated Trump’s victory, following his promise to put miners back to work. As natural gas has become a cheaper alternative fuel source, however, utility companies have naturally reduced their reliance on coal as an energy source. Since 2008, over 300 coal-fired power plants across the nation have closed.11 While many countries still import American coal, coal exports fell 23% overall in 2015 and fell another 32% in the first six months of 2016.12 Any help given to the natural gas industry by a Trump administration may further affect the opportunities for a bounceback in the coal industry. It appears unlikely that investors would seek out new coal opportunities in great numbers, especially considering that any regulations removed or blocked from implementation under a Trump presidency (such as the Clean Power Plan), could be imposed by a successor administration.
- In summary, the mix of power generation may very well stay similar to what it is today – market forces could have more impact than a Trump administration, though Trump-led agencies may nudge up the production of oil and gas and the expansion of the coal industry.

Infrastructure

General

- The first policy statement that President-Elect Trump made in his acceptance speech in the early hours of November 9 was his desire to create jobs by rebuilding the country’s infrastructure so that it would be “second to none.” This statement was consistent with the Trump-Pence campaign’s message during the run-up to the election.
- Although he has not yet proposed specific policy programs, Trump’s “Contract with the American Voter,” which sets forth his agenda for his first 100 days in office, makes reference to a proposed American Energy and Infrastructure Act that would involve the investment of $1 trillion in infrastructure over 10 years.

- Trump's initial statements on infrastructure, and the prevalent bipartisan view in favor of infrastructure improvement to spur job growth, could result in a significant increase in private investment opportunities in the sector.

Private Investment and P3s

- Trump's infrastructure plan could provide significant opportunities for investments in public-private partnerships (or P3s) in particular, specifically major projects with ample revenue streams.
- Trump has spoken favorably regarding P3s and other innovative procurement methods to stimulate investments in major projects and to complete them on time and on budget, which governments frequently struggle to do. During the campaign, Trump pledged to eliminate regulatory red tape that would enable projects to be completed faster and at lower cost. As set forth in his Contract with the American Voter, the central tenets of Trump's infrastructure plan include "leveraging public-private partnerships" and the creation of tax incentives to fuel equity investment. Given his real estate development background, where tax incentives are often key investment drivers, these views are not surprising.
- Some details regarding Trump's plan were outlined toward the end of the campaign by two of his senior policy advisors, Wilbur Ross, a private equity investor (who has been tapped as the proposed Secretary of Commerce), and Peter Navarro, a UC-Irvine business professor, in a paper contrasting Trump's and Clinton's proposals on infrastructure.13 The paper has attracted significant commentary, both positive and negative, from lawmakers and other stakeholders on both sides of the political aisle.
- Under the plan outlined in the paper, Trump envisions the private sector contributing $167 billion of the contemplated $1 trillion investment in the sector. In return, investors would receive an 82% tax credit, which would be repaid to the government from the incremental tax revenues resulting from project construction (realized primarily through wage income growth and contractor profits). The overall equity return on these investments would be roughly 9-10%.
- This investment plan dovetails with Trump's plan to incentivize the repatriation of corporate income held overseas by offering a reduced tax rate on profits of 10 percent, instead of the 15 percent that would apply under Trump's tax plan (or 35 percent under current tax law). The paper suggests that these firms could, in turn, recoup their tax payments through the infrastructure tax credit described above.
- The paper also suggests that Build America Bonds (BABs) or similar instruments could provide a viable, low-cost source of debt financing. BABs, notably, have historically had significant bipartisan support. They are less expensive to the Treasury than traditional tax-exempt bonds and provide tax credits to issuers for a portion of the interest payments on the notes. Trump has suggested since the election that such bonds could be issued by a dedicated infrastructure fund.
- In addition, the paper focuses on projects with revenue streams sufficient to attract significant private sector investment. It does not discuss potential sources of financial support for projects, P3s or otherwise, which either have no dedicated revenue stream (or a limited one) and/or would not qualify for debt financing through BABs or other instruments.
- It is important to bear in mind that the US infrastructure is driven by policies and facts and circumstances affecting states and localities. Thus, even with a push by Trump, the sector will still need considerable cooperation by states and local authorities, and the existence and form of investment opportunities will be shaped in large part by policy makers at those levels of government.

Sales of Brownfield Infrastructure Assets

- Over the last few years, the US market has seen a significant uptick in investment opportunities in mature infrastructure assets, in particular in the toll road space, marked by the multi-billion dollar

sales of the Indiana Toll Road and neighboring Chicago Skyway in 2015 and early 2016, respectively, and the recently agreed sale of the Pocahontas Parkway. Other road and parking assets are currently on the block and attracting investor attention.
- Trump's plan points to a continuation of such trend. In addition to the tax incentives inherent in the plan, increased investment opportunities in greenfield projects could result in further opportunities in mature assets, as the funds that own these assets approach the end of their investment period or developers look to create dry powder for new investments.

Legislation

- In December 2015, Congress passed the Fixing America's Surface Transportation (FAST) Act, a five-year bill that reauthorized, at then-current levels, the core programs providing federal transportation funding to the states. Notably, the FAST Act was the first long-term transportation bill passed in 10 years.
- The FAST Act also continued key programs within the US Department of Transportation (USDOT) that have provided support to P3s, including the Transportation Infrastructure Financing and Innovation Act (TIFIA) loan program and the use of Private Activity Bonds (PABs) to finance the construction of surface transportation projects and water projects.
- Given their positive track record, and the projected funding need, it would seem likely for these programs to continue to play a significant role in infrastructure financing under the Trump Administration. Trump's selection for Secretary of Transportation, Elaine Chao, is well-versed on federal transportation policy matters and should be familiar with these programs and given her former role as deputy secretary of USDOT. However, given Trump's focus on privately-led investment solutions, it seems less likely that any new transportation legislation would increase the budget authority of these programs, or create a National Infrastructure Bank, which had been suggested by President Obama and Hillary Clinton, among others.
- In the water sector, the houses of Congress have been discussing their respective proposals for the Water Resources Development Act (WRDA), which would authorize numerous Army Corps of Engineers projects and provide funds to support communities like Flint, Michigan that have suffered due to contamination. The Senate's version of the bill also includes additional funding for the state revolving funds (SRFs) – under which states provide loans and grants to municipalities for water projects and appropriations for the Water Infrastructure Finance and Innovation Act (WIFIA) program, which would make low-cost loans to public and private entities for water infrastructure improvements. There is optimism for passage of the WRDA during the current lame duck session, which is currently scheduled to run until December 16.
- During the campaign, Trump pledged to make clean water a high priority and in particular to triple funding to the SRFs in order to upgrade critical drinking water and wastewater infrastructure. Even if no WRDA is passed this year, it seems likely that Congress will take up a new version of the bill in its next session.
- Once Trump is sworn into office, investors will be waiting to see the extent to which new legislation on infrastructure takes shape that could create new programs such as those referred to above or otherwise incentivize private investment in the sector.

Footnotes

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4 Fitzpatrick, supra note 1.

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6 Id.

7 Joe Ryan & Brian Eckhouse, Trump's Tax Proposals Would Threaten Wind and Solar Investment, Bloomberg (Nov. 7, 2016).

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12 US Energy Information Administration.

13 Wilbur Ross & Peter Navarro, Trump Versus Clinton on Infrastructure, http://peternavarro.com/sitebuildercontent/sitebuilderfiles/infrastructurereport.pdf (last visited Dec. 2, 2016).

Last Updated: December 9 2016

Article by Robert N. Freedman, Paul J. Epstein and Alyssa Cowley

Shearman & Sterling LLP

U.S. Department Of Treasury Announces 2015-16 Round Of New Markets Tax Credit Allocation For Financing Projects And Businesses In Low Income Communities.

In late November, the U.S. Department of Treasury's Community Development Financial Institution (CDFI) fund announced the latest, eagerly awaited round of New Market Tax Credits (NMTC) allocations. The CDFI selected 120 community development entities (known as CDEs) out of a pool of 238 applicants. The current NMTC allocation, totaling an unprecedented $7.0 billion dollars of tax credit availability, represents a combined 2015-2016 round. NMTC's are targeted to attract private investment capital for qualifying businesses and real estate projects in urban and rural low income communities nationwide.

The highly successful federal NMTC program was created through the Community Renewal Tax Relief Act of 2000 to facilitate economic and community development in low income, distressed communities by providing investors with a 39 percent tax credit for investing in qualifying projects.

Since its inception, the NMTC program has sourced significant amounts of low cost capital for projects that were otherwise difficult or impossible to finance through conventional lending. Now in its 13th year of funding, NMTCs have historically been in high demand by developers seeking creative solutions to project financing.

If you are developing a project located in an urban or low income community, we encourage you to contact the attorneys at Fox Rothschild to discuss the potential use of NMTC financing for your project.

Last Updated: December 13 2016

Article by Daniel V. Madrid

Fox Rothschild LLP

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

EPA RFC: Fees for Water Infrastructure Project Applications Under WIFIA.

SUMMARY:
EPA is proposing to establish fees related to the provision of federal credit assistance under Subtitle C of the Water Resources Reform and Development Act of 2014 (WRRDA), which is referred to as the Water Infrastructure Finance and Innovation Act of 2014 (WIFIA). WIFIA authorizes EPA to provide secured (direct) loans and loan guarantees to eligible water infrastructure projects and to charge fees to recover all or a portion of the Agency's cost of providing credit assistance and the costs of retaining expert firms, including financial, engineering, and legal advisory services, in the field of municipal and project finance to assist in the underwriting and servicing of Federal credit instruments. The agency seeks comment on all aspects of this proposal.

DATES:
Comments must be received on or before February 17, 2017.

To learn more, and to comment, click here.

EPA RFC: Credit Assistance for Water Infrastructure Projects.

SUMMARY:
The Environmental Protection Agency (EPA) is issuing an interim final rule to implement a new program authorized under Subtitle C of the Water Resources Reform and Development Act of 2014 (WRRDA), which is referred to as the Water Infrastructure Finance and Innovation Act of 2014 (WIFIA). WIFIA authorizes EPA to provide secured (direct) loans and loan guarantees to eligible water infrastructure projects. Projects will be evaluated and selected by the Administrator of the EPA based on criteria set out in this rule using weightings established in a separate Notice of Funding Availability (NOFA). Following project selection, individual credit agreements will be developed through negotiations between the project sponsors and EPA. EPA is soliciting comments on an interim final rule that establishes the guidelines for the new credit assistance program for

water and infrastructure projects and the process by which EPA will administer such credit assistance. The interim final rule primarily restates and clarifies statutory language while establishing approaches to specific procedural issues left to EPA's discretion. This interim final rule pertains to a matter involving a federal loan and loan guarantee program and is therefore exempt from the rulemaking requirements of the Administrative Procedure Act. As such, EPA is issuing this rule as interim final.

DATES:
Effective December 19, 2016. Comments must be received on or before February 17, 2017.

To learn more, and to comment, click here.

Fitch: Pension Demands on U.S. States and Locals Rising Quickly.

Fitch Ratings-New York-21 December 2016: State and municipal retirement benefit expenditures grew approximately twice as fast as revenues and most other spending areas in recent years, according to an analysis of newly released US Census data by Fitch Ratings. Similar growth has been seen in government contributions to pension plans, reported separately by the Census Bureau.

Rising pension demands for contributions to trust funds from employers and for benefit payments from trust funds have effectively offset much of the revenue gains realized by state and local governments over the last several years, leaving less for other spending categories. This appears likely to continue as governments are forced to address persistent pension funding gaps.

Between 2004 and 2014, retirement benefit expenditures increased by approximately 89% or $122 billion in nominal terms. That easily outpaced the 47% growth in "own source" revenues, primarily from taxes and fees that governments collected over the same period. Higher retirement benefit expenditures equaled almost 18% of the $692 billion in nominal revenue growth.

Retirement benefit expenditures growth exceeded corresponding growth rates for all other major spending categories during the period, including hospitals, police and K-12 education. Retirement benefit expenditures expanded as a share of overall expenditures nationwide, to 8.0% in fiscal 2014 from 6.1% in fiscal 2004.

Shifting spending priorities across the large number of jurisdictions reporting to the Census Bureau have contributed to the changing expenditure mix. Retirement benefit expenditure pressures have mounted, but a similar acceleration in spending growth has been reported in areas such as health care and Medicaid.

Looking across the major expenditure categories reported in the Census data over an 11-year period, growth rates for transportation and education were among the lowest at 36% and 38%, respectively, falling short of the 47% revenue growth rate and barely exceeding the inflation rate.

At the same time, employer contributions to pension trusts along with asset returns supporting retirement benefit expenditures, have risen due to heightened concerns over pension sustainability. According to the Census Bureau's separate Public Pension survey data, contributions rose 82% over the 2004-2014 period, or $75 billion. Total contributions have remained at around two-thirds of annual benefit payments over that period. Taken together, these two trends indicate that pensions are "crowding out" other spending needs.

Financial Reporting Model Invitation to Comment Coming Soon.

In the coming days, we'll be issuing the first document for public comment in the project reexamining the financial reporting model. The document is titled Invitation to Comment, *Financial Reporting Model Improvements—Governmental Funds*. The Board believes this project will have significant impact on the foundation of state and local governments' accounting and financial reporting.

This phase of the project addresses the following potential improvements to governmental fund reporting:

- Recognition approaches (measurement focus and basis of accounting)
- Format of the governmental funds statement of resource flows
- Specific terminology
- Reconciliation to the government-wide statements, and
- For certain recognition approaches, a statement of cash flows.

Input from you and other stakeholders on these specific areas will inform the proposals the Board issues in the future of this project. Your feedback and ideas will be critical factors in both shaping the future of this project and ensuring that the GASB heads down the best path toward making improvements in the model.

The following additional topics will be considered for inclusion in a Preliminary Views in the next phase of the project:

1. *Government-Wide Statement of Activities* — The Board will consider alternatives for the format of the statement of activities.
2. *Proprietary Fund Financial Statements* — The Board will consider reporting alternatives related to the existing requirement to separately present operating and nonoperating revenues and expenses.
3. *Budgetary Comparisons* — The Board will consider the appropriate method of communication (as a basic financial statement or required supplementary information) for budgetary comparison information and which budget variances, if any, should be required to be presented.
4. *Permanent Funds* — The Board will consider alternatives for reporting information about permanent funds.

The following additional topics will be considered for inclusion in an Exposure Draft in a future phase of the project:

1. *Management's Discussion and Analysis* — The Board will consider alternatives for enhancing the financial statement analysis component of management's discussion and analysis (MD&A), eliminating components of MD&A that are boilerplate and no longer necessary for understanding the financial reporting model, and clarifying guidance for presenting the section of MD&A on currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.
2. *Debt Service Fund Presentation* — The Board will consider alternatives for providing additional information about debt service funds, either individually or in aggregate, in the basic financial statements.

3. *Extraordinary and Special Items* — The Board will consider alternatives to improve the consistency of application of the guidance for reporting extraordinary and special items.
4. *Other Issues* — As appropriate and in conjunction with other topics, the Board will consider alternatives that could permit more timely financial reporting or that could reduce complexity overall.

Nobody Traded When JPMorgan Put Chicago School Debt Up for Sale.

- Offered notes at yield corresponding to even lower rating
- It may have been way to gauge value amid selloff, analyst says

JPMorgan Chase & Co. offered a crucial lifeline to the ailing Chicago Public Schools by purchasing almost $1 billion of short-term notes from the junk-rated system in the last four months. When the New York-based bank put some of its holdings up for sale, nobody made the trade.

On Nov. 22, JPMorgan offered $50 million to $100 million of the notes maturing Dec. 2017 with potential for more depending on demand, according to people familiar with the matter. The notes had a coupon of 70 percent of the three-month London interbank offered rate plus 400 basis points, which, according to the notes' official statement, would apply if the rating was between CCC+ and CCC, only a few notches above debt that's already in default. The school system's general-obligation bonds are currently rated B3 by Moody's Investors Service and B by Standard & Poor's.

It's unclear whether JPMorgan was trying to sell the securities, or just gauge their value during the market rout that followed Donald Trump's election. Brian Marchiony, a spokesman for the bank, declined to comment.

"It could have been price discovery to get a sense of how much those notes are worth," said Matt Fabian, a partner with Municipal Market Analytics Inc. "In the middle of a market-wide selloff, I think they were hard to value."

The yields quoted by JPMorgan underscore the riskiness of the loans and suggest the district may pay a high price if it follows through with a planned $600 million note sale in January, a month before it must deposit more than $400 million for debt service. If Chicago's schools can't issue the debt, it faces some difficult decisions, said Naomi Richman, a managing director at Moody's.

"They could try to cut expenses, although that's certainly a very high magnitude of expenses to have to cut," said Richman. "They could ask the state of Illinois for assistance, which they have been doing, but the state has budget issues of its own."

Expenses at the third-largest U.S. school system consistently exceed operating revenue and the district is counting on more than $200 million in state aid — and a $250 million credit from the its pension board — to cover a $720 million retirement-fund payment due in June.

JPMorgan has close ties to Chicago, where it's the third-largest private sector employer, and the bank has been the biggest lender to the school system. Chief Executive Officer Jamie Dimon was head of Bank One Corp. when JPMorgan bought the Chicago-based bank in 2004. William Daley, son and brother of Chicago mayors Richard J. Daley and Richard M. Daley, served as vice chairman at JPMorgan. JPMorgan loaned $500 million to Chicago's schools in 2015, according to data compiled by Bloomberg.

Chicago’s schools, whose enrollment has declined 5.6 percent over the last five years, began the fiscal year July 1 with a $1.1 billion deficit. The district’s cash position declined to $83 million at the end of fiscal 2016 from about $1.3 billion at the beginning of fiscal 2012, according to a recent bond offering statement, and the district’s reliance on short-term borrowing has grown by $850 million in two years.
Illinois Governor Bruce Rauner has said bankruptcy for the school system might be the best option, though the Democrat-controlled legislature has bucked his suggestion that state law be changed to allow it.

“The big risk here is bankruptcy between now and 2017 when they come due,” said Paul Mansour, head of municipal research at Conning, referring to the district’s notes. “Investors are more nervous about that than anything else.”

Last week, the district had little trouble finding buyers for its more highly rated securities. It sold about $730 million of bonds secured by a dedicated share of the city’s property tax, which won the debt investment grade ranks of A from Fitch Ratings and BBB from Kroll Bond Rating Agency. Debt maturing in 30-years were priced to yield 6.25 percent, almost 2 percentage points more than generic bonds with the same rating, according to data compiled by Bloomberg.

Bloomberg Markets

by Martin Z Braun

December 22, 2016, 2:00 AM PST

Your Next Retirement Plan Could Be Run by City Hall.

The Obama administration says some municipalities can help you build a nest egg.

More than a third of full-time private-sector workers in the U.S. don’t have a way to save for retirement on the job. On Tuesday, the Department of Labor offered a new way to fill that gap: Let cities and counties get involved.

A new rule would clear regulatory barriers that might otherwise stop large municipalities such as New York from setting up plans for all workers—not just those who work for local government. Officials in the Big Apple, as well as in Seattle and Philadelphia, have already expressed interest.

The outgoing Democratic administration of President Barack Obama had wanted to create automatic individual retirement accounts that would follow workers through their careers. That went nowhere in the Republican controlled Congress, but then states started exploring the idea of launching their own, so-called auto-IRA programs.

The Labor Department gave its final blessing to these state plans in August. The U.S. government made clear that state auto-IRAs were legal and wouldn’t be subject to the very complicated federal rules that govern other retirement plans.

Now officials are amending that rule to let local and municipal governments get in on the act.

Not every city or county could set up an auto-IRA, however. Out of almost 90,000 local governments in the U.S., the Labor Department estimates that only about 88 would be eligible. First, jurisdictions would need authority under state law to set up the program. They also couldn't overlap with an existing statewide retirement plan, so Los Angeles and San Francisco couldn't set up their own plans.

Finally, they'd need to have a population greater than the least-populous state. (That's Wyoming, population 586,000.)

With 8.6 million people, New York City is larger than all but 11 states. In October, Comptroller Scott Stringer proposed that the city create a "NYC Roth IRA" to cover the three in five workers who, he estimated, don't already have a retirement plan.

Philadelphia Controller Alan Butkovitz and a member of Seattle's City Council have signaled that their cities may move in that direction as well. Seattle, with 684,000 people, and Philadelphia, with a population of 1.6 million, would both be eligible under the new rule.

In Philadelphia, 54 percent of employees, or about 334,000 people, don't have access to a workplace retirement plan, Butkovitz estimates. "By including local governments, local policymakers will gain a tool that may be able to help them to address the serious issue of retirement security that is facing our communities," he wrote in a September letter to the Labor Department.

It's not clear yet how the change of presidential administrations will affect retirement plan rules. The Department of Labor's final rule on local government auto-IRAs goes into effect in 30 days. That's Jan. 19, the day before Republican President-elect Donald Trump takes office.

Bloomberg

by Ben Steverman

December 20, 2016, 10:21 AM PST

Bloomberg Brief Weekly Video - 12/22

Amanda Albright, a reporter for Bloomberg Briefs, talks with Joe Mysak about this week's municipal market news.

Watch the video.

Bloomberg

December 22, 2016

KKR Seeks Buyer for Water Ventures, Testing Appetite for Trump-Style Infrastructure Deals.

Private-equity firm owns 90% stake in water systems in New Jersey and Pennsylvania

KKR & Co. is shopping its stake in ventures that provide water services to two U.S. cities, a test of whether Wall Street has found a way to profitably invest in public works at a time when President-elect Donald Trump has promised to steer private money to aging infrastructure.

KKR and partner Suez SA, the French company formed to build the Egyptian canal of the same name, in recent years struck deals to pay off public debt and assume responsibility for operating and repairing municipal water systems in Bayonne, N.J., and Middletown, Pa. In exchange, they are due decades of payments from billing the systems' customers.

Now KKR is seeking a buyer for its 90% interest in the water pacts, according to people familiar with the matter. The firm, best known for its takeovers of public companies, invested roughly $175 million in the ventures and has committed more than $200 million for repairs and maintenance over the course of the agreements, 40 years in the case of Bayonne and 50 years in Middletown.

The firm is pitching the water deals to long-term investors seeking steady returns, such as insurance companies and pensions, the people said. Suez plans to keep its minority stake and continue operating both systems, they said.

A profitable sale would help validate the structure that KKR and its partners crafted to invest in municipal utilities at a time when Wall Street has raised more cash than ever to invest in public works.

Investors committed a record of $57.5 billion to private infrastructure funds this year, according to data provider Preqin, pushing to more than $140 billion the amount of ready-to-invest cash in such funds.

Water and sewage systems have been singled out by politicians, civil engineers and government agencies as particularly in need of investment. The Environmental Protection Agency has said that more than $655 billion is needed to repair and expand U.S. water and sewage systems over the next two decades.

Mr. Trump has proposed $1 trillion of new infrastructure spending that relies on private investment, proposing tax breaks to draw investors to spend on roads, pipelines and ports.

But deals of this kind come with a special set of challenges for Wall Street. Relationships with the counterparties and customers are often tenuous and can quickly turn contentious, especially because such deals usually outlast the political administrations that make them.

Carlyle Group LP earlier this year sold a package of three western water systems to Canada's Algonquin Power & Utilities Corp. for $250 million, more than twice what the Washington, D.C., firm paid for them. Yet that profit came at the expense of bruising public relations and court battles.

Three years after Carlyle purchased the water systems, Missoula, Mont., successfully sued under eminent domain laws to take back the system operating there, claiming Carlyle skimped on upkeep and repairs while enriching itself.

Missoula is now waiting for a judge to tell it how to take over the system and how much it would have to pay Algonquin for the system. A court determined last year that Missoula should pay $88.6 million, though that could rise if legal fees and other expenses are added.

Apple Valley, Calif., has filed its own eminent domain suit to wrest control of another of the three water systems Algonquin bought from Carlyle. Officials from the city east of Los Angeles say rates have risen too much under private ownership. "Our only recourse is to condemn the water company," said Apple Valley Mayor Scott Nassif.

Algonquin and Carlyle have defended their management of the systems.

It took KKR two years to negotiate terms and win approval from state regulators to lease the system from Bayonne, which sits across the Hudson River from New York City. The deal involved an upfront payment of $150 million, used mostly to pay down debt, and a commitment to spend $157 million maintaining the system over the next four decades.

Tim Boyle, who heads the city's utilities department, said the city's current leadership, which took office two years into the deal, was initially skeptical. But they warmed to the pact once they considered improvements that were being made, such as the repair of a leaky water main that runs beneath the Passaic River and installation of equipment that enables workers to clear storm-water outflows without climbing into the sewers.

A contractual cap on KKR's profits helped, too. "They are not free to gouge away at the ratepayers," Mr. Boyle said.

The investors are guaranteed minimum revenue for the life of the deal. This year's revenue is about $27 million before operating and capital expenses and is set to rise about 4% annually. If the utility doesn't produce enough revenue, rates could be increased above the roughly 3.5% outlined in the deal. That happened last year when projections that proved too optimistic and unexpected repairs necessitated a 13.25% increase, or about $12 for the average monthly bill.

If revenue rises above projections, the extra cash is to be banked away to limit future rate increases.

KKR can't hold its water deals for their duration. The ventures were funded with its 2011 infrastructure fund, which only has a lock on investors' cash for 10 years.

THE WALL STREET JOURNAL

By RYAN DEZEMBER and HEATHER GILLERS

Dec. 22, 2016 9:24 a.m. ET

Write to Ryan Dezember at ryan.dezember@wsj.com and Heather Gillers at heather.gillers@wsj.com

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Trump's Commitment to Infrastructure Vow Is Being Questioned.

WASHINGTON — It's not at all clear that President-elect Donald Trump's plans to spend massively on infrastructure are going to unfold as he promised.

Trump made rebuilding the nation's aging roads, bridges and airports very much part of his job-creation strategy in the presidential race. But lately lobbyists have begun to fear that there won't be an infrastructure proposal at all, or at least not the grand plan they'd been led to expect.

From the day he entered the presidential race to the moment he declared victory, Trump pledged an infrastructure renewal. He cited decaying bridges, potholed roads and airports like New York's LaGuardia that he said reminded him of the "third world."

Trump or his campaign also mentioned schools, hospitals, pipelines, water treatment plants and the electrical grid as part of a job-creation strategy that would make the U.S. "second to none." It was a rare area in which House Minority Leader Nancy Pelosi and other Democrats hoped for common ground with the president-elect. The possibility of a major infrastructure spending plan is one of several factors that have fueled the recent run-up in stock prices.

Senate Majority Leader Mitch McConnell tried to tamp down expectations last week, telling reporters he wants to avoid “a $1 trillion stimulus.” And Reince Priebus, who will be Trump’s chief of staff, said in a radio interview that the new administration will focus in its first nine months with other issues like health care and rewriting tax laws. He sidestepped questions about the infrastructure plan.

In a post-election interview with The New York Times, Trump himself seemed to back away, saying infrastructure won’t be a “core” part of the first few years of his administration. But he said there will still be “a very large-scale infrastructure bill.”

He acknowledged that he didn’t realize during the campaign that New Deal-style proposals to put people to work building infrastructure might conflict with his party’s small-government philosophy.

“That’s not a very Republican thing — I didn’t even know that, frankly,” he said.

Since the election, Trump has backed away — or at least suggested flexibility — on a range of issues that energized his supporters during the campaign, including his promises to prosecute Hillary Clinton, pull out of the Paris climate change accord and reinstitute waterboarding for detainees.

Trump transition officials didn’t immediately respond to a request for comment.

The mixed signals on infrastructure have lobbyists and lawmakers puzzled.

“We’re worried,” said Brian Turmail, a spokesman for the Associated General Contractors of America, which represents more than 26,000 construction companies and 10,500 service providers and suppliers.

“Are we hearing signs that people just don’t know what the plan is?” he asked. “Or signs that people don’t want any kind of plan? We don’t know the answer.”

Lobbyists have responded by flooding the Trump transition team with briefing memos, lining up meetings and privately pitching their proposals to what they hope will be a more receptive Congress.

Trade associations are urging their local members to seek out their senators and House members while they’re home for the holidays. The contractors’ association held a news conference in front of a bridge construction project in Little Rock, Arkansas. The American Road and Transportation Builders Association has given members form letters to send their lawmakers, while quietly floating a plan for new transportation fees to provide reliable sources of additional income for the federal Highway Trust Fund.

Leaders of the U.S. Conference of Mayors emphasized their support for an infrastructure program in a recent meeting with Trump and urged him to protect the municipal bond tax exemption, one of the primary ways localities raise money for projects.

The Airports Council International-North America is lobbying to raise the limit on fees airports charge airline passengers. The money goes to renovate or expand terminals and increase the number of gates.

Trump’s campaign pitch for infrastructure improvements included few details. A paper circulated after the election recommends using $137 billion in federal tax credits to generate $1 trillion in private-sector infrastructure investment over a decade. To offset the cost of the credits, U.S. corporations would be encouraged to bring home profits that they have parked overseas to avoid taxes, in exchange for a lower tax rate. But private investors are typically interested only in projects that create revenue, such as tolls, so that they can recoup their investments.

What states and communities need most is more direct spending, rather than tax credits, to help pay for upkeep and replacement of existing roads, bridges and transit systems, said Bud Wright, executive director of the American Association of State Highway and Transportation Officials. “Those aren’t necessarily projects that lend themselves to generating revenue,” he said.

It’s also possible tax credits would provide a windfall to investors in existing projects while failing to generate new ones.

Some lawmakers from both parties are urging the creation of a federal “infrastructure bank” to make low-cost loans to projects.

“Everybody is putting together their Christmas lists for what they want to see in an infrastructure bill,” said Kevin Gluba, executive director of the Alliance for Innovation and Infrastructure. “The biggest question: Who is going to pay for it? Many of the ideas floating around are far too pricey to make into law.”

By THE ASSOCIATED PRESS

DEC. 20, 2016, 4:01 A.M. E.S.T.

—

AP White House Correspondent Julie Pace contributed to this report.

Trump’s Infrastructure Mistake.

The president-elect wants to draw in private money—but do investors swoon to fix leaky school roofs?

Divining what Trumponomics will look like is guesswork at this stage, but there is one prominent exception. Late in the campaign, two of Donald Trump’s top economic advisers—Peter Navarro and Wilbur Ross, who is now the nominee for commerce secretary—offered a detailed infrastructure plan. Unsurprisingly, the program seems more about rewarding private-equity investors than about rebuilding America’s crumbling infrastructure.

Infrastructure plans come in three phases: selecting projects, lining up financing, and executing construction. The third step is normally left to private contractors, because state and local governments don’t employ stables of construction workers. As such, government’s role is concentrated in the first two steps.

Traditionally, a higher level of government sends money to a lower level (from federal to state, or from state to local). The Trump plan would rely more on private investors motivated by huge tax breaks.

Follow the money. Messrs. Navarro and Ross propose an 82% tax credit to attract private-equity investors into the infrastructure business. Yes, 82%! A $3 billion public-private “partnership,” according to their plan, could be financed like this: $2.5 billion in municipal bonds, $410 million in tax credits from the federal government, and $90 million in private equity. This means $90 million in private money winds up controlling a $3 billion asset. Mr. Trump likes leverage, but isn't 33-to-1 a little ridiculous?

What return on capital would private investors demand on such investments? Messrs. Navarro and Ross say between 9% and 10%. Add in the general partner's carried interest, and that is about 12%. It could be higher, however. History suggests that building roads and bridges is not a low-risk investment. According to a 2015 Congressional Budget Office report, 14 privately financed road projects have been completed in the U.S. since 1995. Of these, three went bankrupt and one required a public buyout—29% failure rate.

By contrast, the New Jersey Turnpike authority can still borrow for 30 years at 3.4% despite the best efforts of Gov. Chris Christie to destroy his government's credit rating. States with higher ratings pay less.

So much for financing. What about selecting projects?

To attract private money, projects must offer investors cash returns—derived, for example, from tolls on highways. In some cases, this is possible, even desirable. But for many important projects, charging fees can be impractical. Think of building schools in poor neighborhoods or repairing crumbling bridges that have no tolls.

In truth, much of America's most critical infrastructure needs are for repair and maintenance work—whether it is pothole-laden roads or schools with leaky roofs. Economists find that such unglamorous repair work often offers the highest returns for society.

Infrastructure projects selected in the traditional way, by governments, are chosen based on public benefits, the community's ability to pay—and sometimes crass political favoritism. It would be nice to get rid of the latter, which is the main argument for a public infrastructure bank.

Under the Trump plan, project selection would be left to profit-seeking investors, using the same criteria they use to decide which hotels to build, for example. Ironically, Messrs. Navarro and Ross criticize President Obama's modest 2015 infrastructure proposals because, "These will not fix the 237,600 water mains that break each year. Nor will they stop the 46 billion gallons of water lost each day from pipe leaks." Does the Trump team really think private-equity investors will swoon over repairing plumbing?

There are many better alternatives. One example is Build American Bonds (BABs), a special breed of municipal bonds whereby municipalities issue taxable debt but receive a subsidy from the federal government—35% under the 2009 Recovery Act. In the two years the program lasted, more than $180 billion of bonds were issued, financing thousands of projects from community college construction to road maintenance.

BABs leave project selection to municipalities, which can use them for routine maintenance and other projects that lack a revenue stream. Unlike Mr. Trump's plan and conventional tax-exempt bonds, BABs are attractive to investors who do not pay U.S. taxes, such as pension funds, endowments and sovereign-wealth funds. That increases demand and lowers borrowing costs.

There may be some projects for which private-equity investments, encouraged by tax incentives, make sense. But for the great bulk of infrastructure needs, BABs would be a far superior solution. If the Trump administration is serious about making our public infrastructure great again, it should worry less about finding ways to make the rich richer.

THE WALL STREET JOURNAL

By ALAN S. BLINDER and ALAN B. KRUEGER

Dec. 18, 2016 5:13 p.m. ET

Messrs. Blinder and Krueger are professors of economics at Princeton University.

U.S. Municipal Market Begins to Wind Down With Light Issuance Week.

Debt sales in the U.S. municipal market will cool off next week as issuers bring fewer offers in advance of the Christmas and New Year's holidays, with new issuance totaling about $500 million next week.

The biggest competitive offer will come from Massachusetts, which is offering two general obligation refunding deals totaling $188 million.

Market participants overall remain neutral on whether the lack of supply and participation will keep municipal trading subdued and in a tight range, according to a survey by MMD, a Thomson Reuters company.

Loop Capital Markets on Tuesday said municipal debt volume will come in at $395 billion next year, down an estimated 13 percent from forecasts for 2016 as the incoming Trump administration's impact on economic growth will fall short of expectations.

The Federal Reserve's announcement on Wednesday that it would raise interest rates a quarter percentage point with three additional increases next year made yields jump on Thursday.

But bulls in the muni market believe the meager supply next week combined with more appealing rates and Jan. 1 reinvestment money will push yields lower into the new year, according to the MMD survey.

Muni yields have risen dramatically since the Nov. 8 presidential election. In the first month after the election, muni yields rose more than 80 basis points, John Mousseau, executive vice president at Cumberland Advisors, said in a note on Friday.

"The move up in taxable as well as tax-free yields has been swift and sharp," Mousseau said. "Essentially, what could be characterized as a year's worth of movement in bond yields was compressed into a month."

As of market close on Friday, the yield on top-rated 10-year paper was 77 basis points higher than it was the day of the election. The 30-year yield has also risen 67 basis points since then, MMD data showed.

Fear of a Trump administration led the market to immediately discount a higher growth rate, increased government borrowing, and expanded infrastructure spending, as well as accompanying wage growth and higher inflation, Mousseau said.

An expected cut in the marginal tax rate and a potential increase in the supply of municipal bonds as a result of increased infrastructure spending also worked against munis, he said.

REUTERS

By Rory Carroll | SAN FRANCISCO

Fri Dec 16, 2016 | 5:18pm EST

(Reporting by Rory Carroll; Editing by James Dalgleish)

[The Creative Financing Behind New Jersey's Mega-Mall Project.]

This is the fourth installment of Mall Madness, a five-part series on the American Dream retail and entertainment complex under construction in the Meadowlands. The series was produced through a reporting collaboration between WNYC, NJ Spotlight, and Bloomberg Businessweek. The first story, second story, and third story are also available online. The mall is schedule to open in the fall of 2018

Tim Lizura, president and chief operating officer of the New Jersey Economic Development Authority, has more than 20 years with the agency over two different tenures. He also worked on World Trade Center redevelopment for the Port Authority.

Yet he didn't hesitate to answer, "Yes," when asked if Triple Five's American Dream was the most complex state project he's worked on.

"What makes it complex is the financing that sits behind the analysis," Lizura said.

Creative financing 101

That complex financing includes a state sales-tax incentive that could be worth up to $390 million, approved by Lizura's agency last year. Then there's a local-redevelopment tax incentive that could be worth up to $800 million. And rather than waiting to redeem those incentives over several decades, Triple Five intends to use them to back more than $1 billion in tax-free municipal bonds that could be sold as early as next month through a public-finance agency in Wisconsin, all to cover construction costs.

The developer is also planning to raise another $1.5 billion for construction through a private loan, which would run the total price tag of the project up to $5 billion, counting the $2 billion value of a vacant building inherited from prior developers. And a $185 million government-funded rail line that opened in 2009 will carry customers to and from the planned mall, which is located on state-owned property in the Meadowlands.

Investors not taxpayers assume risks (theoretically)

Triple Five's attorneys, government-agency lawyers, and other officials say it's the very complexity of the finance plan — the way the bond sale has been structured and the tax-incentive programs designed — that ensures taxpayers are 100 percent protected if Triple Five to falls flat — as did two of the project's prior developers. Others take issue with government being involved at all, arguing that Triple Five, which is owned by a family worth an estimated $2.5 billion according to Bloomberg's Billionaires Index, shouldn't need tax incentives in a state where property taxes are at an all-time high and priorities like education and public-employees pensions routinely go underfunded.

Bonds needed for the mall to open

The reason Triple Five wants to raise $2.65 billion in new financing is to resume construction on a 90-acre site near the New Jersey Turnpike in East Rutherford, which was left abandoned by two developers when the project was called Xanadu. Triple Five, which owns the Mall of America in Minnesota, renamed its project “American Dream,” and wants to turn it into a three-million-squae-foot shopping/entertainment complex, one that will feature a waterpark, amusement park, full-size ice rink, and observation wheel.

But to do so, the developer needs the bond sale to go through. And to get this far that has meant getting approvals from three different agencies in recent months due to the involvement of the state and local-redevelopment incentive programs. The bond issue also survived a legal challenge this summer.

One component of the bond sale involves the financing of payments-in-lieu-of-taxes (PILOTs) that Triple Five has agreed to make to the borough of East Rutherford instead of paying conventional property taxes. Since New Jersey law allows such payments to be used to finance upfront construction costs for priority redevelopment projects, Triple Five plans to back as much as $800 million in bonds using the pledged payments, with a maturity date of 2049, according to a summary submitted to the state Local Finance Board in August.

Another $350 million in bonds will be backed by the up-to $390 million sales-tax break that was approved in 2015 by the Economic Development Authority. To qualify for that tax incentive, the developer had to demonstrate its project would create a net benefit for the state, and that the company couldn’t generate enough financing to finish construction without the state’s involvement. In this case, the incentive is 75 percent of the project’s future sales-tax revenue over two decades.

What Wisconsin has to do with this

The combined $1.15 billion in unrated revenue bonds will be sold through a two-step process involving the New Jersey Sports & Exposition Authority and the Wisconsin Public Finance Authority. The Wisconsin agency — located nearly 1,000 miles from the Meadowlands — is legally authorized to issue tax-exempt bonds for projects that aren’t required to be within its borders. According to Bloomberg, the agency has become a popular partner for projects across the country that provide some kind of social or economic benefits and are willing to pay fees for the issuance of tax-exempt bonds.

Assessing the risks of the bonds

Yet the bond sale has already been delayed several times this year, and there are several issues that could give investors pause. The American Dream site stands on slightly higher ground in the Meadowlands than other parts of a region commonly referred to as a swamp, but a climate-change report released just last week by the Regional Plan Association warns that critical infrastructure running through the Meadowlands could be threatened by three feet of sea-level rise — a scenario that scientists believe could happen as soon as the 2080s. A map released by the RPA also suggests American Dream could eventually become an island surrounded by a large saltwater bay.

Another possible concern for investors is an issue raised by the Federal Reserve Bank of New York in research published online in 2012 about municipal bonds, which are generally considered to be safe if unspectacular investments. The research noted defaults for municipal bonds are higher than is often reported by rating agencies because unrated bonds are usually not factored into their assessments. The report also labeled revenue bonds such as those being sold by Triple Five as being particularly risky compared with government general-obligation bonds, which are typically backed directly by tax revenues.

What is Triple Five risking?

Christopher Leinberger, an experienced developer who chairs George Washington University's Center for Real Estate and Urban Analysis, also raised questions about how much of its own cash equity Triple Five is putting on the table. According to documents submitted to the Economic Development Authority, that amount appears to be $200 million, but Tony Armlin, Triple Five's vice president, said it's actually north of $350 million.

Still, even the higher amount remains just a small fraction of the overall $2.65 billion that Triple Five is trying to raise from investors to complete the development project.

"I'll make the prediction that there will be a recession, and when it comes — I just can't tell you when — when it comes, this project is going to have some very lean years as far as the revenues that it generates," Leinberger said. "To carry it through those lean years you need more than 10 percent equity in the deal. That's why banks are demanding 20 percent to 40 percent equity."

But Armlin has stressed at government meetings in recent months that there is absolutely no risk being placed on the state or the taxpayers by Triple Five's bond issue. Instead, he said the risk is entirely on the investors because the bonds are being sold as a "non-recourse," issue. That means the lenders will have no grounds to go after taxpayers if the project doesn't take off, but it also means they will expect a higher yield.

"Triple Five's project has been completely transparent and fully satisfied every local, state, and federal approval required," Armlin said during a New Jersey Sports & Exposition Authority meeting in September.

Tax incentives similar to Revel deal

Lizura, the EDA executive, said there are also protections built into the state tax incentives themselves. He said the tax breaks approved by his agency will never make it to Triple Five unless the project opens and is profitable. As an example of how they work, he pointed to a $261 million tax-incentive package approved for the failed Revel casino in Atlantic City in 2011. Because the casino went belly up, it never redeemed its tax breaks.

"I think we would have been better off if it operated, for sure, because the state would have gotten a bunch more money and we would've given some of that back, but there's really no public money at risk in the way the program is run," Lizura said.

Triple Five representatives have also pushed back strongly against claims that the developer is getting a sweetheart property tax break through its deal with East Rutherford. The borough will still be receiving an upfront payment of $21.5 million, and then $2.7 million per year through the agreement even as the investors are also paid off, Triple Five's representatives said. They also note that it was a previous developer that struck the deal to move the mall from a privately owned tract to the state-owned sports complex.

"No real estate taxes are being diverted from the State of New Jersey or the Borough of East Rutherford," Triple Five's statement said.

East Rutherford Mayor James Cassella also offered assurances that borough taxpayers are completely protected, even against a lawsuit if the developer ends up going under. And he said the borough won't have to provide the complex with police or other emergency services in return for the PILOTs. The state police are in charge of patrolling the sports complex, and the Sports Authority has a Meadowlands Fire Department.

"There isn't much you could sue us on because we didn't conceive this, give any money to it, or whatever," Cassella said. "We're just saying if you open up, you're going to pay us," he said.

But Jeff Tittel, director of New Jersey's Sierra Club and a longtime critic of American Dream's tax incentives, said the bigger issue is what else could be done with the tax revenue that has been pledged to Triple Five to help fund its construction costs. "All of this money could clearly be better spent on building new schools, taking lead out of our drinking water, and cleaning up our toxic sites," Tittel said. "This is clearly one of the biggest sellouts and largest subsidies in state history."

BY JOHN REITMEYER, ILYA MARRITZ, AND SUSAN BERFIELD

DECEMBER 15, 2016 NJ SPOTLIGHT SERIES: PART 4 OF 5

John Reitmeyer is the budget and public finance writer for NJ Spotlight. Ilya Marritz is a reporter/producer for WNYC. Susan Berfield is a reporter for Bloomberg Businessweek.

NJ Spotlight, an independent online news service on issues critical to New Jersey, makes its in-depth reporting available to NewsWorks.

The Mall Madness series continues tomorrow with a closer look at politics and the American Dream project, including campaign contributions from lawyers, government officials and others involved in the project. The series was produced through a reporting collaboration between WNYC, NJ Spotlight, and Bloomberg Businessweek.

Startups Seek to Democratize the Muni Market.

They're bringing in new investors, big and small, to disperse the power and lower interest rates. It's already paying off for some governments.

For all the post-recession financial market reforms, few ultimately made their way to the municipal bond market. For the most part, the muni market remains a low-tech place by Wall Street standards, and one that's still largely controlled by the same group of big investors.

"The muni market has a lot to do with relationships, power and influence," said Rob Novembre, a former trader who has spearheaded a new alternative bond trading system. "The bigger you are as an account, the more attention you get from sellers. If you buy bigger blocks [of bonds], that gets you more power."

Thanks to Novembre's new startup and another in San Francisco, though, that's starting to change. The two companies are not only set to give the market a tech update but also to bring it more buyers. The idea is that more buyers will increase demand for municipal bonds and, in turn, will net governments lower interest rates on their debt.

The startup in San Francisco, Neighborly, goes about finding new buyers by marketing muni bonds to investors with a personal or social interest in the project those bonds are funding. A key component of Neighborly's tactic is that it uses technology to cut down on the costs associated with brokering bonds. This allows it to sell the bonds directly to individuals and in smaller denominations — such as $1,000 blocks — than is typical.

“Like any financial product, it's supply and demand,” said head of public finance, James McIntyre. “What we're trying to do is increase the demand side … by helping individuals and institutions find the bonds that meet their investment criteria.”

Neighborly recently announced six projects it plans to help take to market next year, ranging from parks improvements in Burlington, Vt., to a new fire truck for Lawrence, Kan.

The other startup, ClarityBidRate, brings in new buyers by focusing on variable rate debt, which went out of fashion after the 2008 market collapse but is making a comeback in the current low interest rate environment. Unlike a 30-year bond that pays out the same “fixed” interest rate for the life of the bond, variable rate debt's interest rates reset weekly. It's a way of paying short-term rates, which are lower, for debt that is long term.

Traditionally, marketing agents for an issuer reset the interest rate themselves. The rate is determined by what the buyers who work with that agent's trading desk will accept. But Novembre's Clarity sidesteps the middleman and essentially works like an electronic stock exchange solely for variable rate debt. So instead of an agent resetting the price, buyers bid on the bonds every week. The buyers aren't just big institutions but anyone who has signed up to trade on the platform. The interest rate is set by the lowest price for which the bonds will sell each week.

Clarity has already drawn the attention of Ohio, which recently put $32.3 million of its variable rate debt on the platform. Up until now, rate-setting by marketing agents has been done “in a black box,” said Seth Metcalf, the state's deputy treasurer. Metcalf says he's never sure if he's getting the best possible interest rate every week on his debt.

“I want to trust these people but … I'm concerned there's disproportionate influence within the buyers' market,” he said.

The experiment is paying off. On the fifth interest rate reset, Ohio's variable rate debt fetched a better interest rate on Clarity than the industry average for issuers like Ohio. The rate even beat three of the four marketing agents that Ohio has working on a separate package of variable rate debt it issued through traditional channels.

Clarity also gives sellers the benefit of seeing real-time information about who's buying his debt, and he's been pleased to find that it is indeed attracting buyers large and small.

“It democratizes power,” he said. “It doesn't matter if you're a little broker dealer in small town Ohio or the largest fund in the world. I'm going to pay the best interest rate that somebody's willing to take.”

GOVERNING.COM

BY LIZ FARMER | DECEMBER 15, 2016

[The Week in Public Finance: What the Rate Hike Means, a Legal Win for Online Sales Taxes and More.]

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

GOVERNING.COM

BY LIZ FARMER | DECEMBER 16, 2016

The Trumpian Trio of Concern of Muni Bonds.

Stimulus talk is driving a sell-off but there is a positive side

The US president-elect poses a triple threat to the country's municipal bond market. This has been the conclusion of investors in the wake of Donald Trump's election — and why the $3.8tn market for state and local government debt has suffered some of the sharpest selling seen in fixed income markets. A recovery over the past few days was then cut short by a warning from Janet Yellen, the Federal Reserve chair, that monetary tightening may be more aggressive than expected next year.

Here is the trio of concerns.

First (and not unique to municipal bonds), a Trumpian stimulus from tax cuts and infrastructure spending would raise interest rates and hit the bond market generally.

Continue reading.

FINANCIAL TIMES

DECEMBER 15, 2016 by: Stephen Foley

U.S. Municipal Debt Volume to Retreat in 2017: Loop Capital

Municipal debt volume will come in at $395 billion next year, down an estimated 13 percent from 2016 levels as the incoming Trump administration's impact on economic growth will fall short of expectations, an investment bank said on Tuesday.

"Our volume forecast assumes the President-elect will have less success in stimulating the economy, and therefore, interest rates will not rise to the same degree as the market generally expects," Loop Capital Markets said in a forecast note.

Sales of municipal bonds and notes in 2016 are likely to set a new record, with a volume of $445 billion, outpacing the previous high-water mark set in 2010 of $433.3 billion, Chicago-based Loop Capital said.

New money volume into the market should represent the largest year-over-year increase during the period of new money austerity, which started in 2011 and has continued in the years since, Loop Capital said.

Supply in the $3.7 trillion U.S. municipal market surged during the second half of the year as states, city and other public agencies clamored to sell bonds and notes at low interest rates.

The Federal Reserve is expected to announce a quarter-point increase in interest rates on Wednesday, and experts anticipate additional increases in 2017.

Reuters

By Rory Carroll

Tue Dec 13, 2016 | 4:34pm EST

(Reporting by Rory Carroll; Editing by Jonathan Oatis)

Municipal Bond Markets after the US Presidential Election: When the Dust Settles.

Municipal bond markets are healthy, especially relative to overleverage in the US Treasury and US corporate bond markets, according to Peter Coffin, president of Breckinridge Capital Advisors.

A 30-year veteran municipal bond analyst and portfolio manager, Coffin gave his thoughts on major trends in the US municipal bond markets, including possible scenarios in the post-election world, at the CFA Institute Conference: Fixed-Income Management 2016.

Favorable supply and demand dynamics, combined with greater transparency and disclosure by municipalities, have recently made these markets more attractive to investors. However, Coffin issued a caution on the “chronically distressed” state and local governments that continue to “kick the debt can down the road” until the inevitable day of reckoning.

Evolution of the Municipal Market Since the Financial Crisis

The US municipal bond markets have been “changing for the good” in terms of disclosure and reporting since the financial crisis, Coffin observed.

Prior to 2008, it was sometimes difficult to for active municipal bond managers to demonstrate their value-add to performance. Because of widespread municipal bond insurance, Coffin said, moral hazard and complacency on the part of issuers and investors had crept into the municipal bond markets.

Everything changed during the financial crisis with the near demise of municipal bond insurers. Investors had to adapt to a new framework. “Today investors are much better equipped,” Coffin noted. There are more repositories of financial information — from specialty research and data providers to ratings agencies. “In 2011, only 60,000 municipalities filed financial statements,” he said. “This year, it’s over 100,000 and growing.”

Municipal bonds were the one part of the bond world that didn’t over-lever in the period leading up to the financial crisis, and more recently, during the zero interest-rate policy (ZIRP) period. One of the primary reasons for this: State and local municipalities have constitutional or statutory restrictions on the amount of debt they can issue. “In the 1840s, when half the states defaulted to Europe, many state and local constitutions were rewritten so it would never happen again,” said

Coffin. These laws have endured, so voter referendums are required to issue debt — a definite disincentive for local officials.

Supply and Demand Factors: Different from Other Bond Markets

Annual municipal bond issuance is still relatively moderate compared with corporate bonds and Treasuries, with the overall size of the market at $3.7 trillion. “We’re only replacing what’s being retired,” Coffin said.

With over 40,000 issuers, municipal bond markets are unique. After six months, individual issues trade infrequently or not at all. Retail investors buy the bonds for tax-free income and are often reluctant to sell and convert their investments to a taxable capital gain. This long-term perspective adds to the stability and resilience of these markets. “To me, it’s like standing on the bank of a river,” Coffin said. “There’s a constant flow of new issues. We’re looking upstream to see what’s coming. Then it trades and goes away.”

On the demand side, strong cash continues to flow into the sector, bolstered by demographic trends. Baby boomers with their eye on their retirement years are looking for investments with “a little more income and a little less risk,” Coffin said. Over the long term, this bodes well for the bond market.

Of course, tax free does not mean risk free. In our low interest rate environment, Coffin worries that retail investors are stretching for yield without understanding the duration risk, as mutual fund data suggests many have moved out of money market funds into higher yielding bond funds. “I don’t know how well equipped they are to cope with the risks,” he said.

Volatility, Regulation, and Liquidity

Volatility in the municipal bond market comes from several factors. “It’s a challenge for dealers to hedge municipal bond risks because there’s no investable index,” Coffin said. “Trading in these markets is a little sloppy and they’re more prone than other bonds to be oversold or overbought.” As with the corporate bond sector, the Dodd-Frank Wall Street Reform and Consumer Protection Act and other banking regulations have caused dealers to reduce their municipal bond inventories. Coffin is concerned about Wall Street’s capacity to help in a liquidity crisis.

Short-term municipal bonds have experienced a decrease in value due to the SEC’s Money Market Fund Reform Rules that were supposed to help the stability of shorter-term securities. Investors have pulled $64 billion out of municipal money market mutual funds, preferring to invest instead in government-only money market funds not subject to the reform rules requiring floating net asset values, liquidity fees, and gates in certain conditions. “Municipal bonds experienced an unusual 45 bps increase in the one-year spot rate this year,” Coffin observed.

Regulators have also been pushing hard on local government officials. One example occurred when the SEC brought fraud charges against the mayor of Harrisburg, Pennsylvania, after he gave a speech that painted “too rosy” an economic forecast.

Opportunities in Taxable Municipals

Larger muni-bond issues, such as bonds issued by the Greater Orlando Aviation Authority in October 2016, usually come to market with a tax-exempt portion, an alternative minimum tax portion, and a taxable portion. Because of their relative attractiveness and higher yield, taxable municipal bonds are more interesting to institutional investors, particularly foreign investors that can list them as US government bonds on their balance sheets. Coffin observed, “If we have sweeping tax reform (a high priority of the Trump administration), you may see more taxable municipals coming."

Coffin also noted that in the taxable municipal bond market, investors can expect liquidity on par with the tax-free munis issued by the same entity. He added that during the financial crisis, taxable municipal bond values actually held up better than corporate bonds and had less correlation with equities. The significantly lower historic default risk of taxable munis versus corporates accounts for their relatively solid performance.

General Obligation (GO) vs. Revenue Bonds

Recent significant haircuts to creditors in the distressed general obligation (GO) bond market had investors turning their focus to revenue bonds. "In bankruptcy situations, outcomes are much less certain today for GOs," Coffin said. The Detroit bankruptcy was a case in point. There, a federal judge affirmed that bankruptcy law superseded state laws protecting pensions and contracts. But Coffin noted that after the GO bonds and other Detroit debt were restructured, bondholders recovered just a little over 70 cents on the dollar. "I tell people, I have a front-row seat to the epic struggle between labor and capital," he said, "and round one has gone to labor."

Coffin advises investors to be very selective and opportunistic in the "chronically distressed" issues. BCA Research deemed the combined obligations of certain states — New Jersey, Hawaii, Connecticut, Illinois, Kentucky, Alaska, and Massachusetts — the "elephant in the room." Coffin noted that "these states are woefully underfunded," taking into account the high debt, underfunded pension obligations, and other post-employment benefits (OPEB) such as health care.

Not only does New Jersey have high combined obligations, but the state was also hit with a subpar economic recovery that led to a political impasse. The state negotiated with the state employees' unions to extend retirement ages and reduce benefits and cost of living allowances in exchange for the state's promise to make scheduled contributions to the pension funds. The New Jersey government failed to make the promised pension contributions and said it was not under a contractual obligation to do so. The unions sued and the state supreme court upheld the state's right not to fund. "These problems will ultimately get resolved, but right now they're getting worse and worse," Coffin said.

Resolution needs to begin soon. As Coffin stated, the "hope is once we get through the US presidential election, there is meaningful restructuring."

Despite the chronically distressed issuers, Coffin applauded the recent resiliency of the municipal bond markets. "Municipal bond investors were able to look through situations like San Bernadino, California; Jefferson County, Alabama; Stockton, California; and Puerto Rico," he said. He doesn't believe this will be the norm going forward, however. "Bankruptcy is a very unlikely scenario for the vast majority of bonds," Coffin observed. "Politicians can't just repudiate their debt." In most cases, the law will focus on the municipality's "full faith and credit" obligation and say that taxes should be raised.

Municipal Bonds as the Most Sustainable Investment

Coffin never takes the tax-exempt status of municipal bonds for granted, but with favorable supply and demand dynamics and a modestly improving US economy, the sector continues to look attractive. Property taxes are improving as a result of increased real estate values at the local level. Sales and excise taxes, particularly in the oil and gas states, are cyclical, which has been reflected in widening spreads. Coffin is more cautious and selective in health care, a sector that has been performing well.

He encourages investment managers to talk more about municipal bonds as sustainable investments. “What could be better than investing in local infrastructure, health care, and education?” he asked. “We need to talk more about the positive impact municipal bond financing has on a local community. It allows small communities access to capital, and that’s a good thing for our country.”

Enterprising Investor

14 December 2016

By Julie Hammond, CFA

Fund Manager Q&A: What Should Muni Bond Investors Do Now?

NEW YORK — The past year has meant a wild ride for investors in municipal bond funds.

Between September 2015 and this past October, municipal bond funds had 54 straight weeks of inflows, with investors pouring some $68 billion into them. Muni fund owners were rewarded handsomely: In the first six months of 2016, the BlackRock Strategic Municipal Opportunities fund returned 4.7 percent, for example. The 10-year yield on the AP Municipal Bond index, which moves inversely to bond prices, hit a low of 1.69 percent in July.

Then the bear came out roaring.

In early October, the flow of dollars into muni funds stalled as bets increased that the Federal Reserve would raise interest rates late this year. Selling accelerated after Donald Trump’s surprise victory on expectations that his plans to boost economic growth would hurt the price of bonds. In November alone, investors yanked over $10 billion from muni funds, according to the Investment Company Institute. BlackRock’s Strategic Municipal Opportunities fund fell 4.4 percent.

Peter Hayes, co-manager of the $4.7 billion BlackRock Strategic Municipal Opportunities fund, recently talked about the about-face for munis, and how investors can best navigate the current uncertainties. Answers have been edited for length and clarity.

Q: Muni bonds have just undergone an intense sell-off. Do you think it has gone too far?

A: Well, every big sell-off winds up being a good long-term buying opportunity, at some point. It’s a question of finding the right entry point.

This sell-off has been so dramatic that it created value in a short amount of time. Municipal bonds are yielding more than Treasurys right now, and last week we began to see some stabilization of the market.

But given the headwinds, I’m not sure we are completely out of the woods yet.

Q: Which headwinds worry you the most?

A: Interest rates continue to be a concern. If rates go higher, that will scare investors from long-term assets.

Q: What about tax rates? Some believe that the Trump administration will slash tax rates

for higher earners, which would diminish the value of muni bonds' tax-free income.

A: That's a potential headwind as well, but it's much longer term. I think we need to get past the inauguration and see what the new administration is really most concerned with.

Q: With all the talk of tax reform, some have wondered if the municipal tax exception could be at risk.

A: We emphatically don't believe that we will lose the muni tax exemption. Taxes are a bit of an overhang to the market, but a lot of that's already been factored into the price of the bonds today.

Q: Sounds like taxes are a wildcard. But it does seem likely that President-elect Trump will try to boost infrastructure spending. How do you think that will impact the muni market?

A: The initial reaction to the infrastructure proposals was that it would be negative, because it would mean more issuance in the muni market. That is usually a headwind for performance, given that we don't know what the demand is going to be.

But if you really look at the Republican proposals, they're talking about an infrastructure bank and private tax credits. That doesn't translate into increased muni issuances.

It's also important to keep in mind that this year, about 60 percent of new issuance was related to issuers that were refinancing their debt.

If rates move higher, refunding will be less attractive. So I don't see the current proposal as we know it today translating into higher issuance in the muni market in 2017, especially if the first half of the year is driven by all this insecurity around tax policy. Altogether, I don't see infrastructure as a big headwind.

Q: So what's the best strategy for investors right now?

If you already own munis, don't sell. The market has already sold off significantly.

If you need a bit of income and want to take a position, shorter-term bonds look cheap. For the most part, stay in the three- to five-year range, where you will be less exposed to a change in tax policy and a potential rise in longer-term interest rates. Because the correction has been so large, those looking for more income might want to put a portion of their money in the 10- to 15-year part of the curve.

Otherwise, I suggest waiting on the sidelines. The severity and size of the move is likely to have scared investors. The next several weeks are very important. If the fund flows continue to be very negative, we have to be cautious. If they stabilize, then I think we can be more confident that the worst is over.

The Associated Press

by Cybele Weisser

1 p.m. EST December 13, 2016

GASB Forms Revenue and Expense Recognition Task Force.

GASB Chairman David A. Vaudt recently appointed a task force to assist with the Board's objective of developing a comprehensive application model for the recognition of revenues and expenses that arise from nonexchange, exchange, and exchange-like transactions.

The Intersector Project Hosts Summit: An Intersector Process for U.S. Infrastructure.

On Tuesday, December 13, leading groups met in Washington, D.C., to discuss the key issues facing U.S. infrastructure. SIFMA's Michael Decker discussed muni bonds, stating, "Muni bonds finance 75% of US infrastructure. It's important to preserve their tax-exempt status."

Intersector Project Summit Recap

P3 Digest Week of December 19, 2016

Powered by P3 INGENIUM: the most comprehensive source for P3 project updates in North America.

Read the Digest.

NCPPP

NCPPP Exclusive: An Inside Look at the Darcy and the Flats, a Challenging Mixed-Use Development Project in Bethesda, MD.

StonebridgeCarras, LLC, is a real estate development and investment firm whose portfolio includes several of the Washington, D.C., region's most successful mixed-use projects, which are built near public transit and feature a combination of office, retail, residential and hotel space. One example is the transformation of two county-owned parking lots in suburban Bethesda, Md., into The Darcy and The Flats. This project, which opened in June 2015, has increased Montgomery County's residential and commercial tax base, added affordable housing, and enhanced a portion of a public trail while improving the quality and availability of public parking in a very busy dining and shopping destination. We asked Jane Galbraith Mahaffie, a principal at StonebridgeCarras, to talk about the project and provide an overview of other P3 projects in the StonebridgeCarras portfolio.

NCPPP: Describe your role at StonebridgeCarras, both generally and in terms of your participation in development of The Darcy and The Flats.

JM: At StonebridgeCarras (SC) I am one of two principals who oversee the entitlement and development of all SC projects. In this role I direct the multi-faceted mixed-use developments and public-private initiatives with a combined value of more than $1 billion. The Darcy/Flats are a great example of the public–private projects that SC is involved in. At over $200 million it included both private and public partners and required extensive entitlement processes and community outreach. My role at SC is quite directed to leading the firm's efforts on the public/private partnership projects in the Washington metropolitan area.

NCPPP: What organizations did StonebridgeCarras partner with to build The Darcy and The Flats and what were their roles?

JM: Montgomery County Department of Transportation (MCDOT) was the public entity responsible for The Darcy/Flats development. The team of StonebridgeCarras and PN Hoffman joined forces and responded to the request for proposals that MCDOT issued in 2004. That team, Lot 31 Associates, remained partners throughout the project. Northwestern Mutual Life Insurance and Buvermo Investments joined the team as additional debt/equity investors in the project.

MCDOT was a very active partner throughout the development, and at the conclusion of the development, they own the 900-space public parking garage in the project. PN Hoffman and SC became a completely integrated team in project management, construction oversight, leasing and condominium sales of the project. It was a bit unusual, but the teams really worked well together.

NCPPP: What types of challenges did you encounter in conducting this project and how did you overcome them?

JM: The project was 3.3 acres in the heart of Bethesda. Given the size of the garage the schedule was an additional one year of construction, predominantly all below-grade work. We shut down a road for the construction and were adjacent to both residential mid-rise and high-rise and single-family homes. The garage was designed in a way that included a large transfer beam at the ground level that had post tension beams taller than me. Then above grade were two residential buildings with 40,000 square feet of retail, reconstruction of a road (now effectively a bridge above the garage) and significant public outdoor space.

The greatest challenge was the schedule, the understanding that we were really constructing three projects, and the public expectations. When you have significant below-grade work, the schedule runs through many seasons. In Washington, D.C., where you have four true seasons, site and foundation–to-grade work is very susceptible to weather. As it happened, the two winter seasons during below-grade work/foundation-to-grade were horrific in D.C. Success came with adjusting schedules and working with the county and adjoining neighbors. Additionally, when you have three projects in one, you have efficiencies but not in every category. Manpower adjustments had to be made by us, the design team and the contractor to successfully navigate some significant issues because we were working with three distinct projects.

P3 projects naturally have expectations by the public. In The Darcy/Flats we had road closures and a significant area under construction in a major downtown area of Bethesda. Our team very quickly established a bimonthly newsletter that was widely distributed among neighbors, our county partners, county regulators and elected officials. We also established working teams among agencies to react quickly as needed. These were just some aspects of additional communication that is clearly required in P3 projects.

NCPPP: What lessons did the firm learn in pursuing this project?

JM: Every project presents its own opportunities and challenges. The Darcy/Flats was a very exposed project (locational). Communication and flexibility surrounding schedules was a key element learned on this project.

NCPPP: How was this project similar to projects your firm usually leads? What were some of the significant differences?

JM: SC develops very complex multi-faceted mixed use projects. The degree of difficulty was similar to many that we have developed and are in our pipeline. As a P3 project, it was similar in understanding that P3 projects bring many constituents and varied expectations. As noted above, the most significant difference was the size below grade and the multiple implications that 500,000 feet below grade presented in schedule and technical challenges.

NCPP: Can you describe other P3 projects StonebridgeCarras is conducting or plans to pursue?

JM: SC and our joint venture partner, Bozzuto, were awarded a P3 project with Montgomery County to develop a new headquarters for Maryland-National Capital Park and Planning Commission (M-NCPPC) that includes leased space for significant Montgomery County agencies. This 300,000- -square-foot building will begin construction in 2017. It also includes a public parking garage and significant town square in downtown Wheaton. At the conclusion of its construction, SC/Bozzuto will retain the land currently housing M-NCPPC for private development.

In the District of Columbia, SC and our joint development partners, ProFish and The Jarvis Companies, will be developing a residential, retail, and industrial mixed-use project including renovating the historic Crummell School for the community in the Ivy City neighborhood. This project is exciting as it retains a neighborhood industrial company with the development of additional retail and residential, including affordable housing. In addition, the development team will be working with the community as we together prescribe the uses to be housed in the renovated school.

NCPPP: How is the landscape for real estate P3 projects changing? What interesting trends have you observed since the start of the recession?

JM: I think that P3 projects continue to be a great vehicle for both the public entities and the private developers. Public agencies provide a site previously unavailable to the private market, which benefits both groups. Public agencies can also benefit from the opportunity of more private financing of projects that benefit communities. I am not sure if directly observed as result of the recession, but I think that as the P3 model has matured, the projects tend to be more complex in both opportunity and expectations. P3 projects are not for the faint at heart. Firms responding have to understand the complexity of the deals and time required for a successful development.

NCPPP

December 19, 2016

Fitch: 2017 Outlook for U.S. States Stable Despite Significant Federal Uncertainty.

Fitch Ratings-New York-13 December 2016: Although the upcoming change in federal administration introduces significant uncertainty for U.S. states, the U.S. State outlook for 2017 remains stable on credit stability and the states' strong powers, according to a Fitch Ratings report. Both the rating and sector outlooks are stable for 2017.

"At this early stage it is not possible to predict what policy choices will be made by the Trump administration, or what they will mean for states," said Laura Porter, Managing Director.

"The transition of federal administrations creates many uncertainties for U.S. states, which are exposed to policies affecting the U.S. and global economies, as well as decisions related to jointly funded programs."

Federal changes with a significant impact on states are generally implemented in a way that allows states to adjust, taking advantage of their strong powers to manage budgets and download fiscal challenges.

President-elect Trump's proposal to convert Medicaid to a block grant program, if enacted, would likely lead to materially lower federal funding to states. Reduced Medicaid aid could cause states to tighten overall spending and reduce transfers to local governments.

"The biggest concern would be decisions that shift costs from the federal government to states while continuing service level mandates," said Porter.

The Trump administration's trade policy proposals could be significant for both state economies and revenues, particularly for state economies with pronounced links outside the U.S. Immigration policy changes could also have specific sector or regional implications.

The likelihood of federal tax cuts in 2017 could lead to volatility in personal and corporate income tax revenues for the current fiscal year as taxpayers consider shifting income to 2017 to take advantage of lower rates. The effects could reverberate for several years, similarly to the 2013 federal tax law changes.

If the federal government enacts fiscal stimulus simultaneously with tax cuts, it may mean higher federal debt, higher inflation and higher rates. This could put wage pressure on states and locals, raise borrowing costs, create headwinds for export-oriented sectors, and, positively, potentially help pension returns, though for the latter this could be offset by higher cost of living adjustments.

Fitch will hold a teleconference on Jan. 12th at 2:00 pm eastern to discuss its 2017 U.S. state and local government outlooks. To register for the call, please visit http://dpregister.com/10097550.

For more information, a special report titled "2017 Outlook: US States" is available at www.fitchratings.com.

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How Trump Can Build the Best Airports and Roads.

Many critics of President-elect Donald Trump's infrastructure plans are missing the point. He doesn't want to pour hundreds of billions of dollars into upgrading roads, bridges and airports to give the economy a Keynesian jolt. Creating jobs isn't even his primary goal. He wants visible symbols of competence and pride. "We're becoming a third world country, because of our infrastructure, our airports, our roads," Trump said when he announced his candidacy. He repeated the theme throughout the campaign.

Trump sometimes sounds like a jet-setting Davos Man, as he bellyaches about airports in New York and Los Angeles compared with those in Doha and Shanghai: our old metropolitan airports versus their sparkling new international hubs. (Has he never been through Denver or Minneapolis?) He is, however, voicing a frustration that unites Americans across the economic and political spectrums. You know there's a highway problem when a popular rock song includes the lyrics, "I'm driving here I sit/Cursing my government/For not using my taxes to fill holes with more cement." (The hit duo Twenty One Pilots is even from the political battleground of central Ohio.) Rundown airports and pitted roadways are everyday reminders that the government isn't doing its job.

Because Democrats also like the idea of infrastructure spending (although many prefer metro rail systems over roads), a bipartisan deal seems possible early in the Trump administration. The question, then, is how can Trump live up to his promises and not simply waste a lot of money? What's the best way to pick projects? What are the barriers to the quality infrastructure and speedy construction that his supporters expect? And how do we pay for all this?

What to build: The worst possible thing Trump could do is take the advice to "build something inspiring," as James B. Stewart put it in the New York Times. Lavishing money on a few showcase projects won't do anything for Trump's trucking-company friend who complains that he has to buy "the cheapest trucks and the strongest tires" because the highways are so bad. It wouldn't improve most Americans' everyday experiences. Repairing roads may not be as inspiring as an optimistically priced $100 billion maglev train from Washington to Boston, but it's likely to create much more value for the money.

"You're building projects that have to be maintained and run for decades, and if costs are higher than benefits or the revenues, that means that they will be a drag on the economy," observes Bent Flyvbjerg, a professor at Oxford University's Said Business School who studies major infrastructure projects. To identify and support high-value projects, he recommends giving states and municipalities block grants and the freedom to decide how to spend the money. As long as there's accountability to avoid corruption, decentralized decision-makers are more likely to respond to local needs — especially when they don't have to sell federal officials on the sexiness of a given project. It's an approach Scandinavian countries have used successfully. "If Trump's infrastructure plans would involve actually fixing local problems, maintaining the existing infrastructure to a high level of quality, that would be a great thing," Flyvbjerg says.

What to reform: Like many infrastructure enthusiasts, including Trump adviser Steve Bannon, Stewart is nostalgic for Depression-era projects. In his Times piece, he writes that President Franklin Roosevelt's

> Public Works Administration and Works Progress Administration, using combinations of public and private money, solicited proposals from states and cities, hired millions of workers and eventually built 78,000 bridges, 650,000 miles of roads, 700 miles of airport runways, 13,000 playgrounds and 125,000 military and civilian buildings, including more than 40,000 schools — in most cases to high standards of quality and design.

Note, first of all, that it was the many relatively small projects, not the few showcases, that transformed America. They're why people remember those New Deal programs as public benefactors.

Then consider how long it takes to get anything built today. The bottleneck isn't the actual construction. It's the ever-more-detailed analyses, reviews and redesigns required — and often litigated — beforehand. For a megaproject, actual construction takes three or four years, estimates Robert D. Thornton, a Los Angeles lawyer who advises state and regional infrastructure authorities on environmental issues. Before that three or four years starts, however, "the planning and design process will be 10 to 15 years," he says. Thornton recalls a conference of road builders where company after company boasted of getting projects done in 20 years. "I got up and said, 'In any other business you'd be out of business, because you couldn't take 20 years to deliver a product,'" he says. "But in transportation, we just accept it."

To cut delays, Thornton recommends some simple procedural changes. Rather than reinventing and relitigating an air-quality model for each new project, local governments should be able to use the Federal Highway Administration's model as a safe harbor. "Then the only issue is, Did they follow the model?" Similarly, to get federal transportation funding in the first place, a local government has to have an approved metropolitan transportation plan that meets Clean Air Act standards. Any new project that fits into the already-approved plan, Thornton argues, shouldn't have to prove once again that it meets federal requirements. Like fixing potholes, these incremental reforms may not be glamorous, but they could significantly reduce the time and money it takes to deliver infrastructure improvements.

How to pay for it: Even if a new infrastructure bill decentralizes project selection and reforms the review process, the biggest challenge remains finding the money. Per-gallon gas tax revenue, the major source of transportation funds, is declining. Inflation has slowly eroded governments' buying power, while better gas mileage has reduced the amount collected. But hybrid drivers still use the roads. The logical alternative is a tax per mile driven, with different weight classes to reflect degrees of wear and tear. It could be collected with an odometer reading before annual car registration. A mileage tax might also make all drivers, not just the ones with gas guzzlers, think twice about incremental trips, reducing traffic congestion. (Such mileage-based use taxes also shouldn't go to fund other kinds of transit.)

The second major challenge is that the Interstate Highway System is a half century old. The highways weren't designed to last much longer. That's why Trump's trucking pal complains that the highways have never been so bad. "You need to reconstruct and modernize — basically replace — the Interstate Highway System as it is right now," says Robert Poole, director of transportation policy for the Reason Foundation. "There's not a ghost of a chance of enough tax money being available in our lifetime to do that set of megaprojects." (Disclosure: Poole was my boss in the 1990s, when I was editor of Reason magazine and he was president of the Reason Foundation.)

The good news is that international companies are eager to invest in U.S. infrastructure through public-private partnerships financed in the capital markets. Although rare in the U.S., such arrangements are common in Australia, Europe and Latin America. Once a project has made it through the planning and permitting process, investors bear most of the risk. ("They'll take the construction risk and the completion risk, but they won't take the environmental risk," Thornton says.) Tolls, user fees or dedicated taxes provide a stream of revenue. The $1 trillion infrastructure plan prepared by Trump advisers Wilbur Ross and Peter Navarro envisions extensive use of such partnerships "to a magnitude that would be up to the task of the interstate system," Poole says.

One such arrangement is already tackling Trump's pet peeve: the sad state of LaGuardia Airport. The Port Authority of New York and New Jersey has set up a public-private partnership to replace the central terminal. Commercial partners will make money from fees charged to airlines and passengers — and from maximizing revenue from shops and restaurants. "This is the model," Poole says. "When Margaret Thatcher privatized the British Airports Authority, BAA reinvented airport retail. They came up with the idea of competing, name-brand shops and restaurants, not the old generic food and beverage contractors and that was it." The attractive, stimulating airports that travelers enjoy were invented not as public works but as a way to make money. If Trump thinks about infrastructure more like a businessman and less like a showman, we might just get everyday improvements we can also be proud of.

Bloomberg View

By Virginia Postrel

DEC 16, 2016 9:00 AM EST

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

Virginia Postrel is a Bloomberg View columnist. She was the editor of Reason magazine and a columnist for the Wall Street Journal, the Atlantic, the New York Times and Forbes. Her books include "The Power of Glamour" and "The Future and Its Enemies."

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Bloomberg Brief Weekly Video - 12/15

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

Watch the video.

Bloomberg

December 15, 2016

Kroll Bond Rating Agency Assigns the Long-Term Rating of BBB with a Negative Outlook for the Chicago Board of Education Dedicated Capital Improvement Tax Bonds, Series 2016.

NEW YORK, NY (December 8, 2016) – Kroll Bond Rating Agency (KBRA) has assigned a BBB long-term rating and Negative outlook to the Board of Education of the City of Chicago (the "Board") Dedicated Capital Improvement Tax Bonds, Series 2016. KBRA also affirms the BBB rating and Negative outlook on the Board's Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2016A and Series 2016B and affirms the BBB- rating and Negative outlook on the Board's Unlimited Tax General Obligation Bonds (Dedicated Alternate Revenues).

The rating is based on two KBRA methodologies, primarily the General Property Tax/Assessment Revenue Methodology and secondarily the U.S. Local Government General Obligation Rating Methodology.

To view the report, please click here.

S&P's U.S. Public Finance Podcast (Rating Actions on U.S. Virgin Islands & Proposed Criteria Changes for Housing Finance Agencies and Social Enterprise Lending Organizations)

Listen to the podcast.

Dec. 9, 2016

New Type of Chicago School Debt Gets Investment-Grade Rating.

A new type of debt for the Chicago Public Schools (CPS) earned an investment-grade rating of A from Fitch Ratings on Thursday, based on the bonds' ability to withstand a potential bankruptcy filing by the financially struggling district.

The A rating on $500 million of capital improvement tax bonds is eight steps above the junk rating of B-plus with a negative outlook Fitch has assigned the school system's $6.8 billion of outstanding general obligation bonds.

Fitch attributed the difference to its assessment "that the pledged revenues meet the definition of 'special revenues' under the U.S. Bankruptcy Code and therefore, bondholders are legally insulated from any operating risk of the board."

The United States’ third-largest public school system is struggling with pension payments that will jump to about $720 million this fiscal year from $676 million in fiscal 2016, as well as drained reserves and debt dependency. The fiscal woes have pushed its GO credit ratings deep into the junk category and led investors to demand fat yields for its debt.

The $500 million of bonds will be secured solely by a capital improvement property tax approved by the Chicago City Council last year and not by the district’s GO pledge. The property tax revenue, initially totaling $45 million, can only be used to fund capital projects and not operations, and is subject to an intercept mechanism that will send the funds directly to the bond trustee.

CPS cannot currently file for municipal bankruptcy in Illinois, although there have been proposals to change state law to allow such a move.

Fitch said legal opinions for the new bonds “provide a reasonable basis for concluding that the tax revenues levied to repay the bonds would be considered ‘pledged special revenues.'” The opinions on a “hypothetical bankruptcy” by CPS concluded that payments on the new bonds would not be automatically stopped by a federal bankruptcy court and that bondholders would retain a lien on the tax revenue.

Reuters

Thu Dec 8, 2016 | 12:44pm EST

(Reporting By Karen Pierog; Editing by Jonathan Oatis)

Third Circuit Appellate Court Rules That Post-Acceleration Payment in Bankruptcy Constitutes Optional Redemption: Mintz, Levin

The recent advisory discusses a recent Third Circuit Court of Appeals ruling that held a “make-whole” optional redemption premium to be due upon a refinancing of corporate debt following its automatic acceleration upon bankruptcy. As noted in the linked advisory, the Second Circuit Court of Appeals also is considering this issue; whether it will come to the same conclusion remains to be seen. One way or another, these decisions will have spillover effect on judicial interpretation of optional redemption provisions in municipal bond transactions, and shine a spotlight upon the discrepancies between optional redemption provisions and other early payment provisions in most municipal bond indentures.

The Third Circuit case involved a debtor, Energy Future Holdings, that filed for bankruptcy for the explicit purpose of refinancing the debt at favorable interest rates while avoiding the hefty make-whole premiums payable upon an optional redemption of the refinanced notes. The bankruptcy court and the federal district court found nothing in the applicable corporate indenture requiring payment of a make-whole following an acceleration. The Third Circuit reversed, interpreting the applicable corporate indenture’s “optional redemption” provisions to be applicable to the bankruptcy-triggered acceleration followed by repayment of the accelerated debt via a refinancing.

The Third Circuit’s ruling that the repayment following acceleration was an “optional redemption” may have been driven by the factual context of what could be characterized as an “optional bankruptcy” filed solely or primarily to jettison the make-whole payments and lock in lower rate replacement financing. The indenture’s acceleration provision was, as is usual, a remedial provision entirely separate from the indenture’s optional redemption provisions, and, as is typical but not universal, did not specify a premium to be due upon payment of the accelerated debt. Although once the accelerated payment was due there was nothing "optional" about paying it, the appellate panel opined that the payment on the applicable date was "optional" because the issuer chose to file for bankruptcy and chose not to deaccelerate the debt after the bankruptcy triggered the automatic acceleration. The fact that the bondholders objected to repayment without a make-whole premium also seems to have factored into the court's determination that the payment by the issuer was "optional."

The federal appellate court also concluded that under New York law a "redemption" may occur at or before maturity of bonds, and that therefore a "redemption" is not synonymous with a prepayment. (Indeed, the court suggested that if the make-whole premium had been labeled a "prepayment" premium rather than an "optional redemption" premium, it may have held the make-whole inapplicable, a curious distinction that leads back to the question of under what circumstances payment of an amount that has become due can be deemed optional.) The court disregarded indenture provisions that were technically inconsistent with its determination that the payment was an "optional redemption", such as the optional redemption requirement of prior notice from the issuer to the bondholders. According to the court: "[The issuer] offers no reason why it could not have complied with [the redemption] notice procedures. In any event, it cannot use its own failure to notify to absolve its duty to pay the make-whole."

By interpreting the indenture's optional redemption provisions as applicable to the payment of the accelerated debt, the Third Circuit panel mooted and declined to address the noteholders' alternate argument that the bankruptcy court should have granted relief from the bankruptcy stay to permit the bondholders to deaccelerate the accelerated debt. Whether that would have provided a more straightforward means of getting to the same result is debatable, as debt generally is deemed accelerated upon a bankruptcy whether or not it is contractually accelerated by the terms of the indenture.

The optional redemption provisions that are typical in municipal bond indentures refute the equivalence found by the Third Circuit between an optional redemption and a payment after acceleration. In contrast to the permissibility in corporate transactions of optional redemption at any time at a make-whole premium, the norm in municipal bond transactions is a lockout period (often 10 years) during which optional redemption is impermissible, followed by a declining fixed optional redemption premium. The fact that municipal indentures permit acceleration whenever there is an event of default, including upon bankruptcy, while imposing a lockout period for optional redemption, suggests that in the municipal bond context there may be less receptiveness by courts to the notion of deemed equivalence between an optional redemption and a payment following acceleration. Accordingly, a court may be less likely to deem an optional redemption premium applicable to a post-acceleration payment on a municipal bond absent express language requiring a premium in a post-acceleration context.

Whether corporate or municipal bonds are at issue, the best way to ensure the intended result is to draft clearly and specifically. Municipal bond indentures often permit or require bonds to be paid ahead of schedule not only upon acceleration but upon a so-called extraordinary redemption. These provisions, which typically permit payment ahead of schedule at par, are infrequently deployed relative to optional redemption provisions. Use of bankruptcy as a means of avoiding a prepayment premium is less likely in the municipal context, where the prepayment premium is typically 3% or less versus the often substantially larger make-whole premium, but "default refundings" of municipal bonds have been attempted to circumvent the optional redemption lockout period. There is no difference in the economic impact to a bondholder of early payment, no matter the degree of optionality or lack of optionality from the issuer's perspective, and whether an early payment premium is expressly provided by the indenture in cases other than “optional redemption” is primarily a risk allocation question.

Drafting acceleration provisions and/or extraordinary redemption provisions in a manner that applies an equivalent premium to the optional redemption premium upon their exercise during the post-lockout period, and a make-whole or other premium during the optional redemption lockout period, provides better protection against any perceived risk of abuse of those provisions than reliance on the courts to figure out what the parties intended and/or is equitable in borderline scenarios.

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

Tuesday, December 6, 2016

by Leonard Weiser-Varon

Len is active in both municipal finance and corporate finance, with an emphasis on financings for 501(c)(3) institutions, project finance, secured lending, structured finance transactions, workouts and restructurings, corporate debt, and Section 529 college savings programs.

His practice includes service as bond counsel, issuer’s counsel, underwriters’ counsel, and counsel to institutional purchasers and borrowers in connection with public offerings and private placements of, and defaults and bankruptcies involving, tax-exempt and taxable debt for public, nonprofit, and corporate…

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To Prepare for the Next Recession, States Take Stress Tests.

No government can be fully prepared for every economic twist and turn. Still, some are trying.

The Great Recession was uniquely devastating for states and localities because it hit all three major tax revenue sources: income, sales and property. It was a scenario that few, if any governments, were really prepared to absorb. As a result, governments were forced to make massive budget cuts.

Now, as the recovery trudges on longer than most, a growing number of states are making sure they aren’t blindsided by the next downturn.

Enter stress testing. The idea, which was borrowed from the U.S. Federal Reserve, essentially throws different economic scenarios at a state budget to see how revenues would be impacted.

“We’re in an environment where everyone is starting to think about the next downturn and what that’s going to look like,” said Emily Raimes, a Moody’s Investors Service analyst. “A stress test is a tool for states to think about what types of programs they should commit to and how much to save now."

Credit rating agencies, in fact, are among the practice's biggest fans. Earlier this year, Moody's stress-tested budgets of the 20 most populous states and found that Missouri, Texas and Washington are in the best position to handle a recession because of their strong reserves, spending flexibility and lower revenue volatility. (Low revenue volatility means a state's income doesn't change too drastically from one year to the next. In other words, it's more predictable.)

California and Illinois, however, found themselves at the other end of the spectrum in Moody's stress test. California is endangered by its high revenue volatility and lower reserves, according to the report. And Illinois is vulnerable because of its extremely low reserves and inflexible governance.

S&P Global Ratings also stress-tests state budgets. In August, the agency performed a stress test on the top 10 borrowing states' fiscal 2017 budgets. The scenario focused on what would happen if global economies like the United Kingdom or China slowed down more than anticipated.

The results — some of which overlap with Moody's — show that Connecticut, Illinois, New Jersey and Pennsylvania are most likely to feel significant fiscal stress, while Florida, New York and Washington are best positioned for a downturn.

A few states are forging the way with their own stress-testing systems, while even more are looking into the idea.

Utah has the most robust practice, and it's something credit rating agencies have held up as an example. Last year, the state tested its budgets against a moderate and severe recession — think 2001 versus 2008. The results told policymakers that Utah has enough in reserves to weather a moderate downturn, but a severe one would likely require cutting nearly $1 billion in spending over two to three years in addition to using most of the state's reserves.

The process was so informative that Utah Office of Management and Budget Director Kristin Cox and her colleagues are developing additional scenarios to test. For instance, what happens to specific revenue streams if the state's biomedical industry slows down? Or if oil prices shoot back up? (Utah's stress testing is one of the reasons Governing recently awarded Cox with a Public Official of the Year award).

Minnesota also uses a form of stress testing to evaluate its revenue volatility and inform its rainy day fund policy. It's one of just four states that requires periodic evaluations to make sure its savings targets actually reflect the state's revenue volatility. It's also the only state to determine its risk tolerance — that is, the tolerance policymakers have for not fully covering a potential shortfall. Its current savings target is the amount deemed necessary to cover 90 percent of all possible downturn scenarios.

California, which saw its revenues drop 20 percent during the Great Recession, recently started using stress tests. The state Legislative Analyst's Office now includes estimates of what would happen to the state's budget under an economic growth scenario and a mild recession scenario. The most recent analysis concludes that, in the event of a mild recession in 2018, the state would have enough reserves to cover most of its operating deficits through the 2020–2021 fiscal year.

Of course, no government can be fully prepared for every economic twist and turn.

"We're trying to create certainty in an environment that is inherently uncertain," said Cox. "Instead our approach should be, how prepared are we to respond to different scenarios?"

The unusual recession and equally unusual recovery period has sent the message to budget officials that they can't afford to be caught unprepared. Since presenting Utah's stress-testing methods at a National Conference of State Legislatures meeting, Legislative Fiscal Analyst Jonathan Ball said he's gotten calls from Colorado, Nevada and Vermont, among others.

"It's gotten a lot of traction," he said. "We didn't know if it was going to work at first. We're kind of learning as we go and sharing our experience with other states."

GOVERNING.COM

BY LIZ FARMER | DECEMBER 12, 2016

Moody's: U.S. Local Governments Outlook Remains Stable Due To Steady Revenue Growth, Healthy Reserves.

New York, December 07, 2016 — The outlook for US local governments will remain stable as the majority of the sector is underpinned by solid property tax revenues and healthy reserves, Moody's Investors Service says. The outlook indicates fundamental business conditions over the next 12 -18 months.

Property taxes, the bedrock of local governments, remain healthy and will continue growing in 2017 owing to broader local tax base growth returns to pre-recession levels.

"A combination of property value growth and tax rate increases drove revenues 5.1% higher in the first half of 2016. We expect these factors will continue to support revenue growth of 3%-5% in 2017," according to Moody's Analyst Sarah Jensen.

Moody's says reserve levels remain healthy for most local governments and provide budget flexibility. Most local governments will continue to actively raise revenues or cut spending as needed to maintain these reserves through 2017. Reserves provide flexibility for local governments in times of unexpected economic stress and unpredictable expenditures.

While manageable for most, overall fixed costs and growing balance sheet liabilities are a long-term drag on the sector. Fixed costs such as pension liabilities, debt service and other post-employment benefit (OPEBs) contributions could, if unaddressed, begin to crowd out essential services.

Infrastructure needs are becoming more pressing, and rising fixed costs could hamper the ability to issue debt to address this issue.

Despite general stability across the sector, there is a growing portion, roughly 5% -10% of issuers, facing numerous challenges pressuring their credit profiles. These local governments face revenue stagnation combined with growth in fixed costs, leading to a trend of credit deterioration.

Moody's would change the outlook on the sector to positive if strong property tax revenue growth continues at 4%-5% and is accompanied by a stabilization of fixed costs and maintenance of healthy reserves. The sector outlook could change to negative if property tax revenue growth weakens to 1-2% or growth is outpaced by the increase in long-term liabilities and fixed costs.

"Financial challenges at the state level, particularly in states hit by low energy prices or budget imbalances, could impact some municipalities and school districts as states could either cut aid or shift fiscal responsibilities to local governments," said Jensen.

"Local Governments — US: 2017 Outlook – Strong Tax Revenues, Healthy Reserves Drive Stability for Most." Is available to Moody's subscribers at

https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1045982.

This report is part of a series of 2017 Credit Outlooks that provide insight into next year's credit conditions across all sectors. See more at www.moodys.com/2017outlooks

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The Week in Public Finance: Federal Budget Chaos, a Bankruptcy Win and Pension Portfolios.

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

The Week in Public Finance.

GOVERNING.COM

BY LIZ FARMER | DECEMBER 9, 2016

LAX's Makeover Inspires Airport Changes Around the Country.

Los Angeles is spending billions to revamp its airport. The move is spurring other cities to make similar investments.

Twenty miles from downtown Los Angeles, squeezed between the Pacific Ocean and one of Southern California's busiest freeways, sits 3,400 acres of bare pavement and neglected jet-age architecture that make up Los Angeles International Airport. These features are the first glimpse travelers get of a city with lofty aspirations. It's not a pretty sight.

For decades, LAX has been known for crowded gates, drab terminals, scarce amenities and ungodly traffic. It's a place that international visitors and lifelong Angelenos alike avoid if at all possible. That's a troubling prospect for a region that thrives on tourism, international trade with Asia and Latin America, and industries such as defense and aerospace manufacturing that are heavily intertwined with global travel.

"There is no calling card like it to people who will invest, who will travel, who will study in your city than an airport," says Los Angeles Mayor Eric Garcetti. "It is the first taste, the last taste, the first view, the last view. If you're greeted with traffic, cigarette smoke, honking cars, people giving tickets and gridlock, you'll say, 'Oh, I guess this is what L.A. is like.'" That's not the impression the mayor wishes to leave. Garcetti wants to refashion the airport around enhanced customer experiences that could put LAX in the top tier of airports globally, right next to Hong Kong, Munich, Seoul, Singapore and Tokyo. It is an incredibly ambitious goal, considering LAX ranks near the bottom of the world's 100 biggest airports in passenger satisfaction. Nevertheless, Garcetti is undertaking a near-total transformation of the much-maligned but vital facility.

The first step in the process was a complete overhaul of LAX's Tom Bradley International Terminal, a job which was finished three years ago. The revamped terminal includes 18 gates, half of which can handle the massive double-decker Airbus A380 jets, and a great hall the size of three football fields. The jagged roof, meant to evoke the waves of the Pacific Ocean, reaches heights of up to 110 feet. That allows arriving passengers to look out onto the light-bathed space from glass-enclosed passageways below as they travel to customs. In the great hall, huge LED screens project images of California scenery and digital art, as well as the usual advertisements and flight information. Passengers can while away their time at upscale shops including Armani and Porsche, or eat at one of 20 restaurants that run the gamut from KFC to a steakhouse with $51 ribeyes.

The last time LAX updated its international terminal was when the city hosted the 1984 Summer Olympic Games. By the time the torch is lit for the 2024 Olympics, which L.A. hopes to host, almost every corner of the airport is expected to be upgraded. The ongoing $14 billion plan includes expanding the international terminal, remodeling all the other terminals, potentially adding new domestic concourses, finishing up runway work, introducing more efficient security checkpoints, installing new baggage carousels, consolidating rental car facilities, building new parking structures and finally, after decades of promises, connecting LAX to L.A. Metro's growing light rail network.

Los Angeles will have plenty of competition as it tries to build the best airport in the United States. After years of coping with cost-conscious airlines and accommodating ever-changing security processes, U.S. airports are turning their focus back to improving their product. Overall spending on airport capital improvements is expected to reach $13 billion a year by 2019, a 30 percent increase compared to the previous five-year period.

From LAX and San Francisco to New York and Atlanta, airport authorities hope better facilities can attract new customers, provide for bigger aircraft and shore up their bottom lines. And, if all goes according to plan, perhaps the remade airports will even boost the fortunes of the regions they serve.

Unlike other major airports, LAX is not dominated by any single airline. Each of the four major U.S. carriers claims at least one terminal there, but none has more than a fifth of the airport's traffic. Still, LAX is being buffeted by the forces of consolidation that have reshaped the airline industry over the last two decades. Until recently, those forces have pushed terminal modernization and other airport improvements far down on the list of airline priorities.

The carriers shoulder the bulk of the cost of running airports, by renting terminal space and by paying weight-based landing fees for incoming flights. But the carriers also have a lot of say over infrastructure improvements. If they choose to, they can block new construction. Or they can cooperate and, as with many of the LAX improvements, even provide the initial money to pay for big projects (which the airport will pay back over time).

Since the turn of this century, airlines have had to contend with two recessions and sky-high oil prices. Bankruptcies and mergers have left four dominant domestic airlines: American, Delta, United and Southwest. As the airlines have tried to climb back to solvency, they've focused on becoming more efficient. One result of that has been further concentration of flights to major hubs such as Atlanta, Chicago, Dallas and Los Angeles.

But it's not flight destinations that have forced airlines and airports to take a new look at their facilities: It's the way flights are operated. To save money on their two biggest expenses — labor and fuel — airlines are flying bigger, fuller planes, but fewer of them. So a city that once had three flights a day to its hub airport, served by 50-seat regional jets, might now have only two flights a day on larger aircraft. The arrangement helps the airline save money on jet fuel, pilots and baggage handlers. In many cases, though, the airlines have also trimmed the excess capacity that they once provided in hopes of gaining a competitive advantage. With so much consolidation in the industry, they face less competition from one another. There's no sense losing money on empty seats, so the airlines are basically scheduling only flights they can fill.

Airlines might have been expected to increase the number of flights with the steep drop in oil prices over the last couple of years, but this has not happened. One reason, says Earl Heffintrayer, lead airport analyst for Moody's Investors Service, is a worsening pilot shortage caused by increased training requirements for new co-pilots and the mandatory retirement of baby boomer pilots at age 65. "If you have a limited supply of pilots, you want to fly them on larger planes. Smaller planes are the ones that are falling out, because you can make more money on the bigger ones," Heffintrayer says.

What all this means is that many larger airports, including LAX, are handling more passengers than ever, even though they have fewer flights going in and out than they did before the Great Recession or even before the 2001 terrorist attacks.

As a result, many of their existing gates are now inadequate. If a waiting room that was designed to accommodate 50-seat shuttles now suddenly starts handling 70- or 110-seat jets, there aren't enough places for people to sit with their carry-on baggage. Boarding lines spill beyond the gate area. Waiting times increase for nearby bathrooms and restaurants. The consequence is that many airports are having to remodel their terminals to handle the more concentrated bunches of passengers.

They are also adding new gates. "The capital improvements we saw over the last four to five years have been fixing existing facilities, making them look more modern and having a better passenger experience," Heffintrayer says. "The next wave of capital, which is really looking to take off next year, is going to start with gate expansions. We're seeing a real change in what airports are spending their money on going into the next year."

Although many of the improvements were in the works for years, the recent financial strength of the airline industry is also fueling the building spree, says Khalid Usman, a vice president with the consulting firm Oliver Wyman who has worked on airport renovations. "In 2015, the U.S. airline industry's combined profitability was $25 billion. That's historically the highest number we've ever seen in the entire history of U.S. aviation," says Usman. "That kind of profit is unknown in this type of industry. If you look at the prior 17 years [combined], that was actually negative $32 billion. It's an industry that is very cyclical."

With the return of airline profitability, San Francisco International Airport, which has seen more than a 50 percent annual traffic increase over the last nine years, has launched a five-year, $5.7 billion plan for adding and refurbishing gates, consolidating rental car facilities and extending its AirTrain. Atlanta's Hartsfield-Jackson International, the busiest passenger airport in the world, is planning for more growth with a $6 billion effort that will add 15 gates, renovate parking garages and remodel its concourses to bring more sunlight into the buildings. Charlotte Douglas International Airport in North Carolina, which is also benefiting from surging traffic, is building nine new gates along with an expanded pre-security lobby, a new runway and a new traffic control tower.

For Los Angeles, the catalyst for the recent wave of upgrades was the arrival of the Airbus A380 in 2007. Nearly 100 Southern California suppliers contributed to the construction of the world's largest jumbo jet, which is as tall as an eight-story building and has wings 260 feet across. Despite an early commitment to LAX, Airbus later said the A380 would make its U.S. debut at John F. Kennedy International Airport in New York City. Los Angeles protested, and Airbus settled on a compromise: Two A380s touched down simultaneously at JFK and at LAX.

But LAX didn’t have any good place to put the A380s once they landed. LAX crews were able to widen taxiways and make other improvements to the airfield to handle the jet’s size, but there was nowhere to park them at the terminals. Because the double-decker planes are so big, they require three jet bridges for passengers to board or disembark. The large wingspans also require a lot of space between gates. So the new jets had to park at remote gates at a far corner of the airfield. “A passenger is getting on an A380 in Dubai or Abu Dhabi in what could be a ‘gold-plated’ boarding bridge,” says Roger Johnson, the LAX official overseeing the physical improvements to the airport. “Then at LAX, they arrive in a concrete bunker, walk onto a concrete ramp and get onto a bus to get to a tunnel. That was one of the driving forces behind the Tom Bradley International Terminal.”

The stakes were high. Los Angeles’ economic development agency concluded in 2007 that the A380 and Boeing’s Dreamliner 787 were “competitive threats” to the entire region. Airlines operating the 550-seat A380s would send the jets to airports that could handle them. Meanwhile, the fuel efficiency of Boeing’s new long-haul jet, which carries half the passengers of the A380, could make it easier for overseas flights to skip over LAX completely. That was especially bad news, because overseas flights are highly lucrative. The economic development agency estimated that scheduling one daily transoceanic flight to LAX in 2006 generated $156 million in wages and added $623 million a year to the region’s economic output. “Southern California,” the agency concluded, “can ill afford to lose the competition for overseas routes.”

Luckily for Los Angeles, the A380 arrived at about the same time the airport settled long-disputed lawsuits over its master plan. Finally, the airport could start building. The first task was replacing most of the international terminal.

Garcetti now uses the new international terminal as a selling point to lure even more international flights to LAX. “We would fall all over ourselves to bring a company that would produce $300 million a year here. It’d be all over the news,” Garcetti says. “But people forget that one flight is worth about $1 billion a year.” Airlines seem to like L.A.’s pitch. LAX now handles more A380 flights (14 a day) than any other airport in this country. It is the only U.S. airport with three daily nonstop flights to and from China. And LAX has surpassed its rival JFK in connections to Asia, with 207 flights a week as of last year, compared to 121 for the New York airport.

Many of the flashy features in the Tom Bradley International Terminal are being included in renovations to the airport’s other terminals. They aren’t just designed to show off. Most of them have practical purposes as well.

As part of United Airlines’ renovation of its terminal at LAX, it is including “smart lanes” at its TSA security checkpoint. United is taking a page out of the playbook of Delta, which first tested the idea in Atlanta. With smart lanes, passengers each get their own counter space, side-by-side with those of other passengers, to load their items into bins. The system allows people to go at their own pace, because they’re not stuck in line behind someone who might be slower. United officials say the smart lanes will reduce security wait times by 25 percent.

LAX is also one of a few dozen airports currently working with U.S. Customs and Border Protection to use technology to speed up the process of clearing customs. The automated passport control system lets arriving passengers use kiosks for their initial screening.

Airport managers hope better use of technology, among many other things, will help boost the customer experience. Last year, LAX trailed only LaGuardia and Newark airports in J.D. Power’s rankings for lowest customer satisfaction among U.S. airports. Mike Taylor, a J.D. Power airport analyst, says technology is one way to make customers happier. “The highest-rated portion of the airport experience is check-in,” he says, “because it’s become more and more automated over the years."

But terminal improvements can only go so far in making customers happier. Only 30 percent of passengers' satisfaction is associated with the structure itself. "A new building will not solve all of your problems," Taylor says. "It won't solve all your problems because the same traffic pattern is present when you step outside the building, the same congestion." The frustration with getting in and out of airports is only getting worse as airports become more crowded.

That's what the next phase of LAX's improvements is meant to address.

LAX is the third-busiest airport for passengers in the country, but that doesn't tell the whole story. Atlanta and Chicago's O'Hare airports handle more people, but many of them simply pass through as they transfer to other flights. LAX, on the other hand, is the top airport in the country for starting and ending trips. In other words, it has to get more passengers in and out than any comparable facility in the country.

The traffic problems at LAX are made worse by the fact that just about the only way to get to the terminals is with a car, bus or van, and all of those vehicles follow the same double-decker road in a U-shape past all nine terminals. Forty percent of the vehicles are commercial shuttles for hotels, rental car agencies or parking lot operators. One trip around the loop can easily take more than half an hour.

The growing popularity of air travel is making the traffic worse. Vehicles made more than 90,000 trips a day through LAX's main terminal loop this summer, and that number grew to nearly 95,000 on holiday weekends. "It's reached a state where it's untenable," says Deborah Flint, the CEO of Los Angeles World Airports, the agency that runs LAX. "The only real, effective option is to bring the mass transit connections to the airport."

So Los Angeles is joining a growing list of cities building new rail connections to their airports. Denver; Oakland, Calif.; Phoenix; and Washington, D.C.'s Dulles Airport all either completed rail connections recently or are building them now. Garcetti says one reason he pushed to bring in Flint, who previously led the Oakland Airport, and L.A. Metro CEO Phillip Washington, who headed Denver's transit system, is that both had experience creating rail connections to their respective airports.

LAX's rail connection will be especially ambitious, because it depends on both the construction of an automated "people-mover" train at the airport and the completion of a new north-south light rail route by L.A. Metro.

The 2.25-mile people-mover route would run down the center of the U-shaped terminal area, so passengers from both sides would be able to cross over pedestrian bridges to get on at one of three stations. The free trains would arrive every two minutes.

The automated people-mover trains would stop at an intermodal center, which would have parking and shuttle services. It would be convenient to reach by car. But drivers could turn around or park before they get trapped in traffic near the terminals. Once they're at the facility, passengers would be able to check in, print their boarding passes and get information before they catch the people-mover to the terminals. From the intermodal center, the people-mover would then go to the Metro station, which would also offer several bus connections. Work is already halfway completed on the 8.5-mile rail line, which is part of a much larger Metro expansion effort that began in 2008. The first trains are scheduled to start running along the Crenshaw/LAX line in 2019.

Finally, nine minutes after leaving the first station, the people-mover would stop at a consolidated rental car facility, which would bring some two dozen of LAX's far-flung rental car lots under one roof. Both the automated people-mover and the rental car facility would be operated as public-private partnerships.

The overarching idea of the $5 billion project is to move as much traffic as possible away from the central terminal area. Just relocating the commercial shuttles to one of the intermodal facilities could have a huge impact, since they make up so much of the traffic that circles the terminals now. Rental car companies alone currently account for 3,200 shuttle trips a day around the loop, which would be eliminated.

Giving passengers transportation options is key to attracting the most desirable customers, especially those coming from overseas. "International passengers — there were over 20 million of them [at LAX] last year — expect an international city gateway that is connected to many different transportation options," says Flint. "It's par for the course for a major city like Los Angeles."

For Garcetti, who has made infrastructure projects big and small a major focus of his administration, there is also an element of pride at stake in connecting LAX to a rail line, something that's been promised for generations. "When I was campaigning and saying I would, after 50 years of talk, finally bring public transportation to the airport, it was an applause line from the furthest point away from the airport in the city to the next-door neighbors," he says. "It's not only an amenity, it's a symbol of what we couldn't do and we wondered if we ever would do. Are we capable of big projects? Are we capable of building again? That was a core part of our identity, but it was slipping through our fingers. I think this is a way of solidifying that."

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BY DANIEL C. VOCK | DECEMBER 2016

P3 Digest for Week of December 6, 2016

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December 6, 2016

The Supreme Court Case That Could Bankrupt Religious Schools and Hospitals.

Advocate Health Care Network v. Stapleton pits financially strained organizations against their own workers, who fear their promised pensions may not be there when they retire.

A new case on the U.S. Supreme Court's docket could potentially involve millions of American employees and lead to billions of dollars' worth of litigation. The justices' decision could affect the viability of religiously affiliated orphanages, hospitals, schools, and nursing homes, and it could also threaten the financial security of a generation of their workers, fast heading toward retirement.

On its face, *Advocate Health Care Network v. Stapleton* and the two other cases it's consolidated with may seem boring—after all, they're about federal regulations on pension plans for church-affiliated hospitals. But these cases are actually the culmination of a new, vicious fight over the rights of employers that are loosely affiliated with religious institutions, and how they should have to pay retirement benefits to their employees in accordance with federal law.

The three consolidated cases in question seem likely to turn on something deceptively simple: the single word "established." In 1974, Congress passed a law called the Employee Retirement Income Security Act, or ERISA, which, among other things, created guidelines for defined-benefit retirement plans, otherwise known as pensions. The two most relevant requirements in these cases have to do with good planning and risk mitigation: Employers have to put money into their employees' retirement plans in a responsible way, so that they can afford to pay out big sums of money once those employees get old. But, if a company is in financial trouble when it comes time to pay out the promised benefits, there's a safety net: ERISA established the Pension Benefit Guaranty Corporation, or PBGC, which is effectively a government insurance agency for underfunded pension plans.

These rules do not apply to houses of worship. Benefit plans "established and maintained" by these groups are exempt. The reasons for this are a bit opaque, said Norman Stein, a professor at Drexel University's Kline School of Law, but an early draft of the law suggests Congress "didn't want churches to have to open their books to the government." Legislators also figured religious groups weren't the problem: "People felt that it's the church—it's not going to let its plan fail and screw its employees," he said. "Some of the writing about the statute has speculated that this was a reason, too—churches are moral institutions that are going to stand behind their promise [to pay for people's pensions], because that's what religions do."

When ERISA first passed, it wasn't clear whether this exception would apply long-term to religious organizations that weren't houses of worship, like Jewish day schools or Catholic hospitals. In 1980, Congress amended the law to clarify that religiously affiliated groups can also maintain what's called a "church plan," so long as they satisfy certain requirements. For years, the IRS allowed religiously affiliated groups to offer these "church plans" without much controversy. Since 1982, according the hospitals' Supreme Court petition, it has sent over 500 letters granting ERISA exemptions to organizations as diverse as the Princeton Theological Seminary and the Little Sisters of the Poor, an order of nuns.

Three years ago, employees across the country began filing lawsuits claiming that these organizations shouldn't be exempt, after all. Current and former employees of three health-care systems filed suit against their employers: Dignity Health in California and Saint Peter's Healthcare System in New Jersey, which are both associated with the Roman Catholic Church; and Advocate Health Care Network in Illinois, which is jointly associated with the the Evangelical Lutheran Church in America and the United Church of Christ. This is where everything comes back to "established": Because these pension plans weren't "established" by actual churches, the employees argue, they shouldn't be exempt from ERISA.

The conflict matters for a few reasons. First, both sides arguably stand to lose incredible amounts of money. The Pension Rights Center, which supports the hospital employees, has identified at least three cases of allegedly failed church plans. When the owners of St. Anthony Medical Center in Illinois terminated one of its pension plans in 2012, the president and CEO told employees she was "very sorry for this surprising and disappointing news." In 2013, the president and CEO of St.

Mary's Hospital in New Jersey wrote a letter to employees stating that "there simply are no funds remaining in the retirement plan's trust." And something similar happened last month at the now-closed St. James Hospital in New Jersey—the liability in that case is still murky.

Because these plans were not insured by the PBGC, they have left or may leave huge numbers of workers with less retirement money than they were promised. Hospital employees and their allies argue that church plans are a way for large employers to avoid complying with federal regulations—ones that were explicitly put in place to protect workers. Under church plans, a "[pension] promise is only as good as the word of the hospital," Stein said. "If the hospital gets into financial trouble and the plan is not well-funded, you're not going to get paid your benefits."

But if these hospitals lose, they will also face intense financial consequences—and so will other religiously affiliated organizations across the country. Two appellate courts, the Third and Seventh Circuits, recently ruled against them, and "it is hard to overstate the burden and havoc these two decisions have created," the hospitals wrote in their petition to the Supreme Court. If the lower-court rulings are affirmed, "this will mean renegotiating contracts with employees whose benefits are covered by collective-bargaining agreements, revamping benefit structures, redesigning pension-funding policies, and overhauling budget plans."

There will also be future consequences: Under ERISA, employers are required to pay premiums to the PBGC and fund their pension plans at certain levels. When the law was created, "There was … a feeling that these kinds of church groups could not afford the cost of an ERISA plan," said Howard Shapiro, a lawyer at Proskauer Rose in New Orleans, who has defended a number of hospitals that are being sued over their church plans. If these organizations are retroactively forced to comply with ERISA, they could face significant, and potentially ruinous, financial hardships.

The irony is that both religious groups and their employees could end up suffering if these hospitals lose at the Supreme Court. The church plans at issue "are still the old style of defined-benefit plans which everyone wishes they still had but don't have anymore," said Colleen Medill, a law professor at the University of Nebraska and counsel at the Koley Jessen law firm. "If [the hospitals] lose, and they pay whatever they have to pay in damages, they will probably, as a pure financial decision, freeze or terminate these plans and move over to a defined-contribution kind of plan."

Defined-contribution plans typically include options like 401 (k) features, which have become much more popular in recent years—if you look at graphs of the number of organizations that have switched over to these plans, "they kind of look like the Nike swoosh," said Medill. The reason behind this rise is straightforward: Defined-contribution plans shift the burden of bad economic times from employers to employees. A 401 (k) plan is great when the stock market is doing well, but "when the market goes down, maybe you don't love that 401(k) plan so much because you bear the risk of market volatility," Medill said. "In terms of retirement-income security, is it better to have an account that goes up and down every day with the market? Or is, it better to know that when I retire, I'll get $3000 a month for life?"

In some ways, it's surprising that all these issues are coming out now—ERISA has been around for 42 years, and Congress clarified the nature of church plans in 1980. In part, the delay is due the nature of retirement plans: People pay in over a long period of time, and they might not realize the consequences of being part of an uninsured pension plan until they're about to hit 65 and realizing they don't have the money they need to live.

But the delay also has to do with the way the IRS has dealt with religiously affiliated groups, Stein argued. "This went on for as long as it did [because] there was no regulation, no formal rule-making," he said. During the 1990s and into the 2000s, a large number of religiously affiliated organizations won permission from the IRS to convert their pension plans into church plans. There were big incentives to do so: If they won church-plan status, the PBGC would refund a portion of the premiums they had paid in the past, which meant anything from a few thousand dollars to millions. Groups would get a private-letter ruling from the IRS, a form of guidance that does not set precedents for other taxpayers. But until 2011, when the agency began facing media scrutiny for what one amicus brief called "church-plan conversions," organizations weren't required to tell employees about the changes to their benefits plans. "By and large, employees didn't even know it was happening—churches didn't write a letter saying, 'By the way, we just decided to screw you,'" said Stein.

Around the time a handful of plans began failing, a wave of lawsuits began—dozens have been filed since 2013, according to court documents. "There's a whole movement among class-action lawyers where they see the potential to sue a very large plan and collect a lot of money in attorney's fees and have some benefits for the employees," said Medill. If the hospital employees win, "these employers are going to have to come up with a lot of money to fund these plans to come into compliance with ERISA."

Not all churches and religious organizations dislike ERISA—in fact, any house of worship or religiously affiliated group can voluntarily choose to be subject to the law. "There are reasons to do that—namely to take advantage of federal preemption of state laws," said Medill. ERISA limits the scope of what plaintiffs can win in a lawsuit, for example—if they operate in states that are more permissive, employers might find ERISA's limited legal liability attractive. But that's not what's happening in these cases. "The real issue here is the funding requirement for the pension plans. If the plans were subject to ERISA, the employers would have to pay a lot more to fund these plans," Medill said.

It's hard to know how extensive the consequences of this Supreme Court decision could be. But they may not just be financial—Shapiro also sees the potential for religious-freedom conflicts. Under their church plans, religiously affiliated organizations can choose how they invest their money—pacifists can avoid putting money behind ammunitions companies, for example, or pro-life faiths can steer clear of investments related to abortion. Because ERISA imposes specific investment responsibilities on employers, Shapiro said, compliance "[could] actually conflict with some religious principles that are very important to these entities."

These cases don't break down along clear lines of good vs. evil. Various sides are trying to protect people who have compelling, conflicting needs, including employees who want to be able to survive retirement and hospitals with missions to follow their teachings and serve the poor. Everyone involved likely has some religious stake—many people who spend their lives working for religious hospitals are probably just as faithful as the organizations that employ them. There's only one group that will really walk away victorious: As Medill put it, "This will be good for employment for ERISA lawyers."

THE ATLANTIC

BY EMMA GREEN

A Roadmap For Muni Investors On Public-Private Infrastructure Partnerships.

- For municipal bond investors, the private sector's increasing role in financing public transportation projects may provide an opportunity.

- Also known as P3s, these partnerships are increasingly using muni bonds as a cornerstone of their capital structures.
- Here's a primer on how P3s work and how the muni bonds used to finance these projects could potentially offer yield and diversification opportunities.

The increasing role of the private sector in financing public transportation projects may provide an investment opportunity for municipal bond investors. In fact, President-elect Donald Trump has called for $1 trillion investment in infrastructure, much of which will depend on public-private investment for funding. Below is a review of these types of infrastructure projects, known as private-public partnerships (P3s), which have been a response to chronic funding shortages at the governmental level, and which are increasingly using municipal bonds as a cornerstone of their capital structures. These types of municipal bonds may offer incremental yield and portfolio diversification for municipal bond portfolios.

Continue reading.

Wells Fargo Asset Management

By Lyle Fitterer, CFA, CPA

Dec. 4, 2016 3:57 PM ET

Fitch Rates $500MM Chicago Board of Ed (IL) Bonds 'A' on Special Revenue Analysis; Outlook Stable.

Fitch Ratings-New York-08 December 2016: Fitch Ratings has assigned an 'A' rating to the following Chicago Board of Education, IL bonds:

–$500 million dedicated capital improvement tax bonds, series 2016.

The bonds are expected to price the week of Dec. 12. Proceeds will finance specific capital projects listed in the authorizing resolution.

The Rating Outlook is Stable.

The Board of Education's Issuer Default Rating (IDR) is 'B+' with a Negative Rating Outlook. The distinction between the 'A' rating on the series 2016 bonds and the 'B+' IDR reflects Fitch's assessment that the pledged revenues meet the definition of "special revenues" under the U.S. Bankruptcy Code and therefore, bondholders are legally insulated from any operating risk of the board.

SECURITY
The bonds are secured by a first priority lien on revenues from the capital improvement tax (CIT), a district-wide property tax.

KEY RATING DRIVERS

SPECIAL REVENUE ANALYSIS: The 'A' rating on the dedicated CIT bonds is based on a dedicated tax analysis without regard to the board's financial operations. Fitch has been provided with legal opinions by board counsel that provide a reasonable basis for concluding that the tax revenues levied to repay the bonds would be considered ‘pledged special revenues’ under Section 902(2)(e) of the U.S. Bankruptcy Code in the event of a board bankruptcy.

PREDICTABLE REVENUES: Growth in the levy (currently $47.9 million) is set by state statute at the rate of inflation; however, the levy jumps up in 2033 by $142.5 million, then resumes inflation-based growth. Debt service schedules are sized to the minimum levy, without assuming inflationary increases.

STRONG RESILIENCE OF PLEDGED TAX SECURITY: A multi-year levy with pre-determined minimum amounts combined with limited volatility in historical property tax collection rates support strong financial resilience for debt service coverage throughout economic declines.

RATING SENSITIVITIES

PROPERTY TAX COLLECTION RATES: The rating is sensitive to declines in property tax collection rates of a scale that would materially erode the protection inherent in the expected coverage ratios, given the fixed-dollar levy, 1.1x additional bonds test and moderate historical delinquency experience.

CREDIT PROFILE
The Chicago Board of Education provides preK-12 education to over 390,000 students within the city of Chicago. Its taxing jurisdiction is coterminous with the city of Chicago. The Chicago Public Schools (CPS) manages the school system, which is composed of 673 school facilities.

CIT VIEWED AS SPECIAL REVENUES
The specific features of the bonds meet Fitch’s criteria for rating special revenue obligation debt without consideration of the board’s general credit quality. Fitch believes bondholders are effectively insulated from the operating risk of the board as expressed in its IDR.

Fitch sets a high bar for considering local government tax-supported debt to be secured by special revenues, which provide security that survives the filing of a municipal bankruptcy (in preservation of the lien) and benefit from relief from the automatic stay provision of the bankruptcy code. We give credit to special revenue status only if, in our view, the overall legal framework renders remote a successful challenge to the status of the debt as secured by special revenues under Section 902 (2) (e) of the U.S. Bankruptcy Code.

Fitch has identified a number of elements we consider sufficient to reduce the incentive to challenge the special revenue status given the definitions outlined in the bankruptcy code. These include clear restrictions on the use of pledged revenues for identified projects and clear separation from the entity’s operations. Fitch has undertaken an extensive review of the statutory provisions that govern the use of the CIT. Those provisions, along with the legal documents governing the bond issuance, provide sufficient strength for Fitch to rate the CIT bonds higher than the IDR.

The bonds are secured by a first priority lien on CIT revenues. The board is authorized under the Illinois School Code to levy the CIT on all taxable property within the district, which is coterminous with the city of Chicago. State statute limits the permitted uses of CIT revenues to include construction, acquisition and equipping of school and administrative buildings, and site improvements. The board has identified specific capital projects in the bond resolution that may be funded either by bond proceeds or by residual CIT revenues. Any amendments to the project list must be passed by board resolution. The revenues legally cannot be used for general operations of the board.

STRONG RESILIENCE OF PLEDGED CIT SECURITY

The multi-year levy supporting debt service on the bonds required and received approval by the Chicago city council; however, no further approvals are necessary for the levy to be extended and collected for the life of the bonds. The multi-year levy is set by resolution at the time of bond issuance and no policy action is required to offset potential declines in assessed value. Importantly, the minimum amount of the levy is knowable in advance and the debt service schedule is sized to that, allowing for a minimum of 1.1x coverage. This leaves only the risk of diminishing collection rates, which historically have been well within the norm for U.S. municipalities.

To evaluate the sensitivity of the dedicated revenue stream to cyclical decline, Fitch considers both revenue sensitivity results (using a 1% decline in national GDP scenario) and the largest decline in revenues over the period covered by the revenue sensitivity analysis. Since the CIT revenue history is insufficient to conduct this analysis, Fitch uses a proxy of overall property tax collection rates, which it believes approximates future risk to CIT revenue sufficiency.

Based on historical property tax collection rates, Fitch's Analytical Sensitivity Tool (FAST) generates a fairly modest 1.7% scenario decline in pledged revenues. The largest cumulative decline was a 2.7% decline during the recession between 2008 and 2009.

Given the 1.1x coverage, pledged revenues could withstand a 9% decline before they were insufficient to fully cover debt service. This is 3.3x the largest actual cumulative decline, or 5.3x the recessionary impact estimated in Fitch's FAST scenario. Recent tax increases by Chicago-area governments could contribute to delinquencies beyond historical experience in a recession, but even so, Fitch believes collection rates would continue to support financial resilience consistent with an 'A' rating.

Chicago acts as the economic engine for the Midwestern region of the United States. The city's residents are afforded abundant employment opportunities within this deep and diverse regional economy. The city also benefits from an extensive infrastructure network, including a vast rail system, which supports continued growth. The employment base is represented by all major sectors with concentrations in the wholesale trade, professional and business services and financial sectors. The city's economic indicators are mixed with elevated individual poverty rates and average per capita income levels, but strong educational attainment levels. Recovery from the recession has been slow but steady. The unemployment rate is almost half of its recessionary peak but remains elevated relative to the state and nation. Population losses appear to have reversed.

ADEQUATE STRUCTURAL PROVISIONS

The additional bonds test dictates that projected CIT revenues must provide at least 1.1x coverage of annual debt service in each bond year. Projections may not include assumptions for inflationary increases prospectively. Fitch's analysis assumes the pledged revenues would be leveraged to the full extent allowable under the additional bonds test.

Under the flow of funds, the CIT revenues are collected by the county collectors of Cook and DuPage Counties. The board has directed the collectors to transmit the CIT revenues directly to an escrow agent. The escrow agent transfers revenues needed for payment of debt service to the bond trustee daily. Revenues in excess of those required to meet annual debt service may be available to reimburse CPS for authorized capital expenditures.

The board covenants not to revoke the direction to the county collectors as long as the bonds are outstanding. Based upon review of bond counsel opinions Fitch believes that any future attempt to revoke the direction to the county collectors would be contrary to state statute.

The debt service reserve requirement of 14% of maximum annual debt service (MADS) will be funded with bond proceeds.

The board's 'B+' IDR with a Negative Outlook reflects CPS's chronic structural imbalance, slim reserves and weak liquidity position which are exacerbated by rising long-term liability costs, an historically acrimonious labor relationship and the lack of an independent ability to raise revenues. For more information on the board's IDR, please see 'Fitch Rates $426MM Chicago Board of Education (IL) ULTGOs 'B+'; Outlook Negative' dated Nov. 7, 2016.

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New Issue Calendar Coming to EMMA.

Beginning in January 2017, the Electronic Municipal Market Access (EMMA®) website will provide free, convenient access to a new issue calendar enabling individual investors, issuers and other market participants to see new bond issues coming to market as well as final pricing scales for bond issues sold through competitive and negotiated sales.

Individual investors can use the calendar to locate upcoming bond offerings of interest. The new issue calendar provides issuers that may be planning on issuing a new security the ability to identify, monitor and compare prices of similar issues that are coming to market or have been recently sold. The Municipal Securities Rulemaking Board (MSRB) is providing the calendar to help all market participants make decisions that are right for them.

Learn more about other tools and resources on EMMA.

Bloomberg Brief Weekly Video - 12/08

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

Watch video.

December 9, 2016

Bloomberg News

Junk-Rated Chicago Schools Plan New Kind of Bond Issue.

CHICAGO — Chicago's public school (CPS) system plans to sell a new type of bond issue in an attempt to separate the debt from the district's severe financial woes and protect it in a potential bankruptcy filing, according to a document released by the district on Tuesday.

The preliminary prospectus for the debt indicates the Chicago Board of Education will issue $500 million of bonds secured solely by a capital improvement property tax and not by the district's general obligation pledge.

That pledge currently covers about $6.8 billion of existing bonds that are rated junk by Moody's Investors Service, S&P, and Fitch Ratings.

CPS, the nation's third-largest public school system, is struggling with pension payments that will jump to about $720 million this fiscal year from $676 million in fiscal 2016, as well as drained reserves and debt dependency – factors that have pushed its GO credit ratings deep into the junk category and led investors to demand fat yields for its debt.

Illinois Governor Bruce Rauner last week vetoed a bill to give CPS a one-time $215 million state payment to help cover pension costs.

Ratings for the new bonds, backed by a $45 million a year property tax levy approved by the Chicago City Council in 2015, were not available. Because that tax revenue can only be used to fund capital projects and not operations, CPS is hoping bondholders will consider the debt a safer bet than the district's GO bonds.

A CPS spokeswoman could not immediately be reached for comment.

CPS cannot currently file for municipal bankruptcy in Illinois, although there have been attempts to change state law to allow such a move. The prospectus includes legal opinions on a "hypothetical bankruptcy" by CPS that conclude payments on the new bonds would not be automatically stopped by a federal bankruptcy court and that bondholders would retain a lien on the tax revenue.

The prospectus was released a day before the schools' governing board, appointed by Chicago Mayor Rahm Emanuel, votes on an amended fiscal 2017 budget to account for a new contract with teachers. The bond issue is tied to a bigger capital plan CPS announced last week.

The bonds, to be priced through Barclays and J.P. Morgan, carry term maturities in 2036 and 2046.

By REUTERS

DEC. 6, 2016, 6:36 P.M. E.S.T.

(Reporting by Karen Pierog; Editing by Matthew Lewis)

Fund Manager Q&A: What Should Muni Bond Investors Do Now?

NEW YORK — The past year has meant a wild ride for investors in municipal bond funds.

Between September 2015 and this past October, municipal bond funds had 54 straight weeks of inflows, with investors pouring some $68 billion into them. Muni fund owners were rewarded handsomely: In the first six months of 2016, the BlackRock Strategic Municipal Opportunities fund returned 4.7 percent, for example. The 10-year yield on the AP Municipal Bond index, which moves inversely to bond prices, hit a low of 1.69 percent in July.

Then the bear came out roaring.

In early October, the flow of dollars into muni funds stalled as bets increased that the Federal Reserve would raise interest rates late this year. Selling accelerated after Donald Trump's surprise victory on expectations that his plans to boost economic growth would hurt the price of bonds. In November alone, investors yanked over $10 billion from muni funds, according to the Investment Company Institute. BlackRock's Strategic Municipal Opportunities fund fell 4.4 percent.

Peter Hayes, co-manager of the $4.7 billion BlackRock Strategic Municipal Opportunities fund, recently talked about the about-face for munis, and how investors can best navigate the current uncertainties. Answers have been edited for length and clarity.

Q: Muni bonds have just undergone an intense sell-off. Do you think it has gone too far?

A: Well, every big sell-off winds up being a good long-term buying opportunity, at some point. It's a question of finding the right entry point.

This sell-off has been so dramatic that it created value in a short amount of time. Municipal bonds are yielding more than Treasurys right now, and last week we began to see some stabilization of the market.

But given the headwinds, I'm not sure we are completely out of the woods yet.

Q: Which headwinds worry you the most?

A: Interest rates continue to be a concern. If rates go higher, that will scare investors from long-term assets.

Q: What about tax rates? Some believe that the Trump administration will slash tax rates for higher earners, which would diminish the value of muni bonds' tax-free income.

A: That's a potential headwind as well, but it's much longer term. I think we need to get past the inauguration and see what the new administration is really most concerned with.

Q: With all the talk of tax reform, some have wondered if the municipal tax exception could be at risk.

A: We emphatically don't believe that we will lose the muni tax exemption. Taxes are a bit of an overhang to the market, but a lot of that's already been factored into the price of the bonds today.

Q: Sounds like taxes are a wildcard. But it does seem likely that President-elect Trump will try to boost infrastructure spending. How do you think that will impact the muni market?

A: The initial reaction to the infrastructure proposals was that it would be negative, because it would mean more issuance in the muni market. That is usually a headwind for performance, given that we don't know what the demand is going to be.

But if you really look at the Republican proposals, they're talking about an infrastructure bank and private tax credits. That doesn't translate into increased muni issuances.

It's also important to keep in mind that this year, about 60 percent of new issuance was related to issuers that were refinancing their debt.

If rates move higher, refunding will be less attractive. So I don't see the current proposal as we know it today translating into higher issuance in the muni market in 2017, especially if the first half of the year is driven by all this insecurity around tax policy. Altogether, I don't see infrastructure as a big headwind.

Q: So what's the best strategy for investors right now?

If you already own munis, don't sell. The market has already sold off significantly.

If you need a bit of income and want to take a position, shorter-term bonds look cheap. For the most part, stay in the three- to five-year range, where you will be less exposed to a change in tax policy and a potential rise in longer-term interest rates. Because the correction has been so large, those looking for more income might want to put a portion of their money in the 10- to 15-year part of the curve.

Otherwise, I suggest waiting on the sidelines. The severity and size of the move is likely to have scared investors. The next several weeks are very important. If the fund flows continue to be very negative, we have to be cautious. If they stabilize, then I think we can be more confident that the worst is over.

By THE ASSOCIATED PRESS

DEC. 8, 2016, 1:22 P.M. E.S.T.

GFOA New Best Practices Address Cash Flow Analysis, Investment Policy.

The GFOA Executive Board approved two new best practices in addition to updates to four other existing best practices at the September 2016 meeting. These documents provide recommendations to government finance officers in the areas of treasury and investment management, and retirement administration and benefits administration.

Cash-Flow Analysis. This new best practice recommends six essential elements of a cash flow analysis, an important tool to inform management decision making. GFOA recommends that state and local governments perform ongoing cash-flow analysis to ensure sufficient cash liquidity to meet disbursement requirements while also limiting idle cash.

Investment Policy. This new best practice recommends reviewing and, if necessary, updating the investment policy annually. The document includes statements on eight key points, including the fact that an investment policy enhances the quality of decision making and demonstrates a commitment to the fiduciary care of public funds. As a result, a public fund's investment policy is the most important element in a public funds investment program. GFOA recommends that all public entities establish a comprehensive written investment policy, adopted by the governing body.

Hybrid Retirement Plan Design. This best practice was revised to reflect the continuing evolution of hybrid plan designs. GFOA recommends design elements for hybrid plans or plans that combine hybrid features with defined benefit or defined contribution plans.

Establishing and Administering an OPEB Trust. This best practice was revised to align with language related to the January 2016 best practice, Sustainable Funding Practices for Defined Benefit Pensions and Other Postemployment Benefits. It includes a new recommendation that governments commit to funding promised benefits based on regular actuarial valuations, with a target funded ratio of 100 percent or more. GFOA also recommends creating a qualified trust fund to prefund OPEB obligations.

OPEB Governance and Administration. This revision aligns the best practice with the Sustainable Funding Practices for Defined Benefit Pensions and Other Postemployment Benefits. That best practice, from January 2016, recommends conducting an audit of actuarial valuations to review the appropriateness of the actuarial methods, assumptions, and their application. The updated language addresses employers that issue periodic studies, experience studies, and periodic actuarial audits. GFOA recommends that sponsoring entities provide a clear, well-documented governance structure to guide governing bodies and plan administrators.

Educating Employees About the Adequacy of Retirement Benefits. As part of GFOA's effort to consolidate and develop more comprehensive best practices, this updated document addresses elements of a sound educational program as well as guidance for employers and retirement systems that procure external providers of financial education and advice. GFOA recommends that public-sector employers and plan administrators inform and educate employees about future retirement income and the variables that may affect future retirement income, depending on the income source.

Government Finance Officers of America

December 1, 2016

Trump Infrastructure Plan: Far Less Than the Claimed $1 Trillion in New Projects.

Huge tax breaks for private investors; Neglects vital public road, bridge, school, and water projects

President-elect Trump's infrastructure plan, which claims that it would deliver up to $1 trillion in new infrastructure investment, almost surely would deliver far less — and it would not deliver many of the most important needed projects for roads and bridges, public transit, schools and public housing, water facilities, and so on, nor deliver them in the struggling communities in which they're most needed.TRUMP'S PLAN WOULD MAINLY BE A TAX-CUT WINDFALL TO PRIVATE DEVELOPERS TO BANKROLL FOR-PROFIT PROJECTS THEY LIKELY WOULD HAVE UNDERTAKEN ANYWAY. That's because Trump's plan would mainly be a tax-cut windfall to private developers to bankroll for-profit projects they likely would have undertaken anyway.

[Download the full brief.]

CENTER ON BUDGET AND POLICY PROPOSALS

BY CHYE-CHING HUANG, PAUL N. VAN DE WATER, RICHARD KOGAN, AND DAVID KAMIN

DECEMBER 2, 2016

Fitch: US Energy States' Fiscal Pressures Go On.

Fitch Ratings-New York-01 December 2016: Low commodity prices will keep fiscal pressure on energy states in 2017, Fitch Ratings says. We expect severance taxes and related revenue sources to remain low, while personal income and sales tax collections will remain suppressed, prolonging fiscal pressure.

This year, price and production shifts among energy states contributed to some Issuer Default Rating (IDR) downgrades: Alaska to 'AA+' from 'AAA'; Louisiana to 'AA-' from 'AA'; and West Virginia to 'AA' from 'AA+'. Alaska and West Virginia carry Negative Rating Outlooks, in addition to Oklahoma (IDR of 'AA+').

The anticipated loosening of federal environmental oversight to promote increased energy development and the recently positive crude oil price trend will not overcome the global market forces that are restraining crude oil and natural gas prices. The glut of crude oil, an international commitment to reduce coal use to combat climate change and increasing use of renewables for energy needs will keep demand for coal weak.

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The Week in Public Finance: A Run on Pensions in Dallas, Connecticut's Warning and a Threat to Muni Bonds.

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

Read the report.

GOVERNING.COM

BY LIZ FARMER | DECEMBER 2, 2016

New Municipal Bond Sales Slowed in November to Year Low.

Sales of municipal bonds and notes slowed to $23.7 billion in November, the slowest month this year and less than half of October's record high, according to Thomson Reuters data.

The slump in new issuance came during a month peppered by holidays and the U.S. presidential election. In October, $51.6 billion of new sales came to market, the biggest month of issuance since records began in the 1980s.

Bond issuers also canceled some deals in November as market volatility spiked and yields surged after the surprise Nov. 8 election of Donald Trump as president.

"The combination of a selloff in Treasuries affecting fixed income in general and a less active primary market caused much of the activity to go elsewhere," Janney Fixed Income Strategy reported on Wednesday.

Municipal supply had been surging in recent months as state, city and other public agencies eagerly sold bonds and notes at low interest rates.

Reuters

Wed Nov 30, 2016 | 1:48pm EST

(Reporting by Robin Respaut; Editing by James Dalgleish)

High-Grade Munis Now a Gift in Bond Rout: Kotok

David Kotok, chairman and chief investment officer at Cumberland Advisors, and Bloomberg's Michael McKee examine higher bond yields and the impact of infrastructure spending on municipal bonds. He speaks on "Bloomberg Daybreak: Americas."

Watch video.

Bloomberg

December 5, 2016

Trump Infrastructure Plan May Undermine Municipal Market.

President-elect Donald Trump and a Republican-controlled Congress may take steps to make municipal bonds less attractive to investors, potentially undermining a popular tool to finance bridges, roads and other public projects.

Trump is calling for $1 trillion worth of infrastructure spending that would be financed in part through tax credits to investors and construction companies, Frank Shafroth, director of George Mason University's Center for State and Local Government Leadership, told Bloomberg BNA Nov. 29.

"Tax credits to investors insert federal, instead of state/local authority, guidance," Shafroth said. "It risks undercutting the planning of a state or local government."

A further concern for states and local governments is that Trump and Congress may move to tax municipal bonds to pay for credits or tax cuts in other areas. If that happens, expect states and cities to jump into the fray.

"Stated simply, state and local governments will want to preserve the existing rule for tax exemption of municipal bond interest because to eliminate it would increase the cost of borrowing," Charles S. Henck, a Ballard Spahr LLP partner who practices in public finance and tax law, told Bloomberg BNA Nov. 28.

The president-elect's transition team didn't respond to repeated requests for comment.

Trump Advisers

Trump economic advisers question whether state and local governments should be able to issue debt on which the interest is exempt from federal taxes.

Those advisers—private-equity investor Wilbur Ross and University of California at Irvine business professor Peter Navarro—argue that municipal bonds aren't an efficient way to pay for public projects. For one, a percentage of the money goes to the bondholder.

Navarro declined to comment for this story, and Ross, the billionaire who Trump is expected to nominate as commerce secretary, couldn't be reached.

Navarro and Ross, however, authored a paper during the general election campaign explaining problems with tax-exempt bonds and outlining alternative methods Trump is considering.

Private investment and federal tax credits could serve as a "critical" supplement to existing financial programs, public-private partnerships and Build America Bonds, the paper said.

Shafroth, however, said that a federal plan of private investment and tax credits may fail to take into account that states and local governments—unlike the federal government—have capital-planning processes and capital budgets that could be disrupted.

Cowboys, 'Big Dig.'

When investors buy municipal bonds, they are lending a local or state government money for a fixed period of time, often to pay for roads, schools and other construction projects.Arlington, Texas, for example, is paying off $300 million in bonds used to finance AT&T Stadium, home of the Dallas Cowboys. In Massachusetts, the governmental entity known as MassPort continues to pay for the "Big Dig," a $24 billion project that placed Interstate 93 under the city of Boston.

In exchange for an investment, the local or state governments pay the investor interest throughout the term of the bond. Currently, interest isn't taxable.

The investor is also entitled to the principal of the bond.

Spurred to Act

Generally, states don't involve themselves in Washington tax debates when Congress moves to repeal tax breaks or lower tax rates, because a broader tax base for the federal government means a broader tax base for states, Joe Henchman, vice president of legal and state projects at the Tax Foundation, told Bloomberg BNA Nov. 22.

But eliminating the bond interest exemption could make bonds—a favorite method of paying for large, expensive projects—less attractive to investors.

If the exemption is "on the table, states may get directly involved in the debate," Henchman said.

Bloomberg BNA

By Che Odom

November 30, 2016

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Progressive Think Tank: Trump's $1 Trillion Infrastructure Plan 'Shovels Money at Wealthy Investors'

President-elect Donald Trump's ambitious plan to raise $1 trillion for infrastructure is a boondoggle that would line the pockets of wealthy investors while not meeting the need for infrastructure repair or improvement in much of the country, according to an analysis released Thursday by a progressive think tank.

Trump's plan "shovels money at wealthy investors instead of solving real infrastructure challenges," according to a white paper from the Center for American Progress.

The paper figures to be the first salvo in a lively debate if Trump follows through on his promise to make refurbishing the nation's roads, bridges and transit systems a centerpiece of his administration, coupling it with his vow to put unemployed middle-class Americans back to work.

"It's really a huge failure because it just doesn't deliver on what the actual needs are out there," said Kevin DeGood, the report's author. "These really complicated deals for which contracts [with private investors] can be beneficial only apply to one-half of 1 percent of the need that is out there."

Trump's transition team did not respond when forwarded a copy of DeGood's report for comment.

DeGood is director of infrastructure policy at the center, which was founded and led by John Podesta until he resigned to become chairman of Hillary Clinton's presidential campaign.

The challenge is a simple one: Investors want a return on their money, and very few transportation projects provide one. Tolls can be imposed on selected roads and bridges, but the vast majority of them offer no opportunity to recoup investment.

"That would be a very rude shock to a lot of people who voted for Donald Trump if they suddenly found that the rural roads in Nebraska or Indiana — the interstate highway, which they paid for and they're still paying gas taxes — now they have to pay a toll on top of that?" said Rep. Peter A. DeFazio (Ore.), the ranking Democrat on the House Transportation Committee. "They probably wouldn't be happy."

The Congressional Budget Office said last year that just 26 private-investment projects were completed or underway nationwide.

The Trump plan would give private investors an 82 percent tax credit to put money into projects. Trump said his plan would lead to up to $1 trillion worth of new projects, but simply lowering the cost of money with tax credits to investors is unlikely to unleash a new round of big-ticket projects, because states already have access to the municipal bond market.

According to Trump, his proposal would play a central role in funding $1 trillion in projects without draining taxpayer dollars lost by offering the tax credit incentives. That's because, he said, the tax revenue would be recouped by taxing the wages of people put to work on the projects and from taxes paid by contractors hired to do the work.

DeGood's paper says: "The Trump plan calls for spending as much as $137 billion from the federal treasury in the form of tax credits to wealthy Wall Street investors. This massive subsidy would lower the cost of equity capital to a level roughly equivalent to municipal bonds."

In an interview as his analysis was released, DeGood said the lack of sufficient tax dollars, not a need for financing, was the cause of the failure to address infrastructure needs.

"If just having access to debt at 3 percent were all that project sponsors needed to kick off big projects, then that would have happened already," he said. "We're in the lowest cost financing universe that we've been in since World War II, and yet we don't see explosive growth in construction activity because it's a lack of tax revenue, not a lack of access to debt."

The second part of the Trump plan involves repatriation, a much-talked about idea to lure home $2.5 trillion in cash held overseas by U.S. corporations. Trump has proposed reducing the rate companies would pay to bring the money home to 10 percent from 35 percent. Those companies then could invest slightly more money in infrastructure projects, gain the 82 percent tax credit and effectively erase that 10 percent tax.

The Washington Post

By Ashley Halsey III

December 1

[New Center for American Progress Brief Shows How Trump's Infrastructure Proposal Is Fatally Flawed.]

Washington, D.C. —(ENEWSPF)–December 1, 2016. President-elect Donald Trump's fatally flawed infrastructure proposal enriches Wall Street investors while passing the bill to middle-class Americans in the form of high tolls and other user fees, a new issue brief from the Center for American Progress explains. In the place of actual federal spending on critical projects, President-elect Trump has pushed the idea of authorizing a pool of tax credits that would flow to equity investors in large public-private partnership, or P3, deals. These project debts would be repaid by tolls and other fees levied on the people and businesses that use the new facilities.

"Trump's infrastructure plan, which is built on tax credits for Wall Street, is not a plan for America because it would do nothing for the vast majority of Americans," said Kevin DeGood, Director of Infrastructure Policy at CAP.

As CAP's brief explains, Trump's plan suffers from a number of major flaws:

The plan would push state and local governments to use equity capital that can cost 300 percent to 500 percent more than capital raised through traditional municipal bonds. The primary challenge facing state and local governments with regard to infrastructure financing is not access to credit but a lack of tax revenues to repay project debts. The Trump plan calls for spending as much as $137 billion in the form of tax credits designed to lower the cost of equity capital to a level roughly equivalent to municipal bonds. As the massive $3.7 trillion municipal bond market already provides project sponsors with access to low-cost financing, these credits only enrich elite investors rather than helping build needed projects.

The plan would provide no support for thousands of critical maintenance and reconstruction projects. The Trump infrastructure plan does nothing for repair and incremental expansion, which make up the vast majority of critical infrastructure projects. Many of these projects, while necessary for the communities in which they are located, would not be attractive to the elite Wall Street investors toward whom Trump's plan is geared. This includes projects in rural communities and smaller cities and towns.

The plan would raise taxes on middle-class Americans in the form of high-cost tolls and other user fees necessary to satisfy the 10 percent to 14 percent annual returns demanded by equity investors. By using expensive equity capital and a concession model based on tolling and revenue risk transference, Trump's plan would raise the total cost of major projects by more than 30 percent—money that must come from the American taxpayer.

The plan would not meaningfully increase total economic activity, employment, or real wages. The most likely outcome of Trump's infrastructure plan is little to no net increase in overall construction activity. Assuming the plan is passed in its current form, state and local leaders—who are responsible for planning and building infrastructure projects—would receive zero additional funding from Washington, while Wall Street would receive considerable tax breaks.

In contrast, CAP proposed an infrastructure plan that lays out a comprehensive approach to repairing and expanding the country's infrastructure. CAP's plan not only calls for increasing investment across sectors but also for substantial policy reforms to ensure that federal funds flow to the projects that would generate the greatest economic, social, and environmental return on investment—an approach that would pay dividends for generations to come.

Disruptive Technology in the Muni Bond Market.

If you rummage through the records of the Smithsonian Institution, you'll find that at the dawn of the 1900s, the City of Dayton, Ohio had the most patents per capita for a city its size than any other in America. Not a surprise, really; in its day, Dayton was the epicenter of transformational industry. Along with innovative manufacturing of everything from cash registers to sewing machines, there were several bicycle building businesses. It was from one of those shops where what is undoubtedly one of mankind's greatest inventions took flight.

Fast-forward to these days of transformational technology. The hub that comes to mind is California's Silicon Valley, filled with apps and chips. Mentioning 'transformational technology' in the same sentence as the municipal bond market, the state of Ohio and tax-exempt variable rate debt seems wildly incongruous.

That would be a serious error. With the state of Ohio's recent issue of $32.3 million Series C Capital Facilities Lease-Appropriation Variable Rate Bonds (Aa2-VMIG1/AA-A-1+/AA-F1+) using ClarityBidRate's e-trading platform to reset the rates, this financing uses e-technology in a way that may well completely transform the variable rate securities market.

Variable Rate Bonds In A Nutshell

Given how many investors hold tax-exempt money market funds in their portfolios—the Investment Company Institute (ICI) reports there are nearly 270 retail funds/share-classes with nearly $130 billion in assets—it's surprising how little most investors know about the securities held in those funds. In fact, variable rate debt (VRDO is the abbreviated professional nomenclature) comprises a majority of the investments held in those funds.

Issuers like the state of Ohio borrow using VRDOs for a variety of reasons, such as taking advantage of short-term rates or as part of a larger debt management program. While VRDOs are structured with long maturities, 20 or 30 years, the rates are reset regularly. Customarily, the reset is done weekly, but there are some financings that reset as frequently as daily or as long as semi-annually. When the rate resets, the borrower—in this case, the State of Ohio—is obligated to pay on whatever is the new rate.

Traditionally, the VRDO market revolves around the remarketing agent, who determines what the reset rate is. Almost invariably, the agent is also the underwriter who brought the financing. The reset rate comes from those traders who buy and sell VRDOs off of the firm's short-term debt trading desk.

Utilizing ClarityBidRate's platform, the reset rate is set based on real trades between buyers and sellers directly. The highest bid clearing the last trade sets the rate. There is no remarketing agent.

In effect, the e-trading platform creates a VRDO exchange. ClarityBidRate takes the invisible hand of the market and makes it visible. No longer are VRDO rates dependent on an opaque over-th--counter market, controlled by the vagaries of a few short-term trading desks. On an e-trading platform, orders and trades are clear to everyone. For investors, this transparency translates into efficiency—better pricing, better executions, better liquidity.

Ohio Leads The Transformation

Why would the state of Ohio choose to lead the way for VDROs into the vanguard of an electronic trading platform? Mr. Seth Metcalf, the deputy treasurer for the State of Ohio, explained his rationale for his “faith in innovation.” With $492 million of VRDO debt outstanding, Ohio has more than a passing interest in how the rates are set. He outlined the problems in the VRDO market since the Credit Crisis of 2008: banks are not readily extending credit, auction-rate securities are gone and bond insurance is gone—all three previously critical factors in the short-term market. With the numbers to back it up, he demonstrated that, at least for Ohio short-term paper, the market as it currently exists isn’t functioning efficiently.

Mr. Metcalf’s observations of the positive impact of an e-trading platform for the borrower are spot on: using ClarityBidRate’s platform means more competition for the highly rated Ohio paper. For the good citizens of the state of Ohio, this means lower interest costs and fees—something always on the fore of the mind of the Treasurer’s office. Mr. Metcalf shrewdly observed that leveraging this technology “democratizes the process.” He hoped that others would have the courage to follow suit. Given the solid reputation of the Buckeye State and the billions in tax-exempt VRDOs being issued by municipalities and public authorities, it will undoubtedly garner attention.

The Impact Of Electronic Trading Platforms

Ohio and ClarityBidRate may be leaders in the VRDO e-trading space, but fixed income e-trading platforms are coming into the broader bond market—and with increasing frequency. The 2016 SIFMA Electronic Bond Trading Report details 19 electronic trading platforms, 15 of which entered the space in the past two years alone. However, the report notes, “more platforms support corporate securities than municipals securities.” In fact, of all those new platforms, 13 were in corporate bonds. Only two were in municipals—including one platform that entered both markets.

The increase in electronic trading platforms in fixed income is being driven by fundamental market changes. With hundreds of bond funds fighting for performance in a low interest rate environment, every basis point is precious. Correspondingly, portfolio managers are demanding the best execution on their trades from their counter-parties. As never before has market transparency and price discovery been so important.

For the investment banks, this low-rate environment means that short-term desks can’t find spread or charge fees sufficient to cover costs, much less create meaningful margin. They are becoming a concierge service rather than a profit center. Then there is the intense regulatory pressure on the market. On one side, the Federal Reserve Bank and Dodd-Frank placed limits on how much capital trading desks can commit. The short-term desks can no longer provide the liquidity for the VRDO market that they had in the past.

On the other regulatory side, the Securities and Exchange Commission issued its own set of money market regulations in October 2016. These came in response to the severe dislocation—and for a time the near complete breakdown—in the tax-exempt variable rate market during the credit crisis.

Among other things, the new SEC regulations permit floating net asset values in money market funds. Gone is the sacrosanct “$1 NAV” and with it the near religious admonition to “never break the buck.” Additionally, the new regs allow funds to impose ‘redemption gates’—meaning a fund manager can restrict a shareholder’s ability to sell shares. The presumed ready liquidity a money market fund traditionally offered an investor is also gone.

Between low rates and regulator changes, some fund managers exited the business altogether. The ICI reports that for Q3-2016 alone, $58 billion left the retail side of these funds, a 31% decline. Even more dramatic is the near elimination of institutional tax exempt money market funds. That asset class had an exit of $38.6 billion—a stunning 89% decline. Barely $4 billion remain in those funds.

With diminished demand for VRDOs from traditional tax exempt money market funds, the municipalities, authorities and nonprofits (who still need to sell this paper), will have to attract investors from outside the municipal bond market—corporate treasurers, sovereign funds, non-domestic banks. These investors, more familiar with the more visible, structured and liquid taxable short term markets, will demand that the short-term municipal bond market offer the same efficiency, transparency and liquidity they are accustomed to in the taxable market. The tax-exempt VRDO market will have to compete with taxable short-term instruments on all of those.

For e-trading platform firms like ClarityBidRate, MarketAxess and others, it couldn't be better timing. E-trading offers standardization, transparency and liquidity — all of which result in the more efficient markets taxable short-term buyers have come to expect. For the municipal borrower, a more efficient market with more participants should translate into tighter spreads and lower interest rates.

Another benefit of electronic trading for municipal bonds will be the ability to capture significant amounts of trading data. Until recently, munis lacked the 'big data' capture other more trade-transparent markets offer. More and better market analysis will help both market participants garner trading efficiencies and regulators craft more effective policy.

Even so, as with any newly emergent technology and market, there are some aspects that need tweaking. Platforms may offer standardization, but there are still some 42 electronic trading and execution protocols across various vendors. There are also differing processes in place on book management and counter-party visibility. However, the market will evolve, and fairly rapidly, to ultimately create uniform best practices.

There are some detractors who prefer having a human element to counter-party with. What will happen if—and when—the market experiences another period of dislocation? How will all these e-trading platforms perform then? It's a reasonable question and concern. However, keep in mind that during the credit crisis of 2008, having people on the desks did nothing to make the market more liquid or efficient. If anything, it did exactly the reverse.

So how did Ohio do with the ClarityBidRate managed rate resets? Everything went off smooth as silk. The fourth reset was completed on November 30, 2016. Ohio is paying .565% (annualized)—a mere 1 basis point off of the bellwether SIFMA Municipal Swap Index rate for the week. The folks in Ohio's state Treasurer's office have got to be smiling.

Barnet Sherman is the Senior Managing Partner of The Tenbar Group, a financial services consulting firm advising on successful strategies to manage the credit risk in municipal bond porfolios.

Forbes

by Barnet Sherman

Dec 2, 2016

[Muni Volume Remains on Pace for Record Year.]

Long-term municipal bond volume remains poised to set an annual record.

Volume dipped 9% in November to $23.87 billion, from $25.39 billion in November of 2015, mostly due to post election shockwaves that hit munis hard, causing yields to balloon. Still, with 11 months down and one to go, year-to-date volume reached $416 billion, meaning $18 billion in December would be enough to surpass 2010's record $433 billion. At this point last year, volume sat at $375.5 billion.

"It will be close, but I would bet that a new record is set," said Alan Schankel, a managing director at Janney Capital Markets. "I did not anticipate [we would see a] record until the middle of our exceptionally busy October, so although I am not surprised now, I would not have projected record volume at mid-year."

After a yearlong series of inflows of investor money into muni funds ended in October, weekly outflows accelerated to a record $3 billion in the week of Nov. 16, according to Lipper FMI. As of Nov. 29, muni yields had climbed as many as 123 basis points from the record lows earlier in the year. Analysts attributed the change to uncertainty over tax policy and the economy after Donald Trump's unexpected victory in the presidential race on Nov. 9.

"The election has driven the market. We have seen the decline in refundings as the curve has steepened," said Scott Andreson, director of municipal research for Seix Investment Advisors. "Issuance is down because of the volatility, and what we have seen post-election is a glimpse at what we will see in 2017."

Refundings, which have been strong for most of the year due to persistent low interest rates, dropped 7.2% to $7.29 billion in 295 transactions, from $7.85 billion in 371 transactions during the same period last year, according to data from Thomson Reuters.

"There will be roughly $40 billion less of bonds that are eligible for refunding next year," Andreson said. "That plus impending interest rate hikes will put a damper on refunding activity."

New money sales decreased 20.7% to $10.17 billion in 447 deals from $12.83 billion in 497 deals, while combined new-money and refunding issuance climbed 36.2% to $6.41 billion from $4.71 billion.

Andreson, who is the secretary of the National Federation of Municipal Analysts, said that although new money was down this month due to continuing rising yields, it won't be down for long.

"New-money issuance is going to increase next year. 2017 will be the year of new issuance rather than refunding, which has been the major story line the past two years," he said.

Negotiated deals, at $18.07 billion, were higher by 2.9%, while competitive sales decreased by 1.5% to $5.61 billion from $5.70 billion.

Issuance of revenue bonds decreased 7.3% to $15.59 billion, while general obligation bond sales dropped 3.3% to $8.29 billion.

Taxable bond volume was 14% higher at $2.07 billion, while tax-exempt issuance declined by 5.2% to $21.28 billion.

Minimum tax bond issuance slipped to $524 million from $1.12 billion, while private placements sank to $192 million from $2.13 billion. Zero coupon bonds increased to $122 million from $66 million.

Bond insurance dropped 10.7% for the month, as the volume of deals wrapped with insurance dipped to $1.84 billion in 138 deals from $2.06 billion in 126 deals.

Six out of the 10 sectors saw year-over-year gains. Utilities increased 23.7% to $3.41 billion from $2.75 billion, development gained 35.4% to $862 million from $637 million, health care rose 17% to $1.86 billion from $1.59 billion and education and electric power saw modest gains of 0.2% and 4.2%, respectively.

The four sectors in the red all saw at least a 6.8% decrease, with housing suffering the biggest drop to $654 million from $1.72 billion.

As for the different types of entities that issue bonds, only three were in the green: districts, colleges and universities, and local authorities. Districts improved 24.9% to $7.08 billion, colleges and universities more than tripled to $897 million from $253 million and local authorities' borrowing was up 1.1% to $4.38 billion from $4.33 billion. On the other end of the spectrum, the other six saw at least a 2.2% decrease, led by state governments, which declined 50.7% to $1.03 billion from $2.09 billion.

California remains the top issuer among states for the year to date, followed by Texas, New York, Pennsylvania and Illinois.

Issuance from the Golden State so far this year has totaled $60.81 billion, with the Lone Star State next at $50.41 billion. The Empire State follows with $41.12 billion. The Keystone State is in fourth with $18.94 billion and The Prairie State rounds out the top five with $17.52 billion.

"Tax reform is front and center, as it has been said that we need a lower and simpler tax code," said Andreson. "Whether that impacts munis it remains to be seen. We would be surprised if there is anything that is passed that takes away issuers' ability to issue tax exempt bonds, we think that corporate tax reform is more likely but nothing is off the table as of now."

The Bond Buyer

By Aaron Weitzman

November 30, 2016

The Rust Belt Needs a Bailout. A Big One.

Trade and immigration restrictions won't bring back the Rust Belt. What might? Consider the transformation of the Sun Belt.

The South used to be the nation's Rust Belt. The devastation of the Civil War rightly gets the headlines, but the devastation didn't end when Sherman marched out of Atlanta. Industrial agriculture had the same impact on the Southern economy that automation and outsourcing have had on the manufacturing economy of the Midwest. In the late 19th century, much of the South consisted of an increasingly uncompetitive agricultural economy and woefully inadequate infrastructure. Those who could leave for other parts of the country, like factory jobs in what we now call the Rust Belt, did.

Many parts of the South continue to struggle to this day, but those that are thriving embraced two things — infrastructure and recruitment. Much of the infrastructure was courtesy of the federal government — programs like the Tennessee Valley Authority during the Great Depression, military bases during World War II and interstate highways later on. But the recruitment was an attitude the New South adopted on its own. By seeking out talent and businesses from the rest of the country and the world, the major metro areas of today's South generated some of the strongest economic growth and most promising labor trends in the country.

The Rust Belt has two main challenges to address — poor demographics and legacy obligations in the form of pension costs and physical infrastructure that needs maintaining. The demographic component is the part it most needs to solve on its own.

One type of institution has figured this out: the region's universities. Last week, in college football, the University of Michigan played Ohio State University in their annual rivalry game. But in some ways it wasn't a clash between Rust Belt foes. Michigan's coach, Jim Harbaugh, was hired from the West Coast. Ohio State's coach, Urban Meyer, was hired from Florida. Both teams have rosters full of increasing numbers of players from regions other than the Midwest. The reason is simple. Youth populations are shrinking in the Midwest, and increasingly the best high school football players are in other parts of the country like the South and the West that still have growing populations. Both universities hired coaches from elsewhere, and both coaches are using the prestige of their universities to recruit the best players in the country, no matter where they're from.

This recruitment isn't just happening on the football field. To address enrollment shortfalls due to dwindling numbers of home-grown students, Midwest universities are recruiting students from all over the world. Two of the eight universities in the U.S. with more than 10,000 international students are in the Midwest — Purdue University and the University of Illinois at Urbana-Champaign.

As a recruitment pitch, the Midwest needs to figure out its message and sell it to the world. As Midwest urbanist and blogger Pete Saunders noted in a tweetstorm this week, the resurgence of coastal cities began with assets that the cities had all along. Wall Street and media for New York, higher educational institutions for Boston, the federal government for Washington, a unique topography and culture in San Francisco. Similarly, the Midwest has great educational and medical institutions, an incredibly affordable lifestyle that becomes more compelling as housing costs rise on the coasts and in the Sun Belt, plentiful water that could become a competitive advantage because of climate change, and a sense of "rootedness" that many find compelling.

The most influential policy change the federal government could employ to "save" the Midwest is one that would have been unthinkable when Congressional Republicans were battling President Obama — a huge bailout of the Rust Belt's legacy obligations. Pension costs are eating a higher and higher share of tax revenue in cities like Chicago and states like Illinois. That leaves municipalities less money to spend on ongoing operations and maintenance, let alone infrastructure improvements. Eroding public services not only keep people from moving to the area, but also encourage young people to leave for places with better public services. If President-Elect Donald Trump could persuade Congress to bail out the region, that could the fiscal slate clean and give the Midwest the breathing room to invest in its future.

It took a Nixon to go to China, perhaps it takes a Trump to save the Rust Belt.

Bloomberg View

By Conor Sen

Dec 2, 2016

Conor Sen is a Bloomberg View columnist. He is a portfolio manager for New River Investments in Atlanta and has been a contributor to the Atlantic and Business Insider.

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

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[Yields on Treasury-Backed Muni Bonds Soar to Highest Since 2009.]

- Mutual fund selling creates bargains for pre-refunded bonds
- Bloomberg Barclays Muni Prerefunded Index hits 1.53%

The more than $5 billion exodus from municipal-bond funds in November is creating bargains in an often overlooked corner of the tax-exempt debt market.

An index of municipal bonds that are pre-refunded — or paid off as they come due with the proceeds of Treasuries that are held in escrow — yields 1.53 percent, the highest since July 2009. To meet redemptions, mutual-fund mangers are selling the bonds, which are rated AAA because they're secured by the income from the federal-government debt.

The selloff triggered by Donald Trump's presidential victory drove state and local-government securities to a 3.46 percent loss in November, the worst month since September 2008, when financial markets seized up after the collapse of Lehman Brothers, according to the S&P Municipal Bond Index.

The Republican's pledge to cut income taxes and boost spending on infrastructure stoked speculation that the Federal Reserve will need to increase interest rates more aggressively to keep inflation from picking up. Tax cuts could also lessen demand for municipal bonds, whose interest payments are exempt from the federal income tax.

Bloomberg Markets

by Martin Z Braun

December 1, 2016 — 2:35 PM EST December 1, 2016 — 2:35 PM EST

[Bloomberg Brief Weekly Video - 12/01]

Amanda Albright, a reporter for Bloomberg Briefs, talks with Joe Mysak about this week's municipal market news.

[Watch the video.]

Bloomberg

December 1, 2016

Numbers Don't Add Up for Trump's Trillion-Dollar Building Plan.

Construction stocks soar, but the proposed funding proposal has glaring flaws

"Build it and they will come" worked like a charm in Hollywood. Washington is a different story.

Donald Trump's trillion-dollar infrastructure plan has sent investors piling prematurely into stocks that could benefit. The share prices of building materials companies Vulcan Materials and Martin Marietta Materials both hit all-time highs days after the election while construction-related companies Aecom, Tutor Perini and United Rentals did even better, appreciating between 30% and 40% since Nov. 7.

The reason for skepticism certainly isn't a lack of demand. The American Society of Civil Engineers estimates that simply repairing existing infrastructure in the coming decade would cost more than three times as much as the president-elect's proposed expenditure. The problem is paying for it. The cornerstone of the Trump plan, outlined by proposed Commerce Secretary Wilbur Ross and economist Peter Navarro, is to use tax credits to spur public-private partnerships. This would, in theory at least, be revenue neutral for the federal budget.

Such projects have fared poorly in the past. A 2015 Congressional Budget Office report counted 14 completed highway projects that relied on some form of private financing. Of the eight that have been open for more than five years, half, including projects in Texas, California, and South Carolina, have either declared bankruptcy or experienced a public buyout of the private partners. All relied on toll revenue. They built it, but not enough came.

Equity investors under the Ross-Navarro proposal might still like those odds given the sweeteners it contains, though that confidence might not extend to lenders on the projects. The proposal assumes that $1 trillion of spending would require about $167 billion of private-equity investment that would then receive an 82% tax credit. That would, they calculate, reduce the total cost of financing by 18% to 20%.

On top of that, the authors assume that projects would be cheaper simply because private-sector contractors are more efficient than government builders, even though private contractors already oversee many road and bridge projects today. The authors then calculate that the proposals would be revenue neutral because taxes on the additional wage income plus profits, even at Mr. Trump's proposed 15% corporate tax rate, would roughly equal the outlay. This ignores the impact that the tolls would have on spending by drivers on other goods and services.

Even if their math holds up, toll roads require state or local approval and are typically contentious. Those governments receive about $45 billion in federal highway funding annually and won't take kindly to it being replaced overnight. What is more, the lion's share of highway spending already benefits from indirect federal subsidies.

In 2014, for example, three-quarters of highway spending came from state and local governments that can issue tax-free bonds and have benefited from ultralow interest rates recently. Muni bonds must be attractive to buyers. The required payout has risen since yields on 10-year Treasury notes have risen by half a percentage point since the election.

Muni bonds' tax advantages would be eroded if Mr. Trump lowers the top federal income tax bracket from 39.6% to 33%. Combining the two, all else being equal, required yields on municipal bonds and the cost of debt financing will have risen by about 40%.

Meanwhile, all isn't well with the federal portion of that spending either. The CBO reported in February that the Highway Trust Fund, which is funded by motor fuel taxes, hasn't been able to make promised payments to states since 2008. In order to keep it from running dry, Congress had by that point transferred $143 billion to it from other sources. Bringing the fund back into balance might require a politically toxic 10 cent a gallon increase in gas taxes.

If the rubber on Mr. Trump's infrastructure proposals is slow to hit the road then a reversal of some or all of the gains in construction-related stocks is likely. While fundamentals already were improving for some of them, spending pledges from both presidential candidates created froth. A basket of eight companies that fetched 14.5 times projected earnings for the next 12 months on average at the beginning of 2016 now trades at 18.2 times.

Public-private partnerships seem like an easy way to build infrastructure without borrowing too much. History shows that such plans are harder than they appear.

THE WALL STREET JOURNAL

By SPENCER JAKAB

Updated Nov. 30, 2016 10:34 p.m. ET

Write to Spencer Jakab at spencer.jakab@wsj.com

Bond Market Slide Intensifies.

Rise in yields since July has pushed the 10-year Treasury note up by more than 1 percentage point

The worst bond rout in three years deepened Thursday, hammering debt issued in emerging markets and many U.S. states and cities, while sparing large companies the brunt of the impact.

The yield on the 10-year Treasury note rose to a 17-month high, at 2.444%, up from 2.365% Wednesday. Yields rise as bond prices fall.

The surge since July has pushed the 10-year yield up by more than 1 percentage point, only the fourth time it has risen so much so fast since 2009. Rising rates can reflect optimism about economic prospects, yet over time they can also slow growth by making borrowing more expensive for consumers and businesses.

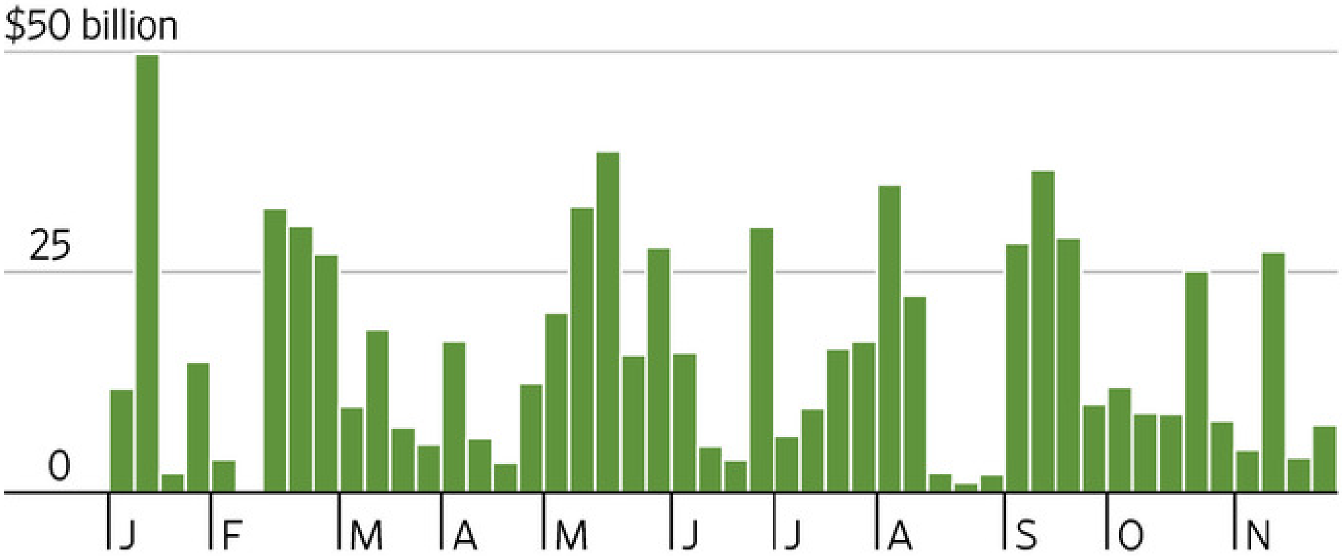
Bonds issued by emerging-market countries like Mexico and Turkey have been hit hard in recent weeks, reflecting fears that a strong dollar and the prospect of slower global trade under a Donald Trump administration will hurt companies there. U.S. municipal bond prices also have declined amid concerns that tax cuts could erode the value of the debt's tax breaks.

American companies are emerging as relative winners in the selloff. Yields are rising off such a low base that few economists or traders are concerned for now about ripple effects through the economy.

Staying the Course

Large companies have continued to sell bonds at a rapid clip since the election, as expectations that the economy will strengthen have driven down the yield difference between corporate and Treasury debt.

U.S. investment-grade corporate bond issuance



Investment-grade average spreads

Sources: Dealogic (issuance); Bloomberg Barclays (spreads) THE WALL STREET JOURNAL.

The cross currents are the latest sign that Wall Street is placing a broad-ranging bet on an accelerating U.S. recovery. Expectations of higher growth and inflation have sent the Dow Jones Industrial Average to repeated records since Mr. Trump's election Nov. 8, while fueling gains in the U.S. dollar. On Thursday, the Dow industrials rose 68.35 points, or 0.4%, to 19191.93, its 18th record close this year.

Still, higher rates could eventually start weighing on stocks and the economy as companies begin to borrow less for expansion and consumers spend less on homes and other purchases.

“If rates were to move up dramatically higher, it will start to influence risk assets and growth and certainly housing demand,” said Rick Rieder, chief investment officer of global fixed income at BlackRock Inc., the world’s largest money manager by assets. But “we certainly are not at that level today.”

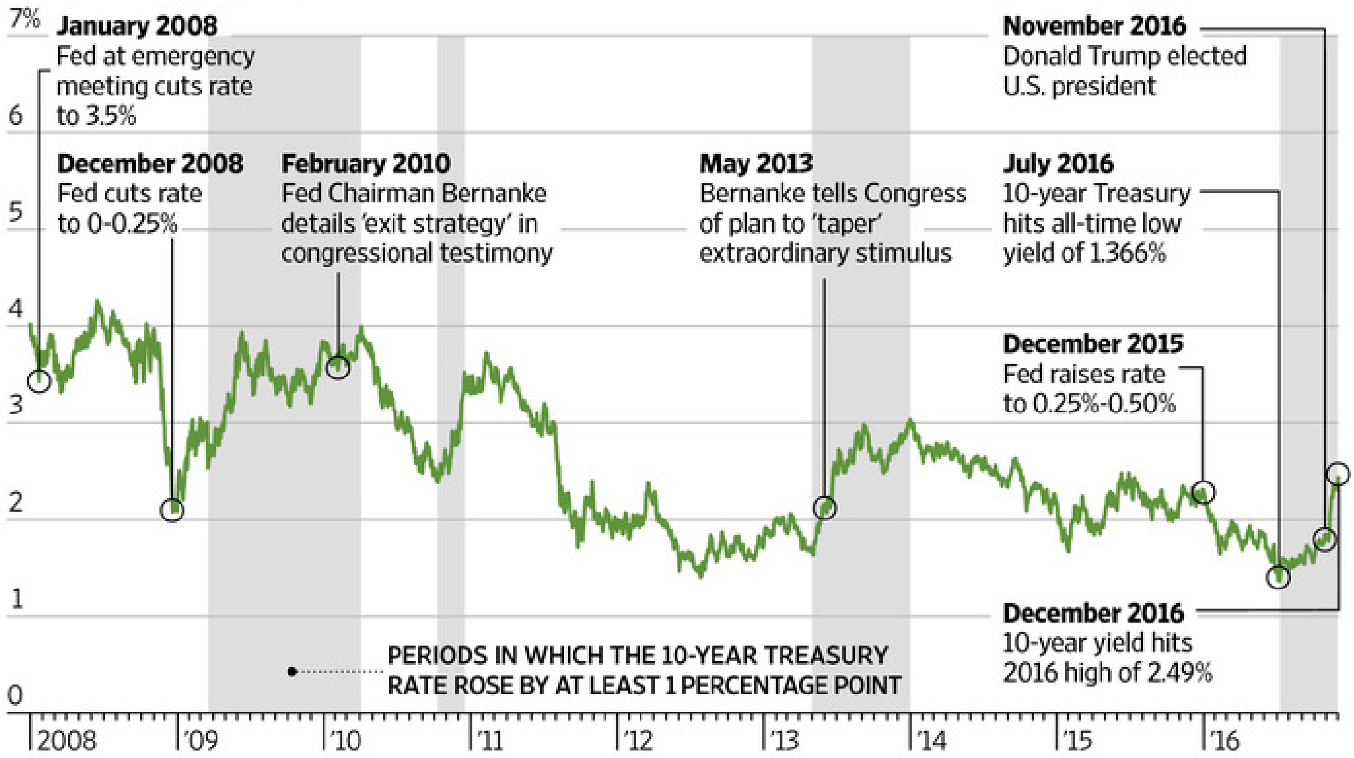
One sign of that optimism: Yields on investment-grade and low-rated corporate debt have risen less than Treasurys. That means the prices of corporate bonds have dropped less than government bonds, in a bet that economic conditions will continue to improve and help ensure firms can pay off debt.

The average spread—or the premium investors demand to buy riskier debt—of investment-grade corporate bond yields to Treasury yields has edged down to 1.34 percentage points on Wednesday from 1.37 percentage points on Nov. 8. Junk-rated corporate bonds have performed even better, with their average yield premium shrinking to 4.93 percentage points from 5.17 percentage points in that time, according to Bloomberg Barclays data.

Past, Prologue

Treasury yields have risen sharply during the fall bond selloff, but other similar episodes in the postcrisis period ended in reversals.

U.S. Treasury 10-year yields



Source: Ryan ALM

THE WALL STREET JOURNAL.

Though they largely took a break during the week of the election, U.S. companies have continued to sell bonds at roughly the same pace as before the election. Over a two-week period starting Nov. 14, investment-grade bond sales totaled $31.4 billion, compared with $33.3 billion over the two-week period between Oct. 24 and Nov. 4—the Friday before Election Day—according to data provider Dealogic.

Issuance has been especially robust from financial companies, including Wells Fargo & Co., which sold $7 billion of bonds Thursday. But nonfinancial companies, including junk-rated borrowers, have also joined the fray, with recent issuers including plane and train maker Bombardier Inc. and timeshare business Hilton Grand Vacations Co.

Mr. Rieder said rising yields will likely be a positive for the economy as long as the increases remain modest, because higher long-term rates boost bank profits and tend to be associated with higher levels of lending, which often feeds through to stronger economic growth.

That process is “helping a tremendous amount of the financial system,” he said.

The selloff in Treasurys has hit emerging markets hardest. Those bonds had only recently began rebounding from a slump spanning more than a year, caused by a decline in commodity markets.

The J.P. Morgan Emerging Markets Bond Global Index Diversified had gained about 14% through September but lost 1.2% in October and 4.1% in November. Investors pulled $1.4 billion out of emerging-market bond mutual funds in November, the first material outflow since February, according to data from Thomson Reuters Corp.’s Lipper unit.

“Emerging markets have been decimated,” said Peter Carril, founder of Patton Hall LLC, an investment adviser to high net worth individuals. “No one wants to touch it.”

Marco Santamaria, a portfolio manager at AllianceBernstein Holding LP, which invests $23 billion in emerging-market bonds, said the firm started selling some of its riskier emerging-market bonds ahead of the U.S. election and is still waiting to dip back in.

The election also sparked a rout in debt sold by U.S. state and local governments, pushing total returns for November in the S&P Municipal Bond Index to its worst month since September 2008, according to S&P Dow Jones Indices. The iShares National Muni Bond exchange-traded fund has lost 4.3% since Election Day.

The selling reflects concerns that a Republican-led Congress and White House will cut taxes, reducing the appeal of the tax-free interest payments that make municipal debt attractive to individual investors, some analysts said. Other concerns include the possibility that Mr. Trump’s proposed increase in infrastructure spending will flood the market with new bonds, pressuring prices.

Several investors said those concerns were overblown, and they viewed the decline as a chance to buy municipal bonds after yields hit record lows earlier this year.

“This panic selling in the municipal bond market seems overdone,” said Phil Blancato, chief executive at Ladenburg Thalmann Asset Management. “This is the first opportunity in a while to buy them cheap.”

The sharp rise in yields reminds some investors of 2013, when worries that the Federal Reserve would end its bond-buying program rattled the bond market. But so far, the outflows that characterized the “taper tantrum” have yet to materialize. U.S. bond mutual funds that target Treasury securities have had 11 consecutive weeks of outflows through Nov. 23. But investors pulled just $175 million over that span, according to Lipper. In one week in November 2013, outflows exceeded $300 million.

“The average retail investor will be slow to change direction in their mutual fund portfolios,” said Tom Roseen, head of research services at Lipper.

THE WALL STREET JOURNAL

By SAM GOLDFARB, MATT WIRZ and AARON KURILOFF

Updated Dec. 2, 2016 7:37 a.m. ET

—Min Zeng contributed to this article.

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P3 Digest for Week of Nov. 21

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NCPPP

November 21, 2016

Issuers Took More Time to Complete Financial Audits in 2015.

WASHINGTON – Most state and local governments and their authorities took longer to complete their financial audits in 2015 than they did the year before, likely because of new pension reporting requirements, Merritt Research Services found.

Merritt published its report on audit timing on Monday. The report was written by Richard Ciccarone, president and chief executive officer of Merritt. It compared more than 84,000 audits that encompassed the period between 2007 and 2015 and based its analysis on the time it takes an issuer or borrower to finish and sign its audit after the close of its fiscal year.

The report focused on the audited financials in 16 primary muni credit sectors: local school districts, cities, counties, water and sewer districts, airports, community colleges, dedicated tax entities, hospitals, private higher education, public higher education, retail public power, wholesale public power, special districts, states and territories, tollways, and other revenue supported borrowers.

The median number of days that it took all of the Merritt-tracked muni credit sectors to complete their audits rose to 151 days in 2015, nine more than the 142 median in fiscal year 2014, and the first time since 2008 that the median rose above 150 days. Thirteen of the 16 muni sectors that merit tracks took longer to complete financial audits in 2015 than they did in 2014.

Retail electric and the miscellaneous category of “other revenues” were the only two sectors to improve their median reporting times while hospitals stayed the same from 2014.

“Audit timeliness remains an essential requisite to taxpayers as well as market accountability and transparency,” Ciccarone wrote in the report. “For municipal bondholders, late or stale audits inhibit accurate bond pricing and cloud assessments of risk."

Of the sectors, states and territories took the longest to report with a median of 182 days and counties were a close second with a median reporting time of 180 days, which follows a trend Merritt has been seeing since 2008 where states and counties have been "running at the back of the pack." Dedicated tax obligors and cities had median completion times of 173 and 172 days, respectively.

"Governmental type municipal borrowers were more than likely affected and slowed down in 2015 by the new experiences of reporting pension information under the newly effective" Governmental Accounting Standards Board 67 and 68 rules, Ciccarone said in the report.

GASB 67 and 68 revised existing GASB guidance for the financial reports of most pension plans for state and local governments. GASB 67 took effect for pension plans in fiscal years beginning after June 15, 2013 and GASB 68 took effect for governments in fiscal years beginning after June 15, 2014. He said that despite the delays, the rules are welcome because they lead to more detailed and descriptive pension information.

The implementation of the new accounting rules also affected some revenue bond issuers and borrowers, according to Ciccarone. He gave an example of an airport that reports its audits in its city's comprehensive annual financial report and is therefore "tied into the city" that could be delayed because it is working with the new GASB rules.

Additionally, he noted that not every issuer or borrower suffered a slowdown after the new GASB rules. He used New York State and New York City as examples of complex credits that still managed to sign off on their 2015 reports in 115 and 121 days, respectively.

The only state to have a faster reporting time than New York in fiscal year 2015 was Michigan, which only took 92 days to file its audit. Michigan has had the fastest audit filing of all states and territories since fiscal year 2013 when it improved its time to 82 days from 151 days in fiscal year 2012. Michigan's 2015 timing almost meets the SEC standard for corporations, which requires companies to complete audited financials in 60 to 90 days, depending on the company's size.

Financially troubled entities took longer on their audits than others, the report found. San Bernardino, Calif., which was still in bankruptcy in 2015, took 456 days to file. Puerto Rico, which has been struggling with roughly $70 billion in debt that its governor has deemed unpayable, still hasn't filed its 2015 audit and took 731 days to file its information for 2014.

Alabama and the Northern Mariana Islands join Puerto Rico as the only other states or territories that the report found did not file their audited financials for 2015.

Alabama consistently filed its audits within about 180 days since fiscal year 2008, according to the report data.

The Bond Buyer

By Jack Casey

November 21, 2016

Updated Guidelines for Residential Pace Financing Programs.

On Nov. 18, 2016, the U.S. Department of Energy (DOE) released Best Practice Guidelines for Residential PACE Financing Programs.

Since 2009, more than 100,000 homeowners have made energy efficiency and renewable energy improvements to their homes through residential Property Assessed Clean Energy (PACE) programs. By 2016, residential PACE programs had allowed homeowners to invest nearly $2 billion in energy efficiency, solar, and other upgrades to their homes.

Homeowners have made these energy upgrades with no upfront costs by electing to repay their loan through a special assessment along with their property taxes. With PACE, homeowners are installing high-efficiency equipment and products, including ENERGY STAR-qualified heating and cooling systems, and other clean energy technologies that can help reduce their energy consumption and lower costs, while improving their homes' comfort, health, safety, and resiliency.

The DOE guidelines outline best practices that can help state and local governments, PACE program administrators, contractors, and other partners develop and implement programs and improvements that effectively deliver home energy and related upgrades. The updated best practices reflect input gained from over 200 comments on a draft of the guidelines that was released for public review earlier this summer.

In the guidelines, special emphasis is placed on recommended protections that PACE programs should put in place for consumers who voluntarily opt into the service, as well as for lenders that hold mortgages on properties with PACE assessments. DOE also provides additional program design recommendations that address the unique needs and potential vulnerabilities of low-income and elderly households, to help ensure that PACE financing is used appropriately and at the least cost for low-income households that otherwise meet program eligibility criteria.

Specific topics addressed in the updated guidelines include:

- Enhanced PACE eligibility criteria, including requirements for review of income, existing debt obligations and credit score; clear and understandable consumer disclosures of all PACE terms, including interest rates and fees, repayment procedures, and lien requirements;
- Additional consumer protections for low-income households, including enhanced screening procedures (e.g., verbal confirmation of PACE terms with the homeowner), written disclosures, and recommendations to structure PACE financing to be cost-effective for low-income participants
- Recommendations for quality assurance, contractor management, and enforcement procedures; and
- Recommendations for access to dispute resolution procedures or other mechanisms if work is performed improperly.

In combination with guidance for lenders from the Federal Housing Administration and the U.S. Department of Veterans Affairs, these best practices enable more states and communities to develop and implement residential PACE programs As the PACE market continues to grow, the Energy Department recommends that state and local governments incorporate these guidelines into existing or planned residential PACE programs, engaging local stakeholders to ensure PACE programs remain a sustainable model for financing energy upgrades and meeting community goals.

DOE will continue to work with state and local governments by providing information, technical assistance, and peer exchange opportunities to support incorporation of the best practices outlined in the guidelines into residential PACE programs. Upcoming next steps include:

- The National Association of State Energy Officials (NASEO) and DOE have partnered to establish a new residential PACE Task Force to support policy maker education and learning. Core members of the Task Force will include interested state energy office directors and staff, NASEO, and DOE.
- DOE and Lawrence Berkeley National Laboratory (LBNL) will conduct an impact evaluation to quantify energy savings from residential PACE projects in California, which will inform future program design recommendations.
- DOE will support state and local governments in incorporating the guidelines into PACE statutes and regulations as they are developed and modified.

For more information, continue to visit the State and Local Solution Center to learn more about residential PACE financing and state and local best practices in clean energy.

From Police Shootings to Playground Injuries, Lawsuits Drain Cities' Budgets.

Municipalities spend more than a billion dollars a year on settlements and claims from citizens. Some are trying hard to rein in those costs.

There's a big silver dome in the corner of Union Square Park in New York City. Kids love to scramble up the six-foot-high stainless steel structure, called the Mountain, and then slide back down. The only problem is, the thing gets hot in the sun. Really hot. One afternoon in 2012, the metal surface was so warm that a young girl climbing on it suffered severe burns to her hand from the scorching hot steel. Her father filed a claim against the city, which was later settled for $24,500. (The city has since added a shade structure to shield the dome from the sun.) But that wasn't the only injury in Union Square Park that year. City records show three other families also filed claims in 2012 holding the government liable for injuries on the playground — one of the highest tallies in the city's parks system.

The next year, a falling tree struck a man in the park, resulting in a $15,000 payout from the city. A few months after that, a police tow truck allegedly hit a teenage boy crossing an intersection near the north end of the park, prompting another filing.

Claims and lawsuits are an everyday occurrence in the Big Apple, where about 9,500 cases were filed against the city last fiscal year. In all, New York paid out $720 million in judgments and claims in fiscal 2016, which amounts to about $84 per resident. That's only about 1 percent of the city's total expenditures, but it represents much-needed funding that could be directed elsewhere. For instance, it's more than the combined budgets of the Parks and Recreation Department and the Department of Buildings.

Continue reading.

GOVERNING.COM

BY MIKE MACIAG | NOVEMBER 2016

Private Companies Face Big Fines for Commuter Rail Problems

As delays and safety issues continue on privatized transit systems, that arrangement is getting new scrutiny.

How do commuter railroads make sure their trains run on time? Many hand operations over to private companies, giving them financial incentives for on-time performance. It's a well-established practice that works most of the time.

But it hasn't been working in Boston and Denver lately, where the private companies running both regions' commuter rail lines have faced hefty fines for structural problems.

In Denver, one of the biggest challenges right now is taking place on the region's brand new line connecting downtown Denver to the airport. The problem is with the crossing gates — they stay down too long. Flaggers have been hired at crossings to make sure impatient drivers and pedestrians obey the gates and don't go around them.

The problems with the gates follow a number of other early disruptions to the much-anticipated airport rail service. At first, the gaps between power sources on the rails were too big, which could leave unpowered trains stranded. Lightning strikes also caused damage to overhead wires and, in one case, caused the line to shut down for seven hours and forced firefighters to help passengers evacuate a stranded train on an overhead pass.

While most of those issues have been resolved, Denver Transit Partners, the private company that oversees the rail, has paid at least $78,000 for missing their marks for on-time performance. On top of that, the company has had to pay $250,000 a month for signaling issues, or about $1.25 million so far.

"We're in a bit of a world of hurt," said John Thompson, the executive project director of Denver Transit Partners. "There's no question about that, because we didn't see that we'd be faced with these deductions when we bid these contracts six years ago."

In Boston, the company Keolis has paid more than $12 million in fines in its first two years of running commuter rail for the Massachusetts Bay Transportation Authority (MBTA). Now, just two months into the third year of its contract, Keolis has already paid another $1 million in fines.

While the fines may not seem like much in the context of a 12-year deal worth roughly $4.2 billion, Keolis has said that it is losing money on its Boston-area service.

Of late, the biggest controversy has been about the fines the company hasn't paid. The Boston Globe recently reported that MBTA waived $839,000 in fees incurred for widespread problems on Keolis' commuter rail service during the winter of 2015. A series of storms dumped 100 inches of snow on Boston in a month, which snarled the city's transportation networks, including passenger rail. MBTA charged Keolis the maximum allowable fine during that time for poor on-time performance, but it rescinded fees for items like dirty trains and uncollected garbage.

"During this recovery period, we prioritized our resources toward activities that would enable us to return the fleet back to full operations, an approach which the MBTA fully supported. Under the terms of our contract, when there are extreme circumstances such as what was experienced in 2015, it is permissible for the MBTA to grant us relief from certain penalties and we are grateful for this support," said Keolis spokeswoman Leslie Aun.

MBTA's forgiveness of the fines have angered several legislators. Fourteen lawmakers signed a letter to the state's transportation secretary calling the decision "indefensible." Labor unions, which have fought the transit agency over the privatization of some jobs, also criticized the decision.

But Massachusetts Gov. Charlie Baker has backed the waivers. Keolis' contract allows waivers in the case of unforeseen circumstances, often characterized as force majeure or an act of God.

"It's pretty hard to argue that the winter of 2015 wasn't an act of God," Baker told the Globe last month.

Whatever the immediate fallout, the contractors and transit agencies in Denver and Boston have a lot at stake in getting things right.

Keolis, for one, is only in the third year of an eight- to 12-year contract with MBTA. And Denver Transit Partners, which actually designed and built the commuter rail to the airport, is opening two other lines this year and is slated to oversee all three lines for 28 years.

Thompson, the executive from the consortium, is optimistic despite the first-year hiccups.

"We've had 20-odd days where we were really disappointed with our service, out of over 200 days of services so far," he said. "Ridership continues to increase, so some people think we're doing a good job and are telling others about it."

GOVERNING.COM

BY DANIEL C. VOCK | NOVEMBER 22, 2016

Bonds Are a Fair, Responsible Way to Finance Projects.

Despite opposition on these pages (Chris Edwards, DownsizingGovernment.org, "Bonds Are Taxes" Nov. 2, 2016), Fairfax County, Va., voters last week overwhelmingly approved three referenda authorizing the issuance of $312 million in municipal bonds.

By definition, these referenda forced voters to consider the details of, and costs for, each project to be financed. Voters were provided with extensive information on these issues: The ballot questions were detailed, and supplemental guides available in print and online provided page after page of information about the parks and park facilities, Metro improvements, senior center, community center and emergency homeless shelters that will be built and the cost for building them.

Fairfax County will begin paying for these projects almost immediately upon issuance of the bonds, forcing real budget choices: a dollar spent on debt service (and so on long-term infrastructure investments) cannot be spent on some other program. These payments are spread over time – and often over the useful life of the project – meaning those who use the parks (or Metro stations or community centers) are paying for them. It is simply sound finance to spread the cost of long-term capital improvements over their useful life so that the beneficiaries of those improvements pay for them, rather than just those who around during the construction period.

Data show communities like Fairfax County take these votes seriously and are budgeting for these expenses appropriately. Since the global financial meltdown, while the federal debt has sky-rocketed and non-bank business debt has risen, state and local debt (like household debt) has fallen. In fact, state and local borrowing is at its lowest point as a percentage of GDP since at least 2005 the means for estimating state and local debt changed in 2005, so it is not possible to make apples to apples comparisons for 2004 and before. If anything, state and local governments are underinvesting in their infrastructure and other capital needs.

Finally, while it is colorful to refer to “debt-fueled spending” burning fiscal houses down, the truth is that municipal defaults and bankruptcies – debt-fueled or otherwise – have been and remain rare. The nation’s roughly 39,000 municipalities have an annual municipal bankruptcy rate of about 0.0043% and a rate of 0.0044% in the seven years since the global financial meltdown.

So, again, I agree wholeheartedly that Fairfax County — and communities throughout the country — should transparently and conscientiously decide whether to build schools, repair roads, fix bridges, and make the other investments necessary to help our economy grow and keep our communities livable. And, that is exactly what happened last Tuesday in Fairfax County.

Dan Marsh, President-Elect, National Development Council (NDC). NDC is a national non-profit dedicated to bringing capital to underserved communities by providing technical assistance in economic development and housing finance and development and small business lending. Mike Nicholas, CEO, Bond Dealers of America (BDA) is the Washington, DC-based trade association that exclusively represents securities dealers and banks whose primary focus is the U.S. fixed income markets. BDA and NDC are members of the MUNICIPAL BONDS FOR AMERICA (MBFA) coalition, a non-partisan coalition of municipal bond issuers and State and local government officials along with other municipal market professionals working together to explain the benefits of the tax-exempt municipal bond market which provides the financing needed to build vital infrastructure throughout the United States.

THE HILL

BY DAN MARSH AND MIKE NICHOLAS – 11/21/16 03:15 PM EST

The views expressed by authors are their own and not the views of The Hill

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Municipal Bonds: What to Do as Prices Drop.

Trump’s pro-growth fiscal-stimulus plans, such as lower tax rates and higher infrastructure spending, are particularly worrisome for munis.

Municipal-bond investors face a conundrum. The spike in interest rates since the election has made long-term tax-exempt bonds more attractive than they’ve been in years. You can now buy highly rated 10-year munis yielding near 3%—more than Treasuries and high-quality corporate bonds. That’s equivalent to a 4% taxable yield for investors in a high tax bracket.

Yet higher interest rates are a two-edged sword. At the same time, muni prices are falling. As of Friday, the benchmark-tracking iShares National Muni Bond exchange-traded fund (ticker: MUB) had a negative 1% year-to-date return. (At the end of October, it had been up 2.3%.) For investors who bought muni funds this year, harvesting tax losses makes sense. Bond-fund outflows, which began in the past two weeks, are likely to pick up into December.

The pro-growth fiscal-stimulus plans of President-elect Donald J. Trump, such as lower tax rates (which could crimp demand for munis) and higher infrastructure spending (which could increase supply), are particularly worrisome for munis. With the Federal Reserve poised to hike rates in mid-December, the near-term outlook is bearish—even though many observers believe “the selloff in munis has gotten too extreme,” as Dan Heckman, fixed-income strategist at U.S. Bank Wealth Management, puts it.

His solution: Implement a barbell strategy—that is, invest in both very short-term and longer-term munis. The long end (think 10-year, not 30-year) boosts the portfolio’s income, while the short end provides stability if rates keep rising. Conversely, if the economy slows and rates fall, the longer-term bonds will outperform shorter-term bonds and provide a buffer from declines in riskier assets, such as stocks and high-yield bonds.

Rumblings from the Federal Reserve make this strategy more compelling. “A December hike is almost a foregone conclusion,” says Paamco senior credit strategist Putri Pascualy. “The path of rate hikes after that is highly uncertain.” Economic growth is picking up at the same time Trump’s stimulus plans are taking shape, which could mean a more-aggressive rate-hike path next year. That would likely cause the yield curve to flatten, with long-term bonds rising in price, as inflation expectations fall, while short-term bonds dip.

INVESTORS WHO HAVEN’T looked at ultrashort-term muni rates may find them surprisingly attractive. Yields of ultrashort-muni and tax-exempt money-market funds have already climbed from nothing to something this summer due to the impact of money-market reform, which triggered massive outflows, says Colleen Meehan, who directs muni-money-market-fund strategies at BNY Mellon. These funds mostly own seven-day floating-rate tax-exempt securities whose yield this year has jumped to 0.55% from 0.01%. The expected Fed December rate hike of 0.25 percentage points should increase these yields, she says.

Peter Hayes, BlackRock’s head of municipal-bond investing, suggests investors put new money in ultrashort muni funds or keep a cash cushion. He also likes 15-year munis, which have 87% of the yield of the longest-term bonds. For investors who want to be tactical, Thomas Byrne of Wealth Strategies & Management recommends keeping maturities very short for now and moving to longer-duration bonds as fund outflows pick up.

Munis in the two-year maturity range will get hit hardest by Fed tightening, says Jim Grabovac, senior portfolio manager at McDonnell Investment Management. He recommends that long-term investors extend maturities now. He isn’t too worried about Trump’s proposals. Even if they come to fruition, he says, the muni market has weathered marginal tax-rate reductions and increases in supply just fine in the past.

“Some of this reaction is overdone, and near term, it provides an opportunity to do some portfolio restructuring and curve extension,” Grabovac says.

Barron’s

By Amey Stone

November 26, 2016

[Muni Selloff to Continue in Weeks Ahead, Bank of America Says.]

– “Sloppy” market provides buying opportunities, firm says

– *Flow of cash from municipal mutual funds expected to persist*

The selloff in the $3.8 trillion state and local-government bond market, which has sent yields on 10-year AAA benchmark bonds up by more than half a percentage point since the U.S. election, should continue for another two to three weeks, the Bank of America Merrill Lynch municipal research team led by Philip Fischer wrote in a report.

Mutual-fund redemptions should continue for the next few weeks, but the worst outflows have either happened or are about to "very soon," the Friday report said. Last week, investors yanked $3.1 billion from municipal-bond funds, the biggest outflow since 2013, according to Lipper US Fund Flows data.

"We think the market sell off in munis is likely to continue to the end of November and into the first full week of December in a slow and negotiating fashion in order to reach an exhaustion point," the report said. "This sloppy market provides buying opportunities, in our view."

Bank of America Merrill Lynch projects that the bull market in bonds that began in 1981 should run for another two years given the current and expected health of the global economy.

Bloomberg

by Martin Z Braun

November 21, 2016 — 12:15 PM EST

Bloomberg Brief Weekly Video - 11/23

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

Watch the video.

Bloomberg

November 23, 2016

Municipal-Bond Selloff May Be Overdone as New Sales to Slow.

The worst municipal-bond rout in three years may have gone too far too fast.

Speculation that President-elect Donald Trump and a Republican-led Congress will slash taxes and ramp up spending sent bond prices tumbling globally since the Nov. 8 election, driving municipal yields to the highest in more than a year. The selling blitz has pushed the relative strength index, which uses past trends to gauge whether the market has moved beyond typical ranges, to the highest since at least 2009, signaling the securities are oversold and may be in for a rebound.

Investors may be overlooking another important indicator: the record-setting pace of bond sales will likely slow as higher interest rates give local governments less incentive to refinance outstanding debt.

“The market is actually putting the cart before the horse,” said Vikram Rai, head of municipal strategy at Citigroup Inc. “We are worried about a drop in issuance because refundings are going to be down, and the increase in new-money issuance will not be enough to offset the decline.”

The amount of bonds eligible for refinancing in 2017 is set to shrink because municipalities slowed their issuance of new debt after 2007, according to Citigroup.

While longer-maturity state and local government bonds often have a “call option” that allows them to be bought back after 10 years, much of the debt issued a decade ago has already been refinanced through so-called advanced refundings, said Rai. That’s when a government sells bonds and uses the proceeds to purchase U.S. Treasury or agency securities, which are kept in an account that pays off the previously issued debt as it comes due or is called back.

Besides, with the Federal Reserve set to raise interest rates for the first time in a year, there will be fewer opportunities to refinance, according to Barclays Plc. Advanced refunding, which makes up almost half of refinancings, will “decline meaningfully” next year, Mikhail Foux, head of municipal strategy at Barclays, said in a note last week.

As the municipal market has its worst month since June 2013 — sending Bank of America Merrill Lynch’s index down 2.8 percent — some investors are wary of wading back in yet. This week, BlackRock Inc., the world’s largest asset manager, advised remaining on the sidelines, given that the exodus of cash may continue.

Further out, an expected drop in new bond sales may ease some pressure on the market. After hitting $250 billion already this year, total refundings will drop to $200 billion next year, according to Citigroup, while Barclays predicts an even deeper decline to about $185 billion.

The new-issue calendar has already started to dwindle as issuers brace for volatility stemming from an expected Fed hike next month. Municipal issuers plan to sell about $10 billion of bonds over the next 30 days, down from as much as $25 billion in mid-October, according to data compiled by Bloomberg. The actual number of sales may wind up being higher because some deals are announced only days ahead of time.

A buying opportunity may be at hand because the rout could exhaust itself in a few weeks, the Bank of America Merrill Lynch municipal research team led by Philip Fischer wrote in a report. Tax-exempt bonds are also becoming more attractive relative to their federal counterparts, with both 10- and 30-year municipals yielding more than Treasuries.

That could lure so-called crossover buyers, investors who typically prefer taxable securities but may purchase tax-free debt at discounted valuations, according to Barclays’ Foux.

Bloomberg

by Tatiana Darie

November 23, 2016 — 5:00 AM EST November 23, 2016 — 9:49 AM EST

Fitch: Majority of US State & Local Govts Inherently Stable Despite Growing Divergence from Minority.

Fitch Ratings-New York-22 November 2016: While the vast majority of state and local governments are able to maintain high credit quality with no risk of missing debt service commitments during economic stress, there is a growing divide from a minority of issuers who face fundamental credit weaknesses, according to a new Fitch Ratings report.

“There is growing divergence between the vast majority of state and local governments which are stable and strong, and a small number that continue to struggle deep into the economic expansion. The struggling governments have been unable to address the credit issues they face because of fundamental credit weakness,” said Eric Kim, Director.

U.S. tax-supported credits do face significant credit issues that could threaten credit quality if left unaddressed, including rapid fixed cost growth, rising healthcare spending, weakening demographic trends, and infrastructure.

Some state and local governments continue to face significant difficulty maintaining structural balance. Challenges like rising pension burdens are particularly acute for certain credits.

These governments remain isolated cases and not reflective of the overall condition of U.S. state and local government credit quality. Most governments have strong ability to address budget challenges through reasonable revenue and cost measures.

Fitch’s average annual rating default rate for U.S. subnational governments between 1999 and 2015 was just 0.02%. This reflects an average general government rating in the ‘AA’ rating category; by contrast, the average corporate rating is in the ‘BBB’ rating category.

The full report titled ‘Looking Beyond the Headlines: State and Local Credits Maintain Underlying Strength and Stability’ is available at www.fitchratings.com.

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Additional information is available at ‘www.fitchratings.com’.

S&P: U.S. Not-For-Profit Health Care Children's Hospital Median Financial Ratios.

Children's hospital ratios are generally rated higher on the rating spectrum than stand-alone hospitals and more in line with health care systems even though most are stand-alone providers.

Continue reading.

Sep. 21, 2016

S&P: U.S. Not-For-Profit Acute Health Care Ratios Are Calm On The Surface But Turbulent Underneath.

The overall financial performance of U.S. not-for-profit acute health care organizations rated by S&P Global Ratings continued the improvement we saw last year when we returned the sector outlook to stable from negative, albeit at a more reserved pace.

Continue reading.

Sep. 21, 2016

S&P: U.S. Not-For-Profit Health Care Small Stand-Alone Hospital Median Financial Ratios.

S&P Global Ratings defines a small stand-alone acute care hospital, which is a subset of our stand-alone hospital universe, as one having net patient service revenue below $125 million.

Continue reading.

Sep. 21, 2016

S&P: U.S. Not-For-Profit Acute Health Care Speculative Grade Median Financial Ratios.

Speculative grade ratings are defined as those rated 'BB+' or below. Within speculative grade, a majority of the health care organizations are rated in the 'BB' category with fewer in the 'B' and 'CCC' categories.

Continue reading.

Sep. 21, 2016

S&P: U.S. Not-For-Profit Health Care System Median Financial Ratios -- 2015 vs. 2014

System medians, similar to the stand-alone medians, demonstrated operating margin improvement in 2015, which when combined with softer non-operating income produced modest coverage gains in the higher rating categories, with slight declines in the lower rating categories.

Continue reading.

Sep. 21, 2016

S&P: U.S. Not-For-Profit Health Care Stand-Alone Hospital Median Financial Ratios -- 2015 vs. 2014

Similar to the overall medians for stand-alone hospitals and health care systems combined, we saw stronger operating margins for stand-alone hospitals in 2015 at each rating category, offset by consistently softer non-operating revenue compared to 2014.

Continue reading.

Sep. 21, 2016

Bond Rout Pummels Muni Funds.

Investors are slashing bond holdings and questioning whether tax changes will dull muni demand

Money is pouring out of municipal bond funds at the fastest pace since the 2013 “taper tantrum” as investors slash bond holdings and wonder about potential changes to the tax code.

Investors pulled $3 billion from muni bond mutual and exchange-traded funds the week after the presidential election, the largest such withdrawal since June 2013, according to EPFR Global and Bank of America Merrill Lynch. The $7.3 billion iShares National AMT-Free Muni Bond ETF, ticker MUB, has fallen 3.4% this month and is on pace for its sharpest monthly drop since Sept. 2008.

Municipal bonds are considered nearly as safe as Treasurys, since the debts are backed by the revenues of states, cities or services. Investors also like munis since interest payments are typically free from federal taxes. But in a stark reversal from earlier this year, when muni fund assets hit an all-time record, what were viewed as perks have turned into reasons to sell.

Municipal bond investors have taken cues from U.S. government bonds, which have been hit by heavy post-election selling. The yield on benchmark 10-year Treasury note rose to 2.411% on Wednesday from 1.867% on Election Day.

Meanwhile, investors are considering whether a package of tax cuts eventually passed by Congress could diminish the after-tax yield advantaged that munis hold over comparable Treasury bonds.

“The municipal market appears to have already priced in a significant cut in federal tax rates,” wrote Guy Davidson, chairman of the tax-exempt fixed income investment policy group at AB, the investment firm known until recently as AllianceBernstein.

The idea is that lower marginal tax rates could prompt the highest-earning investors to put their money elsewhere. At the same time, institutional buyers of muni bonds — banks and insurance companies — could find them less advantageous should corporate tax rates fall.

“Given the recent spike in yields and the murky policy picture, tax-exempt municipals may face continued near-term volatility,” said David Hammer, head of municipal bond portfolio management at Pimco.

Such volatility is evident in muni-bond closed-end funds that own municipal debt. Unlike mutual funds and ETFs, closed-end funds have a fixed number of shares and sentiment changes can swing prices of the securities to premiums or discounts to the value of the fund’s holdings. The discount of the $2.7 billion Nuveen Quality Municipal Income Fund, ticker NAD, has widened to 8.8% from 6.6% in September, according to Morningstar and Nuveen.

Market watchers caution that, historically, changes to taxes have had little impact on the municipal bond market. Vikram Rai, who heads municipal strategy at Citigroup, said that changes to the top marginal tax rate for municipal bonds since 1980 has fluctuated with “no correlation” to retail demand.

Still, Mr. Rai recently warned that muni bonds are likely to be under pressure as long as Treasury yields are on the rise.

“Municipal yields have been unsustainably rich for an extended period of time due to large inflows into this asset class driven by a reach-for-yield,” Mr. Rai wrote. “We are quite pessimistic that municipal funds can endure the size of backup which seems to be taking root in Treasuries.”

THE WALL STREET JOURNAL

By CHRIS DIETERICH

Nov 23, 2016 12:03 pm ET

Puerto Rico’s Top Creditors Flex Muscles in Bond Fight.

Funds controlled by Franklin Advisers, OppenheimerFunds request to be entered as defendants in suit brought by hedge funds holding defaulted GO bonds

Puerto Rico’s largest mutual-fund bondholders have broken their silence in an ongoing $30 billion creditor standoff, underscoring tensions between the commonwealth’s traditional municipal investor base and the hedge funds now involved in its financial restructuring.

Funds controlled by fixed-income giants Franklin Advisers and OppenheimerFunds asked a federal judge last week to enter them as defendants in a lawsuit brought by hedge funds holding general obligation, or GO, bonds that have been in default since July.

The lawsuit pits those creditors against investors holding $17 billion in competing bonds known as

Cofinas for their Spanish acronym and backed by sales tax revenues. If successful, the lawsuit could compromise the Cofina bondholders' liens and free up a fresh source of repayment for the GO bondholders, which are guaranteed under the Puerto Rican constitution.

The courts, on the other hand, could affirm the commonwealth's longstanding position that the sales-tax revenues are off-limits to the GO bondholders. U.S. District Court Judge Francisco Besosa could also freeze the dispute in the hopes that the warring investor groups will negotiate a settlement, as the Cofina investors have urged.

Congress installed a federal oversight board over the summer to take over Puerto Rico's financial decision-making, but it has yet to announce the hiring of legal and financial advisors with whom creditors will negotiate. The legal status of the Cofina revenues has never been tested in the courts, and resolving it now would take a major question on creditors' rights out of the board's hands. For now, it wants the dispute paused under the automatic stay provisions of the Puerto Rico Oversight, Management and Economic Stability Act, or PROMESA.

Franklin and Oppenheimer, along with Santander Asset Management, are cross-holders with a combined \$3.6 billion in Cofina claims and \$1.1 billion in GO claims, according to a filing in Puerto Rico federal court.

With \$2.8 billion of their exposure in subordinated Cofina debt, the mutual funds said they have the "greatest possible interest" in protecting the sales taxes from being diverted. Junior Cofina bonds would suffer the most if the revenue stream were interrupted, although they have continued to be paid even with the territorial government in default on its constitutional debt.

Hedge funds exclusively holding senior Cofina bonds have already asked to be heard in the lawsuit. Those bondholders, including GoldenTree Asset Management, Merced Capital and Taconic Capital Advisors, hold zero-coupon bonds that don't come due for decades, according to people familiar with the matter. Their group has taken the position that diverting the sales taxes would cause their claims to come due immediately, leapfrogging over those of junior creditors.

As holders of both types of bonds, the mutual funds said they aren't conflicted and have reason to guard the interests of all creditors within the \$17 billion Cofina debt stack. Puerto Rican lawmakers first segregated sales-tax revenues from its general fund a decade ago to create an alternate borrowing mechanism.

"The interests of Cofina, its bondholders generally and its current-pay subordinate bonds in particular are served by maintaining the statutory transfer," lawyers for Franklin, Oppenheimer and Santander wrote in court papers. "It is likely that the senior Cofina bondholders want Cofina to default."

A spokesman for the mutual funds declined to comment beyond the filing. Representatives for the GO bondholder group and for Cofina bond trustee Bank of New York Mellon didn't immediately respond to requests for comment.

James Doak of Miller Buckfire & Co., an adviser to the senior Cofina bondholder group, called the mutual funds' appearance "a positive for Puerto Rico, the oversight board and the incoming administration."

"Major, long-standing investors holding both GO and Cofina bonds are stepping forward to defend PROMESA's stay provision and reject more litigious GO bondholders' attempts to seize [sales tax] revenue," he said.

The benchmark 8%-coupon GO bonds due in 2035 traded Friday at 69.5 cents on the dollar, according to FactSet, having cooled off from a post-election rally that pushed prices to 73 cents. Puerto Rico recently elected Dr. Ricardo Rossello, a statehood supporter perceived by investors as friendlier to creditor interests, to replace Gov. Alejandro García Padilla. The new governor takes office in January.

THE WALL STREET JOURNAL

By ANDREW SCURRIA

Updated Nov. 23, 2016 7:57 p.m. ET

MSRB Reminds Investors of Risks of Rising Interest Rates in Municipal Market.

Washington, DC – Following the recent steep rise in municipal bond yields, the Municipal Securities Rulemaking Board (MSRB), the national regulator for the municipal market, today issued a statement today cautioning investors about the potential risks to bond positions and bond portfolios of rising interest rates.

"Yields in the municipal bond market reached a one-year high last week," said MSRB Executive Director Lynnette Kelly. "Given this trend, it is important that investors review their municipal bond holdings with their financial professionals, monitor market developments and educate themselves about the risks of rising interest rates."

The MSRB provides multiple free investor education resources related to interest rate risk including the *Impact of Market Interest Rate Movement on Municipal Bond Prices and Yields*, *Evaluating a Municipal Bond's Interest Rate Risk* and *The Importance of Monitoring Municipal Bonds*.

"Municipal bond investors can use the MSRB's resources to learn about the risks of interest rate changes and considerations to discuss with their financial professional," Kelly said. The MSRB also makes available an online course aimed at financial professionals called *Rules and Risks: Applying MSRB Rules in Relation to Municipal Market Risks*.

Earlier this month, the MSRB identified changes in the ownership profile of municipal bonds in recent years as having increased the risk that a rise in interest rates could lead to market dislocation and reduced liquidity in the municipal market. In a letter to the Securities and Exchange Commission Investor Advocate, the MSRB cited greater mutual fund ownership and reduced dealer inventories as factors in the risk for investors.

Date: November 14, 2016

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Trump Team Floats 'Infrastructure Bank' Derided by Campaign.

A key member of Donald Trump's transition team said the incoming administration is exploring ways to fund fixing bridges and roads including by establishing an "infrastructure bank," a concept Hillary Clinton promoted and the Republican's campaign had previously derided.

Steven Mnuchin, a member of the team's executive committee who was recommended for the position of Treasury secretary, said in brief comments to reporters Wednesday morning that a "very big focus is regulatory changes, looking at the creation of an infrastructure bank to fund infrastructure investments."

Trump's campaign had criticized Clinton's proposed infrastructure bank as being "controlled by politicians and bureaucrats in Washington" and funded by a "$275 billion tax increase on American businesses."

The billionaire's economic advisers previously said infrastructure spending can be unleashed without creating a government entity. They released a plan in October advocating the provision of as much as $140 billion in tax credits to support $1 trillion in infrastructure investment, which would offset the credits through tax revenue from the projects' labor wages and business profits.

Mnuchin and spokespeople for Trump didn't respond to requests to elaborate. Peter Navarro, a Trump campaign adviser and co-author of last month's infrastructure plan, also didn't respond to a request for comment.

According to Clinton's campaign website, her five-year plan would have allocated $250 billion to direct public investment in infrastructure and $25 billion to an infrastructure bank. The new institution would leverage the funds to support as much as an additional $225 billion in loans, loan guarantees and other "forms of credit enhancement."

Outgoing President Barack Obama has also proposed a U.S. infrastructure bank to lend at maturities as long as 35 years to fund transportation, water and energy projects. Such an entity would potentially emulate organizations from China, which led the establishment of the Asian Infrastructure Investment Bank in 2015, and Canada, where Prime Minister Justin Trudeau's government is creating a bank to provide low-cost financing for infrastructure projects.

"The economic priorities are clearly taxes, regulatory, trade, and infrastructure," Mnuchin said at Trump Tower in New York. "Right now we're just all in the planning stages, you can see. We want to be in a position where in the first hundred days we can execute the economic plan."

Private Investors

The president-elect's transition website says the new administration seeks "to invest $550 billion to ensure we can export our goods and move our people faster and safer." The details on the structure of the plan are still to come.

Whether Trump's ultimate proposal involves an infrastructure bank or tax credits, the plan's success, if enacted, may depend partly on the extent to which private companies and investors find sufficient incentives to put up their own money for individual projects.

The length of time it takes such wagers to come to fruition could discourage investment, and easing business concern will require more of a plan from Trump's administration, according to Jim McCaughan, who oversees about $400 billion at Principal Global Investors.

"When it's big-scale macroeconomics or politics that drives the infrastructure, the private sector has to be very careful," McCaughan, who runs Principal Financial Group Inc.'s asset manager, said Wednesday in an interview at the insurer's investor day in New York. "Giving the private sector the confidence to do it will actually be quite a challenge."

One Democrat, Representative John Delaney of Maryland, called the comments from Mnuchin about an infrastructure bank "encouraging" and said a bipartisan coalition in Congress is ready to work on rebuilding America, according to a statement from his office.

Bloomberg Politics

by Scott Lanman and Sho Chandra

November 16, 2016 — 2:10 PM PST

Trump and State and Local Governments: The Known Unknowns.

Any set of ideas can be separated into known knowns, known unknowns, and unknown unknowns. Leaving the last set aside, one known known that appears virtually certain: that state and local governments are going to have to fight hard for their share of the "policy pie" under the new Trump Administration. Let's now take a look at some of the key "known unknowns"—factors that are likely to affect valuations and creditworthiness and functioning in the state and local finance sector as the new Administration and Congress sort them out.

1) ARE INTEREST RATES INEVITABLY HEADED HIGHER?

That is the first structural response to the Trump win. But is the inflation that would trigger that trend an inevitable outcome?

Certainly, a much more fiscally stimulative Federal Budget would likely lead to that, but isn't inevitable—see below. In the meantime, there are a number of potential patterns that could offset the potential for higher inflation or higher long-term rates. These include energy policy that would drive energy costs lower, and more restrictive trade policies that could dampen global demand, and a push toward more rapid increases in Fed short-term rates that could actually slow growth.

Of course, some potential policies could be inflationary – e.g., gutting trade deals and increasing tariffs, and an aggressive push toward more infrastructure spending – but the outcome is far from clear. To assume that any new set of trade policies is inflationary, one also has to assume that they aren't substantially damaging to global economic activity. We'll see.

By the way, just as we finished this, the muni market was getting beat up pretty badly on Monday. Is that a response to Trump's victory, or merely a response to recent heavy supply combined with a down Treasury market and a limited aggregate risk appetite? We vote for the latter.

2) IS A DRAMATICALLY MORE STIMULATIVE FISCAL POLICY INEVITABLE?

Well, maybe, maybe not. It seems that many observers are assuming that a Republican-led House and Senate will automatically accede to Trump's campaign promises of a combination of lower taxes and aggressive infrastructure spending, and thus a sharply higher Federal deficit.

Color us dubious. Are Republicans all of a sudden ready to enact a combination of significantly lower tax revenues and new spending that isn't paid for? Are they going to tell their base that all of a sudden, fiscally responsible budgets no longer matter? The answers to this question are, we think, key, because they will strongly help determine the extent to which Trump can spend more (military, infrastructure) and tax less (corporate and individual).

3) WILL THE JOINT COMMITTEE ON TAXATION BE MOVING TO DYNAMIC SCORING?

This is another key in terms of what Trump promises are possible to keep. Under dynamic scoring, the purported economic benefits of a tax law change in terms of stronger economic activity are included in estimating the net cost of any change in the tax code. It is not a given that the Joint Committee on Taxation will move to dynamic scoring, but with Republicans in both houses of Congress functioning as their "bosses," it's at least possibility. In terms of a large portion of what Trump has promised and what many Republicans want, this is a very big deal.

4) IS THE TAX EXEMPTION AT RISK?

Some observers seem to be very concerned that the tax exemption is at risk under a Trump Administration. We aren't so sure.

For any infrastructure expansion program to be successful, it needs to be additive to what already exists, and a move toward tax credits for incremental infrastructure spending will fail if it simply replaces the strongly successful program that already exists through the tax-exempt market.

That said, with Joint Tax staff and other key players likely to have something of a free rein to affect policy over coming months, supporters of the tax exemption will have to be extremely vigilant and involved.

5) WHAT WILL THE STRATEGIES FOR ADDITIONAL INFRASTRUCTURE SPENDING BE?

We already have some idea of what this might look like based upon work by Wilbur Ross and Raymond Navarro, who are apparently advising Trump. Their plan calls for heavy use of public/private partnerships with heavy private sector equity, with a large portion of the cost of that equity offset by tax credits that would sharply reduce the equity exposure and the cost of that exposure.

Theirs is a dynamic scoring framework, which assumes that a large proportion of the cost of the tax credits is offset by increased income taxes resulting from the new economic activity. (Important note: Under fair dynamic scoring, the cost of the tax exemption would be netted this way as well, as would decreased market values if the tax exemption were to be gutted.)

We also note that these two advisors include a heavy dose of energy exploration and development in their definition of new infrastructure.

What will be left out? Probably environmentally-related projects, among others. The selection process for projects that "make the cut" is an issue, as it was under the prior Administration's plan. The muni market—and Build America Bonds—allowed governments to self-select. The mechanism here isn't clear. There is much, much more to consider, of course.

6) HOW WOULD SHARPLY LOWER CORPORATE TAX RATES AFFECT THE VALUE OF EXISTING MUNIS?

The format of any such tax cuts matters a lot, but there is the potential for a substantial cut in value. We note that from 2005-2015, according to Fed data, household sector direct holdings of munis are about unchanged, fund holdings are up $263 billion, and bank holdings are up $333 billion (plus direct bank purchases).

Property and casualty insurers' holdings are only up $17 billion over the period but they would become net sellers at current yield relationships. In our view, a very large cut in corporate tax rates would cause yields relative to taxable to move higher. This is a real risk, we think, because support for lower corporate taxes crosses party lines.

7) HOW WOULD CUTS IN INDIVIDUAL TAX RATES AFFECT THE VALUE OF EXISTING MUNIS?

We are less concerned here, if the top rate were to move to 33%. A large number of current individual owners of munis would still find them attractive at a 33% rate, and the 33% rate, as proposed, kicks in fairly low – ($112,500 for an individual, $225,000 for a couple.) A key variable here is that if the lower corporate rate were not well insulated from use by so-called pass-through corporations, then large numbers of wealthy individuals might get the big cuts in rates.

This will likely be "fixed," though, because if it isn't the drop in income tax revenues would explode.

8) HOW WILL HOSPITALS FARE IF THE ACA IS GUTTED?

This could be the biggest near-term question for the muni market, of course, because many hospitals—and the states and cities they reside in—would face vast cuts in revenues from insured individuals if some fraction of 20 million individuals were removed from the rolls.

Alternatively, what would "repeal and replace" look like? We haven't a clue, but we know we need to watch.

9) WHAT REGULATORY CHANGES COULD ACTUALLY SUPPORT THE FUNCTIONING OF THE MUNI MARKET?

It is very early for this, but changes to regulation, especially including Dodd-Frank, bear close watch.

10) COULD FEDERAL SUPPORT FOR STATE AND LOCAL GOVERNMENT PROGRAMS BE HIT?

It's certainly possible, given the revenue erosion that would result from tax cuts and potentially more spending on the military and (ironically) infrastructure.

11) WHAT KINDS OF POLICY "GLITCHES" WILL THERE BE AND COULD A FIRED-UP POPULACE INCENTED TOWARD MORE ACTIVISM GENERATE ECONOMIC DISRUPTIONS?

As a the new Administration, a fiscally conservative Republican majority in Congress, and a fired-up Democratic minority wielding the filibuster struggle to assert themselves, we believe there is that possibility.

Of course, the above is only a start, but we believe that we have laid out a number of the very important issues that market participants and policymakers will need to track as the new Administration takes hold. Comments welcome.

The Bond Buyer

By George Friedlander

November 15, 2016

George Friedlander is a municipal market strategist with over 41 years of experience following market trends, credit trends and policy issues in the municipal sector.

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2 Takes on Trump's Impact on Muni Bonds.

President-elect Donald Trump's proposed policies could partially change the landscape of the municipal bond market for investors in two primary ways.

First, his election could put Build America Bonds (BABs) — or a program like it — back on the table for government issuers. BABs were introduced in 2009 and 2010 by the Obama administration as a way to stimulate the economy and create jobs. Republicans on Capitol Hill killed the program, but Trump has spoken favorably about it. He's interested in stimulating more investment in infrastructure.

Unlike regular municipal bonds, BABs aren't tax exempt, making them more appealing to investors such as international bondholders or institutional investors who aren't eligible to claim an exemption. Thus, they broaden the municipal bond market.

Second, an analysis by the Court Street Group Research (CSGR) says Trump's income tax plan could affect the municipal market because it would eliminate or reduce the tax exemption for municipal bondholders. "The CSGR approaches the reality of a Trump administration with some trepidation as it applies to municipal bonds," the analysis said.

The Takeaway: Taking all these proposals into account, and given that many are now expecting federal tax reform to roll forward in some form in 2017, these policies could reshape to some extent who buys municipal bonds.

Research by Brandeis University's Daniel Bergstresser and MIT's Randolph Cohen has shown that municipal debt is being increasingly held by America's wealthiest households. If the tax exemption on income earned from that investment is eliminated for the wealthy, it provides little motivation for these bondholders to buy more municipal debt.

Who will take their place? The BAB experiment would seem to suggest that having more taxable debt in the municipal bond market will attract different kinds of investors. Stay tuned.

GOVERNING.COM

BY LIZ FARMER | NOVEMBER 18, 2016

Short-Term Muni Bonds to Ride Out Trump-Induced Volatility: UBS

U.S. municipal debt investors putting fresh capital to work should look to short duration bonds while

President-elect Donald Trump's new administration works out new tax and fiscal policies, UBS Wealth Management said on Tuesday.

"To the extent that you're … placing more capital into this market, you probably want to stay shorter on the curve until we have more clarity by the end of 2017 as to exactly what the tax environment is going to be like," said Thomas McLoughlin, head of municipal research at UBS Wealth Management.

Muni bonds, whose yields are exempt from federal income taxes, have long been attractive to wealthy Americans who fall into higher tax brackets.

However, Trump's proposed lowering of tax rates could reduce the appeal of tax-exempt bonds, a major vehicle for states and cities to finance infrastructure, hospitals and schools.

Speaking at the Reuters Global Investment Outlook Summit, McLoughlin said tax reform would be the story for 2017, given how Trump and the Republican party control the White House and held onto majorities in the Senate and House of Representatives.

"The absence of specificity is something that I think the market is struggling with right now," McLoughlin said.

"The municipal market is certainly trying to adjust to determine how real the threat may be to tax exemption and whether or not that threat is overblown; whether or not that threat constitutes complete elimination; or the third option, which is a curtailment in the limitation as to the value of that exemption," he said.

McLoughlin, however, believes the threat to the municipal market's tax exemption status is lower than before as public interest groups have actively lobbied to show the importance of state and local governments in providing infrastructure.

During the election campaign, both Trump and his Democratic opponent Hillary Clinton advocated spending to rebuild U.S. infrastructure.

U.S. voters on Tuesday also approved 562 of 698 state, school and local government bond measures on ballots, clearing the way for the issuance of $60.23 billion of municipal debt, data company Ipreo reported. The amount requested on ballots, $70.1 billion, was the largest par, or face amount, since 2006.

In part, the requested borrowing for big projects was spurred by growing competition for money within municipalities.

"Pay-as-you-go infrastructure is going to be more difficult as pension liabilities rise and occupy a larger share of the budget, and in the case of states, Medicaid funding as well," McLoughlin said.

Reuters

By Daniel Bases and Hilary Russ

Tue Nov 15, 2016 | 4:47pm EST

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(Reporting by Daniel Bases and Hilary Russ; Editing by Richard Chang)

[Municipal Bond Analysts Seek Greater Transparency from Charter Schools.]

We are well aware that charter schools open and close, sometimes for academic reasons, sometimes for financial reasons. Unfortunately, some of these schools are financed with municipal bonds, which makes them a risky endeavor. The story below is behind a pay wall. I subscribed to The Bond Buyer so I could read it in full. It shows why the NAACP and other organizations are calling for charter school accountability and transparency. It is not good for either municipal finance or for children to have schools that close in the middle of the year without warning.

Recently, the National Federation of Municipal Analysts [urged charter schools] "to provide detailed financial, academic, and staffing information in primary and secondary disclosure documents." This is the first time that the NFMA has made disclosure recommendations for charter schools.

"The charter school sector has been very active in the last … four to five years [and] it traditionally has not had a lot of public rating coverage," said Gilbert Southwell, vice president at Wells Capital Management and co-chair of the NFMA disclosure subcommittee that drafted the paper. "[The RBP] is both educational for our membership but also helps to establish our disclosure expectations when we're looking at these deals."

Dean Lewallen, vice president and senior analyst at AllianceBernstein L.P. and co-chair of the subcommittee with Southwell, said the RBP is the product of a year-long vetting process with a variety of market participants and thus reflects "an industry consensus."

The document's recommendations begin with key information that should be included in a primary offering statement (POS). According to the RBP, a charter school's POS should disclose all material financial agreements, including the proposed indenture, loan agreement, capital leases, management agreements, and tax regulatory agreements. It should also include information from twelve other broader topics, like descriptions of facilities and their financing, pledged revenues, and projected cash flows. NFMA also wants descriptions of debt service, repair and replacement, operating and deficit, as well as insurance and property tax reserve funds.

The RBP lists disclosures in a successful charter school POS related to academic performance as well as school management and operations.

"A charter school's academic performance has been identified as an especially important factor in charter school long-term stability and success," NFMA said in its RBP. "Consequently, the POS should disclose all relevant aspects of the charter school academic performance."

Such disclosures should include information covering regulatory authorities that have jurisdiction over the charter school, along with the school's curriculum and education programs at varying grade levels and how those programs satisfy applicable educational standards, the RBP says. Information on how the school tests students to measure academic growth as well as how recent school data stacks up against historic measurements should be presented in an easily accessible way for investors, NFMA said.

In terms of school staff and management, an effective POS should provide detailed information in eight key areas, according to NFMA, including: charter board membership, compensation, and tenure; information available on the school's website; management qualification, experience, and compensation; third-party manager control, compensation, and replacement; and charter school teaching faculty, classroom ratios, and teachers' union affiliation. Additionally, the POS should have information regarding teacher and staff compensation, including retirement benefits, any complaints and claims the school is facing, as well as operating and funding information related to extracurricular activities.

Another important area for disclosure has to do with the school's facilities, NFMA said. A POS should contain information about the size, capacity, and condition of facilities, including equipment, along with descriptions of future capital improvement needs, insurance support, and transportation and parking capabilities for students and staff, respectively.

On the financial side, charter schools should be taking seven areas of potential funding into account when creating their primary disclosures. Any POS should include discussion of audited financial statements and interim financials, current budgetary processes, financial covenant compliance and projections, and existing banking relationships, according to the RBP. State aid and other governmental support should also be listed along with information about planned future debt and reliance on endowments, fund drives, contributions, and gifts.

Disclosures that describe a school's location, enrollment, potential competition from other schools in the area, and future projections on such topics are also important, NFMA said.

The organization included separate but related suggestions to consider credit risks and continuing disclosure.

"Credit risks involved in charter school acquisition financing are numerous and often the source of significant concerns," the group said in the RBP.

Several credit risk areas the group recommended a school disclose in a POS are the: suitability and condition of a new facility and equipment; facility acquisition price; and facility construction costs.

NFMA said in its RBP that until fairly recently, most continuing disclosure agreements (CDAs) for charter school financings did not provide much more investor disclosure than a year-end audit.

"The NFMA believes that charter school continuing disclosure needs to be far more complete, robust, and timely to reflect credit characteristics and risks specific to the sector," the group said….

NFMA also recommended what schools should disclose in its quarterly reports, which it said should be filed between 45 and 60 days after the end of each quarter. The group listed examples of special events and information that may not be produced on a routine schedule but should be made known "promptly" when available, such as mid-year cuts in state or local funding.

NFMA urges charter schools to hold at least one live conference call per year to discuss data and the school's current status. It also lists a number of instances, like a charter non-renewal, that may not be considered material events under the Securities and Exchange Commission's Rule 15c2-12 on disclosure, but should be promptly reported to the Municipal Securities Rulemaking Board's EMMA system anyway.

The RBP makes five additional recommendations, such as that charter schools be aware that borrowers need to be educated on the importance of continuing disclosure and that all disclosure should be posted to EMMA.

Diane Ravitch

Nov 16, 2016

U.S. High-Yield Muni Bond Fund Outflows Set Record.

U.S. municipal high-yield bond fund outflows set a record during the week ending Nov. 16, with investors dumping the tax-exempt sector as U.S. Treasuries plummeted after the stunning victory by President-elect Donald Trump on Nov. 8, data on Thursday showed.

Investors pulled $1.59 billion out of high-yield muni bond funds, the most ever in a single week since Thomson Reuters' Lipper service began reporting such data in 1992.

Overall, investors took $3 billion out of all muni bond funds, the largest outflows since late June 2013, the data showed.

Trump's win in the U.S. presidential election has spurred a rally in U.S. stocks and a rout in fixed-income markets on the expectation of more fiscal stimulus leading to rising inflation, which undermines bond market investment returns.

The junk muni bond sector had been riding high this year as investors seeking yields in what is an otherwise low interest rate environment sought fatter returns in new places, even moving down the credit quality scale to get it.

With the supply of new muni bonds low and demand high all year, prices rose and provided a sweet spot in the global financial markets.

But U.S. states, cities and other issuers returned to the market en masse in the back half of 2016. They sold a record level of debt in October, which widened spreads, dampened munis and prompted small outflows even before the Nov. 8 presidential election.

High-yield munis were first to feel the strain, with tobacco bonds, the most liquid in the speculative arena, losing ground in heavy trading before Trump won the election.

Then, after Nov. 8, Treasury yields rocketed higher. Muni yields followed, gaining 50 basis points in the week since then on 10-year benchmark tax-exempt debt, according to Municipal Market Data, a Thomson Reuters unit. Yields move inversely to prices.

"When rates move that far that quickly, it does unnerve investors," said Jim Colby, manager of VanEck Vectors High-Yield Municipal Index ETF.

Columbia Threadneedle Investments portfolio manager Chad Farrington said the firm's high yield muni fund started to see outflows over the last three weeks.

Most of the price weakening was because munis tracked Treasuries. But some may have been due to concerns about whether Trump's proposed income tax cuts and other policies might dampen appetite for muni bonds or limit their tax exemption, Farrington said.

High-yield outflows "are also driven by sticker shock over the [net asset values] of the high yield funds, which have declined precipitously since early November," said Chris Mauro of RBC Capital Markets.

"The concern is that we're seeing a familiar pattern develop in which the high yield outflows are starting to bleed into the long investment grade funds," Mauro said.

Nuveen's High Yield Municipal Bond Fund topped all outflows this week. Since the beginning of the month its net asset value has dropped about 4.4 percent.

The biggest fund in its peer group, Nuveen's high-yield muni fund "on an absolute basis… would expect to have the largest outflows," said Nuveen's head of tax-exempt fixed income John Miller.

"We have been through selloffs that involve outflows numerous times in the past, so we are using this period to benefit fund shareholders, given the higher yields and wider credit spreads available in the marketplace," he said.

"Fundamentals have trended favorably over the course of the year as a whole, and nothing in this period changes these fundamentals."

Reuters

By Hilary Russ

Nov 17, 2016 | 7:41pm EST

(Reporting by Hilary Russ; Editing by Daniel Bases and Diane Craft)

P3 Digest for Week of November 14, 2016

Powered by P3 INGENIUM, The most comprehensive source for P3 project updates in North America.

Read the Digest.

S&P: The Post-Election Landscape For Municipal Bonds.

With the presidential election over, S&P Global Ratings offers a focus on the post-election landscape and what will be the key drivers related to credit across the broad and diverse U.S. municipal market.

Continue reading.

Nov. 14, 2016

S&P's Public Finance Podcast: Post-Presidential Election Impact on Munis & Rating Actions on New Mexico and New Jersey.

Robin Prunty discusses our November 14th commentary outline the post-Presidential election outlook across all municipal sectors and David Hitchcock outlines the credit drivers to our recent rating actions on the states of New Mexico and New Jersey.

Listen to the podcast.

Nov. 16, 2016

[S&P: Public Policy Helps Water Industry Ride the Tide, Conference Panelists Say.]

Public policy and the water industry work like a two-way street. Yes, the former helps improve quality, funding, and infrastructure. But often distressed conditions in the industry are needed to affect policy change, which was proven at a “Financing In The U.S. Water Industry” conference panel on Sept. 8, 2016, in New York.

Continue reading.

Oct. 11, 2016

S&P: Trump's Election Is Unlikely To Affect U.S. Public Power And Electric Cooperative Utilities' Credit Stability.

Although U.S. President-elect Donald Trump might alter the regulatory landscape governing power plant emissions that public power and electric cooperative utilities face, S&P Global Ratings does not see his administration affecting the ratings on public power and electric cooperative utilities.

Continue reading.

Nov. 14, 2016

Sanctuary-City Mayors Gird for Fight as Trump Threatens Budgets.

Municipalities that protect undocumented immigrants from deportation stand to lose billions in federal aid if President-elect Donald Trump fulfills promises to starve them financially.

More than 200 U.S. ‘sanctuary cities’ won’t turn over people to federal officers seeking to deport them nor share information about them, saying that would rend the social fabric and impede policing. Since Trump’s election last week, mayors including San Francisco’s Ed Lee, New York’s Bill de Blasio and Chicago’s Rahm Emanuel have vowed not to back down.

“This city and so many cities around the country will do all we can to protect our residents and to make sure that families are not torn apart,” de Blasio said Wednesday after meeting with Trump at Trump Tower.

Many cities have calculated that dwindling populations and labor shortages can be ameliorated by immigrants, undocumented or not. The mayors must calculate the point at which resistance harms the communities they’re fighting to protect. The evolving confrontation exposes states’ and cities’ vulnerability to losing some of the $650 billion in federal funds they receive for everything from police to sidewalks as they confront pension obligations and shrinking budgets.

“There’s an economic benefit from being a sanctuary city, but it doesn’t appear to warrant giving up 5 to 10 percent of the city’s funding,” said Dan White, senior economist at Moody’s Analytics, in West Chester, Pennsylvania.

Congressional Republicans have been trying for years to use federal dollars as leverage.

A bill this year by Senator Pat Toomey of Pennsylvania defines a “sanctuary jurisdiction” as any that restricts local officials from exchanging information about an individual’s immigration status or complying with Homeland Security requests. The measure would cut off funds including Economic Development Administration Grants, which totaled $238 million last year, and Community Development Block Grants, which amounted to $3 billion last year. Ten of the largest sanctuary jurisdictions were awarded a collective $700 million in block grants in 2016.

Chicago, the nation’s third-largest city after New York and Los Angeles, is particularly vulnerable. Public-employee retirement funds face a $34 billion shortfall, and Emanuel last month proposed a $9.3 billion budget for 2017 that would increase spending to hire and train more police. The spending plan anticipates $1.3 billion in federal grants this year.

“If Chicago were to lose all of its federal funding, that’s a game-changer,” White said.

Deep-Sixing Documents

In Los Angeles, the police chief said that he would continue a policy of not aiding federal deportation efforts, according to the Los Angeles Times. In New York, de Blasio said last week that he would consider destroying a database of undocumented immigrants with city identification cards before handing such records over to the Trump administration.

“We are not going to sacrifice a half-million people who live amongst us,” de Blasio said. “We will do everything we know how to do to resist that.”

New York City will receive $7.7 billion in federal grants in fiscal 2017, just under 10 percent of the city’s $82 billion budget.

In New Haven, Connecticut, the city of 130,000 that’s home to Yale University receives about a quarter of its $523 million budget from various federal grants, said Mayor Toni Harp.

“That would be really very difficult,” Harp said. “We would be willing to take that as far as it needed to go in our judicial system.”

Trump made attacks on sanctuary cities a campaign staple, often invoking the shooting death of Kathryn Steinle by an undocumented immigrant in San Francisco. The shooter had been released from a county jail even though federal officials had asked him to be held until they could deport him.

The incoming president has said he would deport more than 11 million people, beginning with gang members, drug dealers and other criminals. He’s also said he would create a special deportation task force within Immigration and Customs and Enforcement. If that’s the case, local jurisdictions might see even more requests for cooperation.

Many cities say that immigration is a federal responsibility and they should be left out of it. Others say that they simply don’t have the time or resources to address it.

Stretched Force

In New Orleans, which doesn't consider itself a sanctuary city but whose officers don't ask about immigration status, the specter of losing federal funds is daunting. Some money the city receives is enough to fund nine police officers, said Zach Butterworth, executive counsel for Mayor Mitch Landrieu and director of federal relations.

"The federal government's support for local law enforcement has really been slashed significantly already," Butterworth said. "For them to come down here and say you also need to be doing our job on immigration is a tough sell."

Others say that singling out undocumented immigrants impedes law enforcement because large populations will shun any interaction with the authorities.

"Essentially, for the police, you've got a significant number of undocumented illegals in the country and they're afraid of the police," said Darrel Stephens, executive director of the Major Cities Chiefs Association.

Lena Graber, special projects attorney at the San Francisco-based Immigrant Legal Resource Center believes Trump will run into legal challenges if he threatens municipal funding.

"The federal government can't force state and local law enforcement to use their resources to enforce federal regulatory programs like immigration law," she said. "He can try to offer incentives, but the more that those incentives look like coercion, the more it won't be legal."

In Denver, which has a policy of refusing to hold detainees solely on a request by immigration officials, Mayor Michael Hancock said he won't be cowed.

"This is all legal what we are doing here," he said. "The president doesn't have the authority to unilaterally decide how we move forward."

In Oakland, California, Mayor Libby Schaaf says she is proud to run a sanctuary city, and is planning to recruit even more towns for the movement.

"The best defense is offense," she said. "There is strength in numbers."

Bloomberg Politics

by Lauren Etter and Tim Jones

November 16, 2016 — 2:00 AM PST Updated on November 16, 2016 — 12:30 PM PST

Municipal Market Braces for Wave of Debt Amid Trump Selloff.

The global bond rout couldn't have come at a worse time for the U.S. municipal market.

State and local government bonds dropped by the most in more than three years since the Nov. 8 election amid speculation that President-elect Donald Trump's plan to slash taxes and unleash a new wave of spending will spur inflation and weaken demand for the tax-exempt securities. That's coming just as municipalities are forecast to keep selling new debt at a swift pace after voters approved at least $55 billion of borrowing at the polls, threatening to put further pressure on prices.

"You have all these factors in play at a time when more supply is going to be trying to come to the market," said Peter Hayes, who oversees $120 billion as BlackRock Inc.'s head of munis. "That typically is not very good," he said. "I suspect demand next year is not going to be as strong."

The election fallout is threatening to wipe out gains posted in the municipal market this year as the Federal Reserve held off on raising interest rates. Since last week's election results, the securities have lost 2 percent, cutting this year's return to 1.1 percent, according to Bloomberg Barclays municipal index. The yields on benchmark 10-year debt soared Monday by 0.2 percentage point to 2.13 percent, the highest since December, before steadying early Tuesday. It was the biggest one day jump since June 2013.

Trump's tax plans pose a unique risk to the $3.8 trillion municipal market, which is dominated by investors seeking returns that are exempt from federal income taxes. That benefit makes the securities less valuable when levies are lowered.

With Congress also in Republican control, Trump has made reducing taxes one of his first priorities. He has backed cutting rates across the board, including on wealthy households that are key buyers of municipal bonds.

"Any or all of these tax policy changes, if implemented, would likely raise issuers' borrowing costs and depress market prices of existing coupon munis as investors no longer seek out the exemptions offered by munis," Peter Block, managing director for credit strategy at Ramirez & Co., wrote in a note last week.

Any sweeping overhaul could also result in the elimination — or reduction — of the tax-exemption on municipal bonds, if lawmakers close loopholes to offset cuts elsewhere. The leaders of President Barack Obama's deficit-reduction commission recommended taxing the income on municipal bonds in 2010, though the proposal never made headway in Congress.

"It may find itself in jeopardy if and when loopholes start to close," Vikram Rai, head of municipal strategy at Citigroup Inc., said in a note last week.

Besides, more bonds may be on the way if Trump follows through on proposals to pump as much as $1 trillion into crumbling roads and bridges. While the construction would give a boost to local economies, it's not clear how much — if any — of that would come from borrowing by states and localities, as was done under part of Obama's stimulus program.

"It remains to be seen if states primarily are going to have to pick up some of the tab for infrastructure, or it's going to be a partnership or it's going to be more private sector involvement," said Block of Ramirez. "The details are too thin."

Some of the pressure on the municipal market could be eased if rising interest rates cause local governments to put the brakes on borrowing. This week, for example, Chicago's school district postponed a $426 million sale due to market conditions, with plans to potentially revive it next year.

The selloff in the bond market "could be a buying opportunity," said Dawn Mangerson, a managing director at McDonnell Investment Management, which oversees about $7.6 billion of tax-exempt debt. "Even if they put through some type of reform, the attractiveness of munis is still going to be there."

As the growing economy lifts their tax collections, localities have been moving forward with plans to improve their fraying infrastructure, with many rushing to borrow before the Fed raises interest rates as soon as next month.

Issuers have sold about $390 billion in bonds this year, marking the fastest pace since 2010. Citigroup forecasts that sales may reach $430 billion, while Ramirez projects about $450 billion.

“It looked like based on this year, next year was certainly setting up to be another big year of issuance,” said BlackRock’s Hayes. “The offset to that is when interest rates go up, you’ll actually see less issuance. Borrowers are more averse, they may wait.”

Bloomberg Markets

by Tatiana Darie

November 15, 2016 — 2:00 AM PST Updated on November 15, 2016 — 6:30 AM PST

Bloomberg Brief Weekly Video - 11/17

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

Watch video.

November 17, 2016

Moody's: Unfunded Pension Liabilities Eclipse Capital-Related Debt at US Public Universities.

New York, November 18, 2016 — Unfunded pension liabilities now exceed debt used to fund campus facilities and other capital investment at Moody’s-rated public universities, the rating agency says in a new report. While annual pension expenses are currently manageable for universities at only 3% of operating expenses in FY 2015, they will rise as investment earnings lag discount rates and some states shift pension payment obligations to their universities.

“Based on investment results and discount rates used by state pension plans in fiscal 2015 and 2016, we project that aggregate Adjusted Net Pension Liabilities (ANPL) will increase about 40% between now and fiscal year end 2017,” Edie Behr, a Moody’s Vice President — Senior Credit Officer says in “Higher Education — US: Pension Liabilities Exceed Capital-Related Debt at US Public Universities.”

Across the public university sector, unfunded pension liabilities of more than $183 billion exceeds aggregate capital-related debt and will represent over 60% of total adjusted debt by fiscal year end 2017. Meanwhile, debt issuance for new capital–related projects will continue to be moderate.

Moody’s says while pension-related expenses are presently low for public universities, they are expected to increase as actual investment returns lag discount rates and net liabilities continue growing.

A few states currently make some or all of the employer contributions to pension plans on behalf of their public universities, but there is a growing risk that states will begin shifting this burden due to ongoing fiscal strain. Illinois (Baa2 negative) and New Jersey (A2 negative) have significant unfunded pension liabilities and budget imbalances, and Oklahoma (Aa2 negative) and West Virginia (Aa1 negative) are encountering budget pressure from low energy prices.

“Pension challenges are typically similar for public universities within the same state because they participate in the same state-sponsored, cost-sharing, pension plan,” Behr says.

The larger and higher-rated public universities also have more than enough liquidity and reserves to cushion short-term revenue disruptions. These reserves can be used for pension contributions and debt payments if needed.

The report is available to Moody’s subscribers at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1038438.

Fitch: Recent Events Underscore Vital Role of Technical Advisors in P3s.

Recent delays and cost overruns among some US public private partnerships are bringing to light the importance of having an experienced, insightful, and independent technical advisor be part of the process.

Read the report.

As Donald Trump Plans Building Boom, Cities and States Rush to Borrow.

Voters authorize $55.7 billion in debt on Election Day, the most approved since 2008

President-elect Donald Trump is promising an infrastructure boom once he is sworn in. In some parts of the country, a burst of new construction spending by states and cities is already under way.

State and local governments around the U.S. have issued $149 billion in bonds for new infrastructure projects thus far this year, putting 2016 municipal borrowing on track to surpass each of the past five years, according to Thomson Reuters data.

Much of the new bond issuance happened in the second and third quarters, after a long stretch of low borrowing. Total bond issuance, including refinancing, has reached $388 billion, also a five-year record.

On Tuesday, voters across the country authorized state and local governments to borrow another $55.7 billion for similar projects, according to Ipreo. It was by far the most borrowing approved since 2008.

“I think there’s a lot of momentum, not only at the political level but also by the general public, to start spending more on infrastructure,” said Dan Heckman, senior fixed-income strategist at U.S. Bank Wealth Management.

Mr. Trump made a $1 trillion infrastructure investment over the next decade one of his first priorities as president, promising in his victory speech Wednesday to “rebuild our highways, bridges, tunnels, airports, schools, hospitals.” The proposal relies on private financing. Experts and industry officials say it is unlikely the nation’s aging infrastructure can be updated without public support.

In the short term, however, costs could go up for government borrowers. Municipal-bond prices have dropped along with Treasurys in days after the election, with interest rates for an A-rated 20-year general obligation bond at 3.2% on Thursday, compared with 2.94% on Monday, according to Thomson Reuters. Analysts cited concerns that inflation under a Trump administration could increase borrowing costs.

"In an era where the range has been pretty tight, that's a pretty dramatic move in such a short period of time and he hasn't even taken office yet," said Howard Cure, director of municipal research at Evercore Wealth Management.

Florida bond finance director Ben Watkins is relieved to have refinanced more than $1 billion in mostly state general obligation bonds since June. His only regret, he said, is that he didn't also push through a planned $250 million bond to improve Florida's turnpike and another deal to refinance school construction borrowing.

"With this change in [municipal bond] rates, I wish I had been smart enough to go ahead and sell regardless of what the market felt like," Mr. Watkins said.

Local infrastructure projects have languished for years as cities and states struggled to balance their budgets in the aftermath of the recession. Long-term borrowing for new projects by major U.S. cities hit a 24-year low in 2014, according to an analysis by The Pew Charitable Trusts.

But with expectations of a federal rate increase in December, local officials were eager to get in on historically low interest rates, many analysts said. Municipalities issued $108 billion in bonds in the third quarter of this year, compared with $86 billion in the third quarter of 2015, according to Thomson Reuters data. They also asked voters Tuesday to approve nearly 700 ballot measures seeking to issue bonds and won approval for more than 70% of them, according to Ipreo.

"The low interest rates are very attractive to us and the idea of waiting any longer means the cost will drive up," said Alicia Trost, spokeswoman for San Francisco's Bay Area Rapid Transit, or BART. The transportation system won voters' approval Tuesday to issue $3.5 billion in bonds, its first referendum since 2004. The money will be used to replace 90 miles of rail and fix leaky tunnels and other infrastructure improvements.

Voters in Texas' El Paso Independent School District approved $668.7 million in new borrowing in what was the school system's first successful bond referendum since 2007, said spokeswoman Melissa Martinez. The money will pay for a consolidation of school campuses to accommodate declining enrollment, 81 new school buses and laptops for middle-school students in the 60,000-student district.

A citizens committee working on the referendum chose not to limit the borrowing to $500 million after learning that the additional money would add only $2.39 to the tax bill for a $100,000 home.

That type of deal will likely still be available to them. Despite the postelection volatility, "borrowing costs are still relatively and historically low," U.S. Bank's Mr. Heckman said.

THE WALL STREET JOURNAL

By HEATHER GILLERS

Nov. 12, 2016 7:00 a.m. ET

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

Post-Implementation Review Concludes GASB Standard On Fund Balance Reporting Achieves Its Purpose.

Norwalk, CT—November 16, 2016 — The accounting and financial reporting standard for state and local governments that addresses fund balance reporting and governmental fund type definitions achieves its purpose, according to a report issued today by the Financial Accounting Foundation (FAF). The Post-Implementation Review (PIR) Report on Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, addresses technical, operational, and cost-effectiveness aspects of the Statement.

GASB Statement 54 was issued in 2009 to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types.

"The PIR process has provided some important stakeholder feedback on the benefits and costs of Statement 54 in light of actual experience in using and preparing the information," said GASB Chairman David A. Vaudt in the Board's response to the PIR report. "On behalf of the GASB, I would like to thank the Foundation for undertaking this important process and all of the individuals and organizations who gave their time to share their insights and experiences with the PIR staff."

The PIR team received broad-based input from GASB stakeholders including auditors, preparers, financial statement users, and academics. Based on its research, the review team concluded that:

- Overall, Statement 54 resolved the primary issues underlying its stated need—it introduced fund balance classifications that are easier to understand and clarified fund type definitions. Although some stakeholders have indicated that it is difficult to distinguish between committed and assigned fund balances, the Statement was an improvement over prior literature.
- Statement 54 provides users of financial statements with decision-useful information.
- Overall, Statement 54 is operational because it is understandable, can be applied as intended, and enables fund balance and governmental fund type information to be reported reliably.
- The changes made to financial and operating practices as a result of Statement 54 were not significant or unexpected.
- There were no significant unanticipated consequences as a result of the adoption of Statement 54.
- Overall, implementation and continuing application costs associated with Statement 54 were not significant and were consistent with the GASB's expectations.
- Overall, Statement 54 achieved its expected benefits.
- The PIR team's review did not result in any standard-setting process recommendations for the GASB.

The review of Statement 54 was undertaken by an independent team of the FAF, the parent organization of the GASB and the Financial Accounting Standards Board (FASB). The team's formal report is available here. The GASB's response letter to the report is available here.

The next PIR of a GASB standard will not be conducted for a few years, as the PIR team has completed all the reviews of significant GASB standards that have been effective for at least two years.

S&P Reassessing, Deferring Some Ratings Due to Errors in Sector Models.

WASHINGTON – Standard & Poor's is reassessing some of its existing ratings and deferring some new ones in certain sectors because of errors in credit scoring models.

The sectors include higher education, social housing (which is the rating agency's name for public housing), and water and sewer.

S&P released notices on the sectors with the model errors between Sept. 29 through Oct. 28 and has assigned a few ratings "with developing implications," resolving one of them since then.

However, some issuers in the higher education sector who wanted to remain anonymous recently reported having trouble getting ratings.

Credit scoring models are tools used by analysts to apply rating criteria, said Adom Rosengarten, lead analytical manager for S&P's enterprise group.

"We've identified those three models that have errors," he said in a interview. "We're working to correct those errors … and to assess the rating impacts, if any, that may be related to the correction of the models' errors."

"We're working with issuers as they come in and are discussing how we can rate deals on a transaction by transaction basis," he added.

The errors were discovered by analysts, according to Rosengarten. He declined to specify them beyond the disclosures made by S&P in the recent notices.

"On the water and sewer side, what it led to was a single CreditWatch that we've already resolved," he said. "On the social housing side, it led to two CreditWatch development ratings total."

In the higher education sector "we continue to assess if there will be any rating changes," he added.

The most recent S&P notices, on higher education, were released on Oct. 28 and Oct 21. The earlier one said that S&P had found errors in its credit scoring model for higher education.

"We do not know the likelihood at this time of rating changes following the correction of this error although it is possible that such changes will be required," S&P said. "We will continue working to correct the error and provide additional information as appropriate."

In the Oct. 28 notice, S&P said, "We have discovered additional errors in the higher education credit scoring model. We do not know the likelihood at this time of rating changes following the correction of the errors although it is possible that such changes will be required."

In an Oct. 18 notice, S&P said an error had been found in the social housing provider credit scoring model.

The credit rating agency later issued a notice on Oct. 27 that said it has placed its A-minus ratings on Fall River Housing Authority in Massachusetts and the authority's 2012 general obligation lease revenue bonds on CreditWatch "with developing implications."

S&P announced at the same time that it has issued an A-plus rating on Credit Watch "with developing implications" for the Wisconsin Housing Preservation Corp.

"The CreditWatch Developing status reflects our view that we could raise, affirm, or lower our ratings following correction of the model error," the rating agency said, adding, "At the same time, we will review the … transactions based on the latest audited financials, which we anticipate completing within the next 90 days."

In a Sept. 30 notice, S&P said it found an error in its water/sewer credit rating model. "We do not know the likelihood at this time of rating changes following the correction of this error with the exception of Clackamas County Service District No. 1, Ore., whose ratings have been place on CreditWatch."

The day before, S&P placed its double-A rating on the Clackamas County issuer on CreditWatch "with positive implications."

"This action reflects the recent discovery of an error in the water/sewer credit scoring model as it relates to our assessment of the enterprise profile, specifically the economic fundamentals assessment," S&P said. It added, "We believe that there is at least a one-in-two likelihood the rating will be raised following the completion of our review."

After the rating agency corrected the credit scoring model, it issued a notice on Oct. 21 raising Clackamas County issuer's long-term and underlying rating for its sewer revenue and refunding bonds to double A-plus from double A and removed the rating from CreditWatch. It said the outlook is stable for the bonds.

The rating contained a lengthy rationale for the rating, detailing the enterprise risk profile and financial risk profile for the bonds.

The Bond Buyer

By Lynn Hume

November 7, 2016

U.S. Voters Say Yes to Big Bond Issues, Mixed Message on Taxes.

U.S. voters on Tuesday favored a surge in borrowing for public projects, approving some of the biggest bond measures on ballots, while support for new taxes was mixed, according to election results on Wednesday.

Final voting tallies were not immediately available for all of the 682 state, school and local government bond measures, according to data company Ipreo.

At $70.3 billion, the amount of bond issuance requested to fund the building and repairing schools, mass transit, roads, and other projects was the largest in a decade. To view the historical amount of bond ballot measures, click on tmsnrt.rs/2e9Z5bb.

Some of the largest bond requests won approval, including the biggest bond proposal in Tuesday's election: $9 billion of California general obligation debt in the state's so-called Proposition 51. This will finance new construction and modernization for K-12 and charter schools and community colleges, according to semi-official election results on the California Secretary of State's website.

“Passage of Proposition 51 is credit positive for school districts with approved, but unfunded capital projects under the state School Facility Program, which is depleted,” Lori Trevino, an analyst at Moody’s Investors Service, wrote in a research note on Wednesday.

With 195 bond measures totaling $41.7 billion, California issuers accounted for nearly 60 percent of the total par amount of debt on ballots nationwide.

California’s voters rejected Proposition 53, a proposal to rein in debt by requiring statewide voter approval for revenue bonds exceeding $2 billion for projects financed, owned or managed by the state.

The rejection removes a hurdle standing in the way of projects such as the $14.9 billion California Water Fix project for upgrading its water infrastructure.

“It assures that the state’s water policymakers will have the tools necessary to implement the California Water Fix, although they still face an uphill battle to secure the full approval and financial backing necessary to implement the plan,” Shannon Groff, Fitch Ratings director of U.S. Public Finance, said in a statement.

As for tax measures, California voters passed a 12-year extension of a temporary state personal income tax increase on earnings of $250,000 or more and a cigarette tax hike.

Voters in 35 states weighed 154 state-wide measures, including bonds and taxes, according to the National Conference of State Legislatures, which posted results on its website.

Montana voters said no to creating a biomedical research authority funded by $200 million of bonds over 10 years.

PUBLIC HEALTHCARE INSURANCE OPTION FAILS

In Colorado, voters turned down a proposed constitutional amendment calling for a public option universal healthcare payment system, funded by a new 10 percent state payroll tax. They also rejected a cigarette tax hike.

Arkansas voters agreed to lift a cap on state bond issuance for economic development projects. Illinois will have to earmark money generated from transportation-related fees and taxes exclusively for transportation uses, under a new constitutional amendment approved by voters.

New Jersey voters approved the use of gasoline taxes solely to fund road, bridge and mass transit projects, and to allow $12 billion of transportation borrowing over eight years. Governor Chris Christie signed a 23-cent gas tax hike into law in October.

In Missouri, voters amended the state constitution to prohibit any new tax on services or transactions. Oklahoma voters turned down a sales tax hike for public education. A corporate tax hike to fund education in Oregon also failed.

Washington state voters rejected the nation’s first tax on carbon emissions.

At the local level, San Diego voters rejected a measure to raise hotel taxes and direct hundreds of millions of public dollars toward building a new National Football League stadium in downtown San Diego for the Chargers team.

Reuters

Wed Nov 9, 2016 | 7:20pm EST

(Reporting By Karen Pierog and Dave McKinney in Chicago, Robin Respaut in San Francisco, and Hilary Russ in New York; Editing by Daniel Bases and Richard Chang)

Moves to Make as the Bond Market Sinks.

As stocks rose after Trump's election victory, bonds tumbled. But the worst may soon be over.

While the stock market held an election celebration last week, the bond market threw a Trump tantrum. Yields rose sharply, especially those on long-term Treasuries. The 30-year bond climbed 0.3 percentage point to 2.94%, resulting in a 6.3% decline in price. (Bond prices move inversely to yields.) The 10-year Treasury yield climbed almost as much, to 2.15%, the first time since January it has topped the 2% mark.

It wasn't just Treasuries. Municipal bonds, corporate bonds, and preferred securities all fell. Bloomberg estimates $1 trillion in the value of bonds evaporated last week after the election. Stocks bought for yield, like utilities and real estate investment trusts, suffered too.

The main reason for the rate surge is the expectation that inflation will rise. Thanks to the Republican sweep, investors are betting Donald J. Trump will be able to implement tax cuts, increase infrastructure spending, and ease regulations, stimulating economic growth. Trade restrictions, a key pillar of the Trump platform, would also spur inflation, even while impeding growth.

Rate strategists believe yields could rise further when markets reopen Monday after the Veterans Day holiday Friday. But there are reasons to expect the spike to end fairly soon. Yields may rise another 0.2 to 0.3 percentage point this year, says Raman Srivastava, deputy chief investment officer at Standish Mellon. But he doesn't expect anything like the spike in yields in 2013 that took the 10-year Treasury to 3%.

For starters, the Federal Reserve remains likely to raise short-term rates in mid-December, which should act to dampen inflation expectations. Even if all goes as planned for Trump, the economic growth the market is forecasting will take time to materialize. For example, it will take at least until the end of next year before growth from infrastructure spending could emerge, says Srivastava. Longer term, demographic and global macroeconomic trends are going to restrain inflation. "Structurally, I don't see a shift," he says.

And the president-elect may face more hurdles implementing his policies than many expect. "Investors shouldn't take this past week too much to heart," says Dan Heckman, fixed-income strategist at U.S. Bank Wealth Management. "There has been a lot of anticipation of certain things happening, but the reality is that we don't know if they are going to come to fruition or not."

A FEW TRUMP MISSTEPS, and the stock market could get less optimistic. "I expect volatility in the markets over the next few months going into the first 100 days," says Michael Arone, chief investment strategist at State Street Global Advisors.

Owning bonds as a buffer against that volatility makes sense, but investors need to "pivot" for a rising-rate environment, he says. Stay in government bonds, but shorten maturities and add some Treasury Inflation-Protected Securities, Arone suggests. He is overweighting corporate credit—both high-yield and investment-grade—and adding some floating-rate securities, like senior loans.

Consider a barbell approach, balancing longer-term, higher-yielding bonds with short-term debt that can be reinvested at higher yields as rates rise, suggests Heckman. Srivastava encourages diversifying—including globally—as some bond markets may have overshot to the downside.

Munis may already be an opportunity, argues John Miller, head of Nuveen's municipal-bond group. Yields jumped 0.25 percentage point last week. "If one can get over the shock of how fast that move was, I would say this does look like a good opportunity to put money to work for the long run," he says.

To be sure, it's still early to buy more bonds; no one wants to catch a falling knife. But selling off high-quality issues in your portfolio now doesn't seem like the right move either.

BARRON'S

By AMEY STONE

November 12, 2016

Bond Funds Lost $18 Billion in Value During this Week's Trump-Inspired Selloff.

Mutual funds and exchange-traded funds benchmarked to the Bloomberg Barclays Aggregate U.S. Bond Index lost about $17.7 billion in value this week, according to a MarketWatch analysis of data provided by Morningstar.

As of last Friday, the roughly 1,700 exchange-traded and mutual funds benchmarked to the index collectively managed about $1.2 trillion. By the close of trading on Thursday, the Bloomberg index registered a total return of minus 1.487 percentage points. Funds benchmarked to an index are supposed to reflect its holdings as accurately as possible, but occasionally there are slight discrepancies.

Because many mutual funds report their holdings only once a month, the total AUM figure used as the basis for these calc£ulations doesn't reflect changes in valuation due to market movements between Oct. 31 and Nov. 4. It also doesn't reflect changes due to investor withdrawals between Oct. 31 and Thursday.

The index, which is weighted by market capitalization, comprises a broad range of U.S. dollar-denominated bonds, including Treasurys, asset-backed securities and corporate debt. Only fully taxable bond issues are eligible, which excludes most municipal bonds and inflation-linked government bonds.

Republican President-elect Donald Trump's unexpected victory over Democrat Hillary Clinton in Tuesday's election triggered an explosive bond-market selloff—the biggest since the "taper tantrum," which occurred in the summer of 2013.

Former Federal Reserve Chairman Ben Bernanke unwittingly sparked the taper tantrum when he told Congress that the Fed would "gradually reduce the flow of [bond] purchases" as the U.S. economic outlook improves. The comment led to a prolonged selloff that saw the 10-year yield rise from about 1.6% to nearly 3% between late May and early September 2013.

Many, including a team of macro strategists at Bank of America Merrill Lynch led by David Woo, expect bonds to continue falling as Trump and the Republican-controlled Congress cut taxes and fund infrastructure projects. That will increase the budget deficit and increase the supply of Treasurys as government borrowing rises.

“We believe the outcome of a Republican clean sweep means fiscal loosening is now a foregone conclusion. We believe this will lead to both higher rates and a higher [dollar],” Woo said, in a note.

On Wednesday alone, the yield on the 10-year Treasury note TMUBMUSD10Y, +5.22% rose 20.3 basis points on Wednesday, its largest-one day gain since July 5, 2013. Bond yields move inversely to prices.

Treasury yields have risen steadily in recent months, after plunging to historic lows following the U.K.’s late-June vote to leave the European Union. Treasurys represent a plurality of the index’s holdings.

MarketWatch

by Joseph Adinolfi

Published: Nov 12, 2016 11:59 a.m. ET

Trump Proposals Could Dent U.S. Muni Bonds, Pressure States.

* Tax rate reductions make muni bond tax-exemption less attractive unless yields rise

* Medicaid funding plan could squeeze state budgets

* Unraveling trade deals may hurt Southeastern states

* Negatives could be offset by big infrastructure boost, repatriating corporate profits

U.S. municipal bonds could lose favor with investors under President-elect Donald Trump’s proposals to cut personal income tax rates, thereby reducing the benefit of the bonds’ tax exemption, analysts said.

Muni bonds have long been attractive to wealthy Americans who fall into higher tax brackets because income earned on the bonds is exempt from federal income taxes.

“Tax reform is a key risk for munis – and one not reflected in current pricing,” Morgan Stanley analysts said in a note after Trump was elected president and Republicans took control of Congress in Tuesday’s election.

Muni bonds “could become less attractive from a portfolio perspective given lower tax value and the potential for yields to move higher to compensate for this loss,” the note said.

Trump has proposed reducing the top marginal tax rate to 33 percent from the current 39.6 percent.

Under that lower rate, muni bond yields would have to be higher to make their tax exemption as attractive as it is today – by 20 basis points on 10-year debt and 29 basis points on 30-year paper, all else being equal, according to Citi analyst Jack Muller.

That, in turn, would increase the cost of borrowing for the states and cities that issue muni bonds to finance everything from school construction to sewer systems.

Trump's presidency, coupled with Republican control of Congress, could smooth the implementation of an agenda that will have broad ramifications on investor behavior and the public sector.

Many of Trump's proposals are unclear but are expected to solidify in the coming months as he assembles his Cabinet and prepares to take office in January.

In addition to repealing the Affordable Care Act, Trump has called for using federal block grants – instead of the current cost-sharing system with states – to send money to the states for Medicaid, the nation's healthcare program for the poor.

Under that idea, federal funding could drop between 4 and 23 percent over 10 years, Fitch Ratings said on Thursday, citing a Congressional Budget Office review of previous Medicaid block grant proposals.

"Reduced federal Medicaid aid could lead states to tighten overall spending and reduce transfers to local governments," the credit rating agency said.

However, states could also benefit from the autonomy and flexibility of the block grant structure, Fitch said.

Other pressures could come from Trump's proposals to withdraw from and renegotiate trade agreements with foreign countries.

"Trump's trade policy proposals would have significant adverse implications for U.S. investment and growth and push up prices, particularly in the event of foreign counter measures or 'currency wars,'" Fitch said.

In turn, that could disrupt American manufacturers' supply chains, which would be challenging for businesses especially in Southeastern states that have recently had job growth in automotive and aerospace industries, Fitch said.

INFRASTRUCTURE, CORPORATE PROFITS COULD HELP

Trump's proposal to boost infrastructure spending, which he reiterated during his acceptance speech early Wednesday morning, could offset negative implications from other proposals.

His plan calls for $1 trillion of infrastructure investment over 10 years through public-private partnerships and private investments, to be incentivized by $137 billion of tax credits.

The need for spending is certainly acute. The American Society of Civil Engineers estimates the country requires $1.4 trillion of infrastructure spending by 2025.

Issuance of municipal transportation bonds could grow dramatically if Trump's administration directed federal money through state and local grants or loans, according to Citi. But if the federal government bears the full cost, municipalities would not need to issue debt for the projects.

Institutional investors are also increasingly interested in infrastructure as confidence in the equity markets wanes and investors seek stable, cash-generating investments in the current low interest-rate environment.

Offsetting a possible drop in revenue from infrastructure tax credits is another Trump proposal to let companies repatriate foreign profits at a one-time reduced tax rate of 10 percent, down from the current 35 percent corporate tax rate.

All that money flowing back into the United States “could be a huge tax windfall for states, which would realize one-time tax revenues from any money entering that state, a significant boon for California, New Jersey, New York and Illinois,” Eaton Vance portfolio managers said in a note.

Reuters

By Hilary Russ and Robin Respaut

Fri Nov 11, 2016 | 12:00am EST

(Reporting by Hilary Russ in New York and Robin Respaut in San Francisco; Additional reporting by Karen Pierog in Chicago; Editing by Daniel Bases and Matthew Lewis)

State and City Budget Blues: Pressures Keep Piling Up.

NEW YORK – It’s not just Detroit and Puerto Rico with financial problems.

The pressure is rising on local governments around the country that are struggling with big pension obligations and other debts. Five states need to put aside more than 25 percent of their annual tax revenues just to pay pensions and other debts, an untenable amount, according to a recent study by the nonprofit Center for Retirement Research. For major cities, debt costs above 40 percent of revenue are typically an unmanageable burden, and the report counts eight of them.

Overall, U.S. state pension plans are underfunded by at least $1 trillion, various experts and credit rating agencies say. And that funding hole will almost certainly hurt taxpayers, government workers and bondholders.

“It’s getting harder to sweep these problems under the rug,” says Tracy Gordon, a senior fellow with the Urban-Brookings Tax Policy Center.

After taking into account health care and other debt obligations, states like Hawaii, Kentucky and Massachusetts and cities like Houston and San Jose, California, are all above thresholds that the Center for Retirement Research considers worrisome.

For many years, politicians hoped to make up for the funding gaps by getting strong returns from investments in stocks, bonds and hedge funds, says Gordon. But the typical public pension plan had a return of just 0.5 percent for the fiscal year that ended in June, according to credit-rating agency Moody’s.

That has increased the risk for a major crisis at municipalities with outsize debt payment, says Lisa Washburn, a managing director for Municipal Market Analytics, a municipal bond research firm. “This is a liability that they are going to have to come to terms with eventually, and the longer they delay coming to terms with it, the worse it’s going to be.”

How you might be affected depends on your relationship to the location in question:

— You're a bond holder.

For muni bond investors, the chief worry is a default. But despite the dramatic headlines, investors who hold state-issued bonds until they mature have little to fear. "You can expect to be repaid," says Washburn. If your state's debt rating is downgraded, however, you may find that your bond is worth less if you need to sell it before maturity.

Those who hold the bonds of struggling cities overburdened with debt, however, have cause for concern. "States have sovereign ability to do just about anything they want, so they have a very wide array of options to pursue," says Alan Schankel, a municipal bond strategist at Janney Capital Markets. "Depending on the level of oversight, cities and counties have much less flexibility. And many of them are dependent on state aid."

When a city files for bankruptcy, judges sometimes allow payments to be curtailed to muni bondholders. That's what happened in Detroit and Stockton, California. Moreover, severe budget problems at the state government level can also have a trickle-down effect leading to less support for schools and hospitals supported by the state, which also issue municipal bonds.

— You're an employee.

The good news for public service workers is that, in some states, pension payments are guaranteed by law. And even in places where they may not be, legislators tend to be sympathetic to pension holders.

Now for the bad news: If things get really bad, you still might find your benefits thwacked. Detroit workers, for example, had their pensions cut when the city filed for bankruptcy. A more likely situation is that you'll be the victim of pension "reform," which could involve an increase to your annual contribution rate or fewer cost-of-living salary bumps. You may also see cutbacks in other benefits, such as health care, which are easier for states and cities to enact. Rhode Island suspended cost-of-living adjustments for retirees in 2011 and introduced a 401(k)-like funding system for current state workers, for example.

— You're a taxpayer.

A simple way for states to boost their sagging budgets is to increase taxes. A sales tax increase along with an income tax increase on wealthy residents helped California pull out of its massive budget hole from the Great Recession, for example. Simple, though, doesn't mean easy. Politicians are often reluctant to increases taxes on their watch. "Politically, that's just very hard to do," says Washburn.

Other places have tried different tactics to boost revenues. A few years ago, Kansas tried cutting taxes in hopes that it would boost its economy and lead to eventual gains in income tax revenue, for example. Unfortunately, the state still recently had a projected $290 billion shortfall.

Instead of raising taxes, states sometimes cut back services in order to save money. "Maybe the Department of Motor Vehicles is open five days a week instead of six," says Schankel. The challenge is that if too many services are cut, residents will become disenchanted with the community and move elsewhere. That only exacerbates the revenue problem.

It all shows how no single approach will lift local governments out of their troubles. One thing, however, is clear, says Gordon: "Someone has to be left holding the bag."

Fox Business

Published November 07, 2016

Trump Dismantling of DoddFrank, Halt on New Rules Could Affect Munis.

WASHINGTON – Donald Trump's plans to dismantle the DoddFrank Act and impose a moratorium on new regulations could affect the municipal bond market.

The president-elect's transition team said on Trump's webpage: "The DoddFrank economy does not work for working people. Bureaucratic red tape and Washington mandates are not the answer. The Financial Services Policy Implementation team will be working to dismantle the DoddFrank Act and replace it with new policies to encourage economic growth and job creation."

At the same time, Kroll Bond Rating Agency said in a release that it is betting the House will modify and pass the Financial Choice Act (H.R. 5983), which House Financial Services Committee chairman Jeb Hensarling, RTexas, introduced last September to roll back DoddFrank Act and other requirements.

The bill would divert to Treasury funding that the Municipal Securities Rulemaking Board gets from Securities and Exchange Commission and Financial Industry Regulatory Authority sanctions against violators of muni rules. The funding arrangement was set up under DoddFrank.

The Act also made non-dealer municipal advisors subject to federal oversight and regulation and extended the MSRB's reach to protecting municipal issuers.

Former SEC Commissioner and DoddFrank critic Paul Atkins has been tapped by Trump to lead the transition team's review of independent financial agencies. Nominated by thenPresident George W. Bush, Atkins was at the SEC from August 2002 to August 2008. He is currently CEO of Patomak Global Partners, which provide consulting and other services in the financial arena.

David Malpass, former chief economist at Bear Stearns and founder and president of Encima Global LLC, an economic, research and consulting firm who sits on the board of UBS Funds, is heading Trump's transition team of economic issues along with Bill Walton, who chairs Rappahannock Ventures, a private equity firm.

A moratorium on new rules could thwart the Municipal Securities Rulemaking Board initiatives on markup disclosure, pretrade price transparency, and syndicate practices. Dealers have complained about nonstop rules coming out of the MSRB in response to DoddFrank and the SEC's 2012 Report on the Municipal Securities Market.

"As of right now, if you look at the types of things that have been impacting the muni market, especially on the retail and regulatory side, they're all born out of the 2012 [report]," said John Vahey, managing director of federal policy for Bond Dealers of America. The report came out of the SEC with bipartisan support, but the expected changeover in the administration raises questions about whether that kind of support will continue, he added.

Vahey said dealers have a bit of regulatory fatigue from the past five years. "Could dealers use a breather from reg compliance changes and time to adapt to a new environment? Yes," Vahey said. "Is there at the same time some potential negatives out there to a regulatory moratorium across the entire economy Potentially, yeah."

Trump will also have the chance to choose the new SEC chair as well as fill two vacant commission slots. SEC chair Mary Jo White has said she will step down and Congress never confirmed Obama's nominees: Hester Peirce, a senior research fellow and director of the financial markets working group at the Mercatus Center at George Mason University, and Lisa Fairfax, a professor of law at George Washington University.

Matt Fabian, a partner with Municipal Market Analytics, said that it is easy to imagine Trump would appoint industry-friendly individuals to fill the chair and vacant commissioner slots at the SEC.

"It's a very volatile situation right now in terms of myriad policy outcomes from the commission," Vahey said.

Trump's promised moratorium on new regulations comes as the Treasury Department has been hoping to finalize rules on issue price and also press forward with rules on political subdivisions, which have been very controversial in the muni market.

A list of potential cabinet members from Trump's transition team obtained by BuzzFeedNews on Thursday included three names for Treasury Secretary: Hensarling, businessman Carl Icahn and banker and political fundraiser Steven Mnuchin.

Fitch Ratings on Thursday warned: "Trump's Medicaid and trade policy proposals would significantly lower federal transfers to state budgets and could negatively affect economic growth and revenues if they are implemented."

Trump would convert Medicaid funding into a block grant program that would "lead to much lower federal funding to states," the rating agency said.

Uncertainty

There are still many uncertainties surrounding Trump and his proposals and policies. Fitch Ratings said Trump's policies would be "negative for U.S. public finances" because of uncertainties about the detail of his proposals, the degree to which he'll promote them, and his ability to implement them. Senate Democrats will still be able to filibuster Republican legislation they don't like, the rating agency pointed out.

"The election of a polarizing figure like Trump may put institutional relationships under strain, although his victory will give him some significant political capital," Fitch said.

Earlier this year, Trump suggested he would try to negotiate down the national debt of the U.S., setting the financial markets on edge.

Trump's proposals would contribute $5.3 trillion to the national debt, according to an analysis by the Committee for a Responsible Federal Budget.

A key test for him will be whether to continue to fund the federal government and raise or suspend the federal debt limit, which has been lifted until March 2017.

The Bond Buyer

By Lynn Hume and Jack Casey

November 10, 2016

P3 Digest - Week of November 7, 2016

Powered by P3 INGENIUM: The most comprehensive source for P3 project updates in North America.

Read the Digest.

November 7, 2016

Trump's Infrastructure Plan Draws Support, But Could Hurt Munis.

President-elect Donald Trump's promise to rebuild the nation's infrastructure is resonating with Republican and Democratic lawmakers, but could spell trouble for municipal bonds.

Trump has proposed a $1 trillion, 10year infrastructure plan, which he touted during his victory speech.

"We are going to fix our inner cities and rebuild our highways, bridges, tunnels, airports, schools, hospitals," he said. "We're going to rebuild our infrastructure, which will become, by the way, second to none. And we will put millions of our people to work as we rebuild it."

House Minority Leader Nancy Pelosi said Wednesday that infrastructure is one area on which she and Trump can agree.

But Trump's plan relies on $137 billion of tax credits that he would ask Congress to authorize and that has drawn concerns from some muni market participants.

"The little we know about Trump's plan is that it focuses on tax credits," said Jessica Giroux, BDA's general counsel. "Our concern is that it says nothing about munis."

Trump advisors Wilbur Ross, a billionaire private-equity investor, and Peter Navarro, a professor at the University of California at Irvine, said the infrastructure plan's tax credits could be used by investors to leverage $167 billion in private funds.

Companies taking advantage of the tax credits would be able to borrow money on the private market at low interest rates to finance $1 trillion of projects without the need for any new taxes, they said.

"Trump's plan will harness market forces to help raise construction funds by incentivizing private sector investors through tax credits, thereby revolutionizing American infrastructure finance," Navarro said.

Trump wants to pay for infrastructure through repatriation pf companies' overseas earnings. Companies would be able to bring overseas earnings back to the U.S. at Trump's proposed reduced tax rate of 10% rather than the current 35%. With the credits, companies could avoid any tax liability by investing $122 million of the repatriated profits in infrastructure projects, Ross and Navarro said.

Repatriation would take away a significant amount of tax revenue available for tax reform, thereby increasing the pressure on Congress to look even harder at cutting tax deductions and exemptions.

The Joint Committee on Taxation has estimated that American companies hold a total of $2.6 trillion of foreign income in overseas banks.

Transportation groups also have some concerns about Trump's infrastructure plan. Bud Wright, executive director of the American Association of State Highway and Transportation Officials, said tax credits are not a longterm solution.

"We're sort of agnostic about the tax credits," Wright said. "We're not opposed to the idea, but it is not the longterm funding solution that we need to repair the deficit in the Highway Trust Fund."

Federal tax credits are not transportation user fees, he said.

"A one-off, short-term type of program like that would be useful but it does not do anything for the long term sustainability of federal transportation funding," Wright said. "Corporate tax reform is not really a transportation issue either, but in some circles it has been linked to infrastructure funding as well. Again, it's not something we oppose but it is not a solution."

However, Wright concedes that Increases in the federal gasoline tax are not likely. "The fuel tax is the best understood and most administratively effective revenue source there is but it is about as politically volatile as any issue I've seen in Washington," he said. "That goes for Democrats as well as Republicans. There's just a knee-jerk reaction to oppose it."

Jim Tymon, chief operating officer and director of policy at AASHTO, said, "I think we'll see an infrastructure package coming out of Congress, probably not quickly but certainly within the first year."

As always, the sticking point will be how to pay for increased infrastructure spending, he said.

"We'll have to see what sort of pay-fors and offsets are available and acceptable," Tymon said.

The Bond Buyer

By Jim Watts and Lynn Hume

November 10, 2016

[Steve Ballmer's Plan to Make America Great Involves Excel Spreadsheets.]

The ex-Microsoft CEO is working on a project that aims to make government data more accessible.

Steve Ballmer is pretty bummed out about the election. A self-proclaimed "numbers guy," Ballmer said the truth is getting lost in the political rhetoric, and he wants to arm citizens with data to defend against lies by the campaigns. "Nobody seems to care about the facts," he said.

When not jumping around on the sidelines of Los Angeles Clippers games, the former Microsoft Corp. chief executive officer has been spending his retirement on the inside of an Excel spreadsheet. Ballmer and a team of about 25 data geeks have been poring over more than three decades of government documents to create a comprehensive accounting of U.S. spending. The goal is to treat the nation like a company and create what Ballmer describes as a "10-K for the government," like the one publicly traded businesses are required to file with regulators each year.

Ballmer's project, called USAFacts, exists in the form of hundreds of Excel files and 385 PowerPoint slides, many of which require a magnifying glass to read. While the complete report won't be ready in time for Election Day, he's using the research as the basis for a class he teaches at Stanford University. His group of 19 sophomores are getting a peek at what Ballmer plans to publish early next year in the form of a 10-K filing, investor presentations, charts, graphics and a dedicated website.

Mary Meeker, a partner at venture capital firm Kleiner Perkins Caufield & Byers, undertook a similar effort called USA Inc. that Bloomberg Businessweek published in 2011. Two years ago, President Obama signed the Data Act, designed to make federal spending information more accessible, while OpenGov and other venture-backed startups have sprung up with the goal of increasing transparency. While any effort toward greater visibility is a good thing, the government shouldn't be analyzed in the same way as a business in some cases, said Alex Howard, a senior analyst at the Sunlight Foundation, an advocacy group for government openness who hasn't seen Ballmer's report.

In Ballmer's worldview, data trumps all. "I just think it's important if you are going to make your case, for you to make your case in the context of numbers," Ballmer said at his office in Bellevue, Washington. "Here are the numbers. You don't have to be a rocket scientist. You don't have to be an economist. You decide what you believe. And when things come up that you need to vote on, you need to opine on, you'll have the view of a citizen that's informed by facts."

A childhood veteran of math camp with an undergraduate degree in mathematics and economics from Harvard University, Ballmer tends to mentally organize his life into rows and columns. He has a superhuman memory for numbers that would impress, and sometimes terrify, his lieutenants at Microsoft. He'd frequently ask detailed questions about a manager's business unit, sometimes reciting metrics off the top of his head that no one else in the room knew. "Steve sees the world as an Excel spreadsheet," said Kevin Turner, who Ballmer hired as Microsoft chief operating officer in 2005 and is now CEO at financial firm Citadel Securities.

Ballmer's obsession with government data originated from a disagreement with his wife. Almost three years ago, Connie Ballmer told her newly retired husband that he should focus more on philanthropy. His wife has dedicated herself to child welfare and other causes, and there's plenty left to give: Ballmer's estimated net worth is $25.1 billion, according to the Bloomberg Billionaires Index. "I said, 'Eh, why do you worry about it so much?'" Ballmer said. "At the end of the day, the biggest philanthropy in the U.S. is the government. So as long as we pay our taxes, we're doing our part."

It was an unusual argument to make, and as with many Ballmer debates, it turned into a research exercise. He scoured the web for a summary of government spending at all levels. He started with Bing and then tried Google. Neither had what he was looking for. So he decided to build it.

Working with data, design and academic experts at Stanford and in the Seattle area, Ballmer runs the project from the 20th floor of a high-rise overlooking Lake Washington. One challenge they faced early on was figuring out how to divide the government into business units. After several failed approaches, a staffer suggested a look through the Constitution. "The Constitution!" Ballmer recalled, suddenly speaking many decibels louder as he got up to diagram the segments on a massive Microsoft Surface Hub touchscreen computer. "It's the perfect way!"

USAFacts breaks down government operations into four main segments based on the preamble to the Constitution. For “establish justice, insure domestic tranquility,” they chose police, workplace safety and child welfare; another includes military, defense, foreign affairs and immigration; the third has the economy and caring for the poor; and in the last, civil rights, environmental sustainability and education. The 10-K has a section on risk factors, an essential part of public company filings. It includes war, interest rate hikes, civil unrest and climate change. The draft report also talks about America Corp.’s customers, using copious amounts of demographic data on U.S. citizens.

Researchers collected information from 55 government or nonpartisan sources, including from state and local municipalities, going back to 1980—the year Ballmer joined Microsoft. They kept analysis and interpretation to a minimum. Ballmer’s goal is to be completely unbiased. The billionaire said he’s an independent and has been an active political donor in recent years, with a tendency to give to both sides. He won’t say who he’s voting for.

Ballmer said the idea that the U.S. is getting worse mostly isn’t true. Infrastructure, such as road and bridge safety, is better than or comparable to 1990. The government doesn’t seem as big as some people say it is, either. Of about 24 million government workers, teachers account for some 11 million jobs; police, firefighters and the like for 3 million; and military for about 2 million. Add in public hospitals, waste management, prisons and other workers, that leaves just 1.7 million or so bureaucrats.

Mark Duggan, a Stanford economics professor who is teaching the course with Ballmer, said this project is especially important as Americans consider the need for spending cuts or other changes to Medicare or Social Security. “What Steve is trying to do is to make it possible for people who want to make an informed decision to do that,” Duggan said.

Staff working on USAFacts said Ballmer already knows unusual factoids about government spending and demographics by heart. Ballmer, 60, said he doesn’t recall as much as when he was 40.

The project has helped settle Ballmer’s dispute with his wife. Government funding accounts for a larger share of many social-services organizations’ budgets for aiding children than private donations, he said. But economic mobility remains largely unachievable for America’s poorest families. The data helped convince the Ballmers to focus their philanthropy on impoverished kids in U.S. cities with the lowest chances of improving their situations. Ballmer will continue making political contributions as well. He still believes influencing public policy is one of the most effective ways to effect change, he said. “We were both right.”

Bloomberg

by Dina Bass

November 7, 2016 — 8:55 AM EST

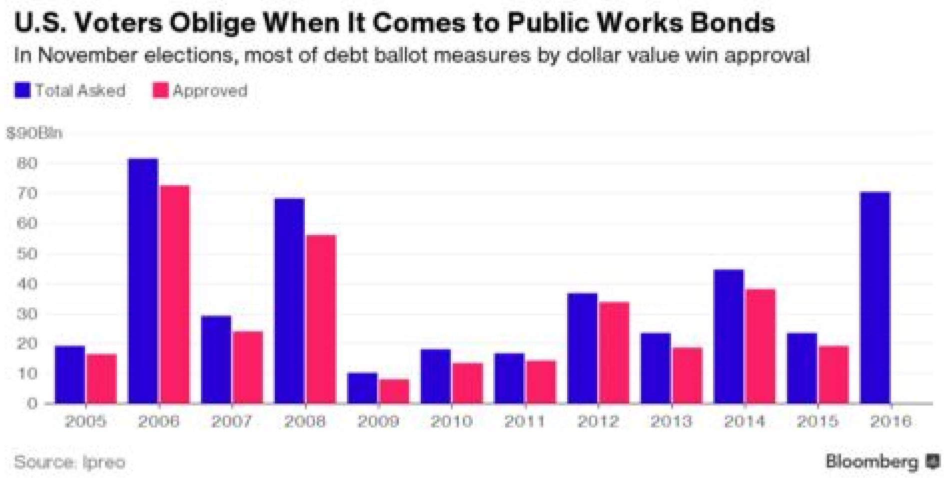
– *With Emily Chang*

U.S. Voters Decide on $70 Billion in Bonds, the Most in a Decade.

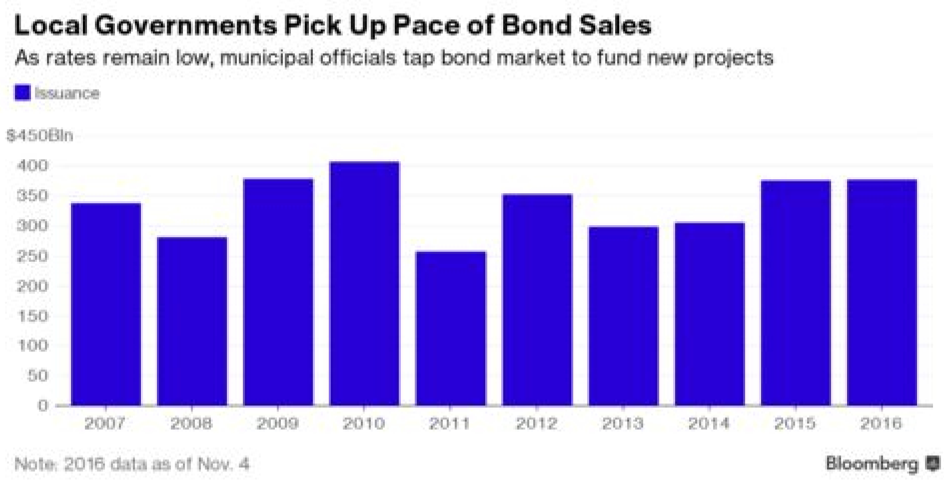
Local governments across the U.S. are asking voters to approve about $70 billion of bond sales, the most in a decade, seeking to seize on improvements in their fiscal positions and near record-low interest rates to borrow for public works.

The jump is driven largely by California, which accounts for about $42 billion of the proposed debt, as officials seek to raise funds for schools, public transportation and affordable housing, according to financial-data provider Ipreo. Elsewhere, voters are being asked to back large issues for roads in Austin, Texas, schools in Denver and waterworks in Columbus, Ohio.

“The cost of borrowing is low,” said Mark Ferrandino, chief financial officer of Denver Public Schools, which is asking voters to approve $572 million, the second-biggest amount for schools in Colorado history. “It allows us to have our money go further.”



The increase signals that states and cities are backing away from the austerity that persisted for years as they contended with budget shortfalls left in the wake of the recession. Amid speculation the Federal Reserve will resume raising interest rates as soon as December, governments have stepped up their borrowing, issuing $387 billion of bonds this year. That’s the fastest pace since 2010, when municipalities rushed to sell federally subsidized bonds as the program expired.



There are large sales proposed around the country:

- California has a $9 billion school bond on the statewide ballot, while residents around San

Francisco are being asked to support $3.5 billion of borrowing for the Bay Area Rapid Transit system. In Los Angeles, ballot measures would raise $3.3 billion for community colleges and $1.2 billion to ameliorate homelessness. Santa Clara County, where the Silicon Valley boom has pushed up the cost of living, is weighing a $950 million bond for housing;
- Austin, Texas's booming capital city, is proposing $720 million of borrowing for roads, streets, bike trails and sidewalks. It's the biggest issue outside of California, according to Ipreo;
- El Paso, Texas, is weighing almost $670 million of bonds to build schools;
- Columbus, the AAA-rated Ohio capital, wants to issue $460 million for its water and sewer system.

This proposed borrowing is the most since 2006, when about $82 billion went before voters. The uptick reflects the financial improvement among municipalities as the drop in unemployment and housing-price gains lift tax collections. Meanwhile, the yield on the Bond Buyer's 20-year general-obligation index — while up from the record lows reached in July — is still just 3.27 percent.

"For many years, there was a spirit of austerity where municipal mangers felt pressure not to issue debt and not to leverage up," said Eric Friedland, director of municipal research in Jersey City, New Jersey, for Lord Abbett, which manages $20 billion of local debt. "You get to a point now where infrastructure is crumbling, revenues are starting to increase, interest rates are relatively low and constituents are pressuring their leaders to actually fund more infrastructure projects."

Such spending tends to be an easy sell: Since 2004, voters approved at least 75 percent of the proposed bond sales, based on the amount requested, according to Ipreo data.

The borrowing will only put a small dent in America's backlog of infrastructure projects, an issue that Democrat Hillary Clinton and Republican Donald Trump have both promised to address if they're elected president. The American Society of Civil Engineers estimates that the U.S. is on pace to spend $1.4 trillion less than needed on its roads, airports and other public works.

"We've dug ourselves a pretty deep hole," said Brian Pallasch, managing director of government relations and infrastructure initiatives for the engineers' group. "The problem is not going to be solved by one particular ballot measure or one particular congressional action. It's going to be a series of them."

Bloomberg Business

by Romy Varghese

November 8, 2016 — 2:00 AM PST

Bloomberg Brief Weekly Video - 11/09

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

Watch the video.

Bloomberg Business

November 9, 2016

What a Trump Presidency Could Mean for State and Local Finances.

An early review of Donald Trump's health-care and trade policies reveals some potentially bad news for state and local governments. According to Fitch Ratings, Trump's proposals would "significantly lower federal transfers to state budgets and could negatively affect economic growth and revenues."

Specifically, Trump has proposed converting Medicaid funding into a block grant program, which Fitch says would lead to much lower federal funding for the states. A Congressional Budget Office (CBO) assessment of earlier Medicaid block grant proposals projected declines of between 4 and 23 percent in federal funding over 10 years.

The president-elect has also harshly criticized the North American Free Trade Agreement and said he would slap tariffs on goods imported from countries, such as China, that have cheaper labor than in the United States. Fitch Ratings said Trump's trade policy would have adverse implications for U.S. investment and growth, and would push up prices.

On the positive side, Trump has also talked about major investments in infrastructure. But he's been low on details for his plan — only suggesting that federal tax credits could encourage private investments in revenue-generating projects — and could make it more expensive for state and local governments to borrow money for those infrastructure projects. That's because his planned tax cuts would lower the benefit of buying tax-exempt municipal bonds for many individual investors. Without the full benefit, governments may have to swallow a higher interest rate payment in order to attract investors.

The Takeaway: Let's put things in perspective. Since when has a presidential candidate gotten everything he wanted once he took office? Chances are low that every single outcome listed above will actually happen. It's also important to note that President Obama has also called for reducing the municipal bond tax benefit for much of his presidency. So, that particular threat to state and local finances is not a new one, although some suspect tax reform will make its way from the back to the front burner now that Republicans control the executive and legislative branches.

The proposed changes to Medicaid are perhaps the most worrisome for state and local budgets because aid from the feds makes up approximately 15 percent of total state expenditures, according to the National Association of State Budget Officers. If the CBO's estimates are accurate, "reductions of this magnitude would have a significant effect on states' budgets," according to Fitch. And you can bet that states will pass some of that hurt on down to local governments in the form of reduced state aid.

But right now, the word of the day is ambiguity: Trump has been fuzzy on details up to this point, so it remains to be seen if his policies will pass muster with Congress and how, specifically, they'll impact state and local government coffers. Even the proposed changes to Medicaid aid could have a happier ending if states get more spending autonomy under a block grant system. "Depending on the specifics of the program," Fitch said, "states could lower their Medicaid costs with that flexibility."

GOVERNING.COM

BY LIZ FARMER | NOVEMBER 11, 2016

This Government Bond Insures Against Failure.

The first-ever environmental impact bond gives an agency some of its money back if its idea doesn't pan out.

As the drive for accountability in government spending increases, many are looking for ways to keep from paying the full price for programs that don't work.

In Washington, D.C., that desire has led to the first-ever environmental impact bond, issued this fall by DC Water, the city's water and sewer authority. The $25 million bond will pay for new, green infrastructure like rain gardens and permeable pavement to reduce stormwater runoff.

But if the projects don't work as expected, that's where the new financing structure comes in. Under the terms of the bond, which DC Water sold directly to Goldman Sachs Urban Investment Group and the nonprofit Calvert Foundation, the utility stands to get a multimillion discount on its total borrowing costs if the project doesn't meet a certain threshold.

It's essentially an insurance policy on the project's effectiveness. Here's how it works: After five years, the new infrastructure will be evaluated. If stormwater runoff isn't reduced by at least 18.6 percent, investors will owe DC Water a $3.3 million "risk share" payment. The payment represents a near-full refund of the 3.43 percent interest rate payments DC Water made during the first five years of the bond. After that, the bonds would likely be refinanced into 25-year bonds. DC Water would also drop green infrastructure projects and go back to so-called gray ones (like pumps and water tunnels) to reduce runoff.

So what's the incentive for Goldman Sachs and the Calvert Foundation to buy these bonds? If the reduction of stormwater runoff exceeds expectations — if runoff is reduced by more than 41.3 percent — the investors get a bonus payment of $3 million from DC Water after five years. The bonds would then still refinance into 25-year bonds.

Although the deal took two years to iron out, DC Water's CFO Mark Kim said it's a structure that could easily be copied by other utilities because it is still, at its core, a basic market transaction. This makes environmental impact bonds different from so-called social impact bonds or pay for success projects, which are not bonds at all but are negotiated contracts between a private financier and a government. These "bonds" finance certain projects that aim for an agreed-upon outcome, such as reducing recidivism among a certain prison population. The financier gets paid back only if the project outcomes are met after a certain period of time.

For those reasons, pay for success projects are very difficult to replicate. "We structured this as a debt instrument rather than a [pay for success] service contract, so it is very scalable, very transparent and very accessible," said Kim. "Utilities know how to issue debt. We've just structured the deal so that they can look and replicate."

While the environmental impact bond is getting interest from other governments, and was even held up by the White House as a model, it has its critics. Dan Kaplan, who manages a $4 billion debt portfolio for the King County, Wash., Wastewater Treatment Division, said he isn't convinced the environmental impact bond is a better deal because of the "exceptionally high interest rate" DC Water is paying the first five years of the deal. Typically, the shorter the terms of the bond, the lower the interest rate. Under a regular five-year bond, Kaplan said, DC Water would likely pay less than 2 percent instead of 3.43 percent.

Also, given that rain gardens and permeable surfaces aren't new, untested technology, Kaplan doesn't see the point in DC Water hedging its bets that the projects won't do their jobs. "If there's some new technology that needs to be tested and there simply aren't the resources within the utility to commit the personnel and technology to do it," he said, "then perhaps [this financing mechanism] could be a tool."

But Kim said comparing the bond's terms with a five-year bond's terms isn't an apples-to-apples comparison. Although the deal does refinance after five years, it is structured as a 30-year deal and therefore is assigned an interest rate comparable to the utility's typical long-term borrowing cost. In addition, Kim said, a typical five-year bond doesn't "provide a risk transfer or downside protection if green infrastructure does not work, which is the whole point of the deal."

Beth Bafford, investments director for the Calvert Foundation, said she hopes the DC Water deal spurs a new field of social investing that essentially splits the difference between a pay for success project and a traditional bond. Investing in the former means returns might not be realized. Investing in the latter is far less risky — and less exciting.

"We've looked at a few pay for success deals," says Bafford. They are such uncertain , complex systems that it's "hard to determine what's causing the outcome. In the environmental space, you can measure it, look at it, it's more of a science. The hope is it'll help investors who are more risk averse get into the social contracting space."

GOVERNING.COM

BY LIZ FARMER | NOVEMBER 10, 2016

Trump Obamacare Repeal Threat Seen Pressuring Hospital Bonds.

The municipal-bond market is facing headwinds from President-elect Donald Trump and more than $250 billion in hospital debt is most at risk.

Yields on benchmark tax-exempt securities climbed the most Wednesday in more than three years after the stunning victory of the real estate developer and reality television star, who has proposed slashing income taxes, which will reduce the incentive to own the bonds. Trump and Republicans in Congress made the repeal of Obamacare a central point of the campaign, a possible one-two punch for hospital debt.

Under the Affordable Care Act, 20 million people obtained health insurance as 30 states expanded Medicaid, the joint federal-state health program for the poor, and others purchased insurance on exchanges. Repealing or scaling back Obamacare would reduce revenue for hospitals and nursing homes as Medicaid expansion is curtailed and private subsidies cut.

"There's a clear indication that Obamacare benefited a lot of hospitals," Mikhail Foux, head of municipal strategy at Barclays Plc. "You will probably see weaker systems, especially the ones that are mainly operating in states that have expanded Medicaid, come under some pressure."

Trump's victory was felt by some bondholders immediately. Tuesday, the risk premium on debt issued by Livonia, Michigan-based Trinity Health Corp. and maturing in 2045 rose to 1.77 percentage point more than top-rated bonds compared with 1.20 percentage point a month ago, according to data compiled by Bloomberg.

Spreads on bonds issued by Providence St. Joseph Health to refinance debt at hospitals in Washington state and California rose about 0.15 percentage point Tuesday from the day before.

Trump supports letting states administer Medicaid block grants, while promoting tax-free health savings account to encourage people to buy insurance. He also advocates allowing insurance companies to sell policies across state lines.

“The ACA is going to be under threat fairly early on. And that will probably impact more of the low grade standalone hospitals,” said Triet Nguyen, a managing director at NewOak Capital, a New York financial-advisory firm. “The larger systems will be able to cope with any change.”

The Affordable Care Act, which took full effect in January 2014, has been a boon to investors who hold tax-exempt bonds sold by hospitals: Hospital bonds returned 12.72 percent in 2014 and 4.09 percent in 2015, the best of 10 revenue-bond sectors, according to Bloomberg Barclays Indexes.

Performance has weakened this year as factors that have driven enrollment growth waned. States, including Texas and Florida, haven’t expanded Medicaid and aren’t likely to. Hospital bonds have returned 3.57 percent this year.

Political Will

Investors should shift to higher-rated and more diversified hospital systems such as AA- rated Cleveland Clinic and Memorial Sloan Kettering which have specialty clinics for cardiology and cancer, respectively, and that have cheapened recently, Foux said.

The new administration and congressional leaders can forge unity by repealing Obamacare quickly, loosening regulations and cutting taxes, said Dan Holler of the conservative group Heritage Action.

“They will succeed if they focus on the big-ticket items where they have agreement,” he said. “Democrats showed extraordinary political will when they had complete control. I hope Republicans have learned that lesson.”

Not so fast, says Todd Sisson, a senior analyst in Charlotte, North Carolina, for Wells Capital Management, which manages more than $40 billion in municipals.

While Republicans control the White House and Congress, they don’t have a supermajority in the Senate and Democrats can use the filibuster to block a repeal, Sisson said. Repealing Obamacare outright would also be difficult politically given how many Americans are now covered by it, he said.

“You’ve got a lot of people on insurance now, it’s hard to take that back,” Sisson said. “I’m looking for them to kind of tweak it and amend it but to flat out repeal it and replace it without a plan, I don’t have a crystal ball, but I’m thinking that will be difficult to do.”

Hospitals have already built an infrastructure based on Obamacare and transition to value-based reimbursements from a volume-based fee-for-service model, Sisson said.

Bloomberg Business

by Martin Z Braun

November 10, 2016 — 2:00 AM PST

Fitch: More US Infrastructure Failures Likely as Asset Ages Rise.

Fitch Ratings-New York-10 November 2016: The frequency and severity of incidents like the recent water main break in Philadelphia will increase in coming years absent renewed attention and ongoing investment, Fitch Ratings says. Businesses were flooded, shoppers had to be rescued and cars were submerged when the Nov. 4 water main rupture – the third such incident in as many years at this location – released approximately six million gallons of water.

The cost of the damage will likely be significant, although no estimates have yet been reported. The main break is similar to other notable infrastructure failures in recent years in other older, urban cities like Los Angeles, Washington, D.C. and Boston.

The escalating age of the nation's infrastructure and continued underinvestment in underground assets supports Fitch's view that infrastructure failures will continue to occur. The American Society of Civil Engineer's reports 240,000 water main breaks occur annually in the US, while the American Water Works association believes required costs to restore existing water systems reaching the end of their useful lives, and to keep pace with population growth, could be upwards of $1 trillion nationwide.

Moreover, a recent survey compiled by the Environmental Protection Agency showed nearly $385 million is needed to improve and replace the nation's drinking water infrastructure through 2030 to continue providing safe drinking water.

In our 2016 Water and Sewer Medians report, capital spending dropped to the lowest level Fitch has observed since publishing its annual medians (just 113% of annual depreciation). The lack of spending contributed to an inability to improve the median age of facilities, which, at 14 years, is the same as the 2015 median and ties the oldest of any median result.

Moderate increases in planned capital spending are expected for the 2017 medians and beyond, but Fitch expects planned outlays will remain below historical spending levels exhibited during and immediately before the recession, heightening concern regarding the ongoing age of utility infrastructure over the coming years.

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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.

Donald Trump's Infrastructure Plan Faces Speed Bumps.

Reliance on private financing could fall short of goals and still see political resistance

Donald Trump's proposal for $1 trillion worth of new infrastructure construction relies entirely on private financing, which industry experts say is likely to fall far short of adequately funding improvements to roads, bridges and airports.

The president-elect's infrastructure plan largely boils down to a tax break in the hopes of luring capital to projects. He wants investors to put money into projects in exchange for tax credits totaling 82% of the equity amount. His plan anticipates that lost tax revenue would be recouped through new income-tax revenue from construction workers and business-tax revenue from contractors, making the proposal essentially cost-free to the government.

Mr. Trump has made a $1 trillion infrastructure investment over 10 years one of his first priorities as president, promising in his victory speech early Wednesday morning to "rebuild our highways, bridges, tunnels, airports, schools, hospitals."

The Trump team's thinking is laid out in a 10-page description of the proposal posted on the website of Peter Navarro, a public-policy professor at the University of California, Irvine, and an adviser to Mr. Trump. Separately, a presidential transition website that went up this week said Mr. Trump planned to invest $550 billion in infrastructure, without offering details on where that funding would come from. Top Trump aides couldn't be reached to comment on the proposal.

Experts and industry officials, though, say there are limits to how much can be done with private financing. Because privately funded projects need to turn a profit, they are better suited for major projects such as toll roads, airports or water systems and less appropriate for routine maintenance, such as repaving a public street, they say.

Officials also doubt that the nation's aging infrastructure can be updated without a significant infusion of public dollars.

The plan "strikes me as sort of a concept paper or a thought piece as opposed to a real plan," said Pat Jones, executive director of the International Bridge, Tunnel and Turnpike Association, which represents private operators of toll roads. "These are sort of formulaic numbers that you could come up with to present something that looks like a plan."

For now, members of Congress of both parties and transportation advocates say they are optimistic lawmakers can reach a bipartisan deal to provide some of the needed funding to update roads, power lines and airports. According to the McKinsey Global Institute, the U.S. needs to boost infrastructure spending by 0.7% of gross domestic product between now and 2030 to meet the demands of a growing economy.

Both parties have said they agree on the need for new spending on infrastructure, but the challenge has been finding the money to pay for it. An Obama administration proposal to use new revenue from a corporate tax overhaul didn't get through Congress last year. In December, lawmakers cobbled together a $305 billion measure using a reserve account held by the Federal Reserve.

Mr. Trump's plan would essentially sidestep the political funding squabbles by focusing mostly on private investment, a concept that both parties generally support.

But the plan could still face an uphill battle in Congress, where Democrats have been pushing for more public funding.

Industry experts note that private financing can complement public funding for some projects but is far from a perfect substitute. Historically low interest rates have made it very cheap for state and local governments to borrow directly on the municipal bond market, giving them less incentive to work with private funders.

At the same time, tolls have proved unpopular in much of the country, with toll-road operators in Indiana and Texas filing for bankruptcy protection in recent years.

"The real need is straight up funding, not additional financing tools," said Bud Wright, executive director of the American Association of State Highway and Transportation Officials.

Only about 6,000 of the nation's four million road miles are tolled. And only about 3.1% of the assets under management of U.S. investors are in infrastructure, of which some share is invested in projects abroad, according to Preqin, a research firm.

"Not every project is necessarily feasible," said Patrick Rhode, vice president of Cintra, which develops privately funded infrastructure projects. "The public and state authorities have to make a determination as to what best serves the public good."

It's also unclear how Mr. Trump's proposal would generate enough new revenue to offset the cost of the tax credits. If the construction workers hired on the new projects were previously unemployed, the proposal would indeed generate significant new tax revenue. But with the unemployment rate for construction workers around 5.7%, it is likely those workers would have found other jobs and paid income tax regardless.

"It's unclear exactly what [Mr. Trump] has in mind for his infrastructure tax credit," said Michael Sargent, a transportation policy analyst at the conservative Heritage Foundation. "He says they're deficit neutral, but I'm not sure how exactly they could pay for themselves."

Heritage has been advocating reducing the federal government's involvement in transportation and leaving it up to the states to fund improvements.

THE WALL STREET JOURNAL

By DAVID HARRISON

Updated Nov. 11, 2016 1:22 p.m. ET

Write to David Harrison at david.harrison@wsj.com

State and City Budget Blues: Pressures Keep Piling Up.

NEW YORK — It's not just Detroit and Puerto Rico with financial problems.

The pressure is rising on local governments around the country that are struggling with big pension obligations and other debts. Five states need to put aside more than 25 percent of their annual tax revenues just to pay pensions and other debts, an untenable amount, according to a recent study by the nonprofit Center for Retirement Research. For major cities, debt costs above 40 percent of revenue are typically an unmanageable burden, and the report counts eight of them.

Overall, U.S. state pension plans are underfunded by at least $1 trillion, various experts and credit rating agencies say. And that funding hole will almost certainly hurt taxpayers, government workers and bondholders.

"It's getting harder to sweep these problems under the rug," says Tracy Gordon, a senior fellow with the Urban-Brookings Tax Policy Center.

After taking into account health care and other debt obligations, states like Hawaii, Kentucky and Massachusetts and cities like Houston and San Jose, California, are all above thresholds that the Center for Retirement Research considers worrisome.

For many years, politicians hoped to make up for the funding gaps by getting strong returns from investments in stocks, bonds and hedge funds, says Gordon. But the typical public pension plan had a return of just 0.5 percent for the fiscal year that ended in June, according to credit-rating agency Moody's.

That has increased the risk for a major crisis at municipalities with outsize debt payment, says Lisa Washburn, a managing director for Municipal Market Analytics, a municipal bond research firm. "This is a liability that they are going to have to come to terms with eventually, and the longer they delay coming to terms with it, the worse it's going to be."

How you might be affected depends on your relationship to the location in question:

— You're a bond holder.

For muni bond investors, the chief worry is a default. But despite the dramatic headlines, investors who hold state-issued bonds until they mature have little to fear. "You can expect to be repaid," says Washburn. If your state's debt rating is downgraded, however, you may find that your bond is worth less if you need to sell it before maturity.

Those who hold the bonds of struggling cities overburdened with debt, however, have cause for concern. "States have sovereign ability to do just about anything they want, so they have a very wide array of options to pursue," says Alan Schankel, a municipal bond strategist at Janney Capital Markets. "Depending on the level of oversight, cities and counties have much less flexibility. And many of them are dependent on state aid."

When a city files for bankruptcy, judges sometimes allow payments to be curtailed to muni bondholders. That's what happened in Detroit and Stockton, California. Moreover, severe budget problems at the state government level can also have a trickle-down effect leading to less support for schools and hospitals supported by the state, which also issue municipal bonds.

— You're an employee.

The good news for public service workers is that, in some states, pension payments are guaranteed by law. And even in places where they may not be, legislators tend to be sympathetic to pension holders.

Now for the bad news: If things get really bad, you still might find your benefits thwacked. Detroit workers, for example, had their pensions cut when the city filed for bankruptcy. A more likely situation is that you'll be the victim of pension "reform," which could involve an increase to your annual contribution rate or fewer cost-of-living salary bumps. You may also see cutbacks in other benefits, such as health care, which are easier for states and cities to enact. Rhode Island suspended cost-of-living adjustments for retirees in 2011 and introduced a 401(k)-like funding system for current state workers, for example.

— You're a taxpayer.

A simple way for states to boost their sagging budgets is to increase taxes. A sales tax increase along with an income tax increase on wealthy residents helped California pull out of its massive budget hole from the Great Recession, for example. Simple, though, doesn't mean easy. Politicians are often reluctant to increases taxes on their watch. "Politically, that's just very hard to do," says Washburn.

Other places have tried different tactics to boost revenues. A few years ago, Kansas tried cutting taxes in hopes that it would boost its economy and lead to eventual gains in income tax revenue, for example. Unfortunately, the state still recently had a projected $290 billion shortfall.

Instead of raising taxes, states sometimes cut back services in order to save money. "Maybe the Department of Motor Vehicles is open five days a week instead of six," says Schankel. The challenge is that if too many services are cut, residents will become disenchanted with the community and move elsewhere. That only exacerbates the revenue problem.

It all shows how no single approach will lift local governments out of their troubles. One thing, however, is clear, says Gordon: "Someone has to be left holding the bag."

By THE ASSOCIATED PRESS

NOV. 7, 2016, 5:03 A.M. E.S.T.

MSRB: Highest Muni Trading Volume in 3 Years.

The Municipal Securities Rulemaking Board (MSRB) today released municipal market statistics for the third quarter of 2016, showing par amount traded totaled $837.9 billion in 2016:Q3, up 52.1 percent from the $551.0 billion traded in 2015:Q3. Total par traded was the highest since the $825.4 billion traded in 2013:Q2 when volume reached $838.3 billion. The MSRB's quarterly statistical summaries include aggregate market information for different types of municipal issues and trades, and the number of interest rate resets for variable rate demand obligations and auction rate securities.

View the 2016:Q3 statistics.

Funding and Public-Private Partnerships for Water Infrastructure Projects: Shearman & Sterling

Counsel Paul Epstein (New York-Project Development & Finance) wrote a two-part article, titled "Funding and P3s for Water Infrastructure Projects," that was published by Law360 on October 17-

18.

This two-part series discusses funding and public-private partnerships (P3s) related to U.S. water infrastructure projects. Part 1 describes the key existing sources of funding available at the federal, state and local levels. Part 2 discusses the use of P3s in the water sector, followed by an examination of enhancements proposed by stakeholders to the funding mix, including through the Water Resources Development Act (WRDA) currently pending before Congress, and the impact of such enhancements on the P3 market.

Read Part 1 of the article here.

Read Part 2 of the article here.

Last Updated: November 2 2016

Article by Paul J. Epstein

Shearman & Sterling LLP

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

Orrick: California Debt Limit Allocation Committee Releases Proposed Regulations.

This publication discusses some of the more significant changes that could affect issuers (**"Applicants"**) and borrowers (**"Sponsors"**) in connection with awards of volume cap (**"Awards"**) if California Debt Limit Allocation Committee's (**"CDLAC"**) proposed regulations were adopted in their current form.

CDLAC released proposed revisions to its regulations ("**regulations**") on September 23, 2016. Major changes include (i) requiring Applicants to adopt written bond issuance and compliance policies (**"Policies"**), (ii) changing the required form of compliance certificates, (iii) requiring certain new provisions to be added to bond regulatory agreements (**"Regulatory Agreements"**) associated with qualified residential rental projects (**"QRRPs"**); (iv) requiring that CDLAC receive a copy of the recorded Regulatory Agreement for a QRRP before releasing the associated performance deposit, (v) providing for greater post-issuance monitoring of the terms and conditions of the Award; and (vi) imposing conditions on certain types of subordinate cash-flow bonds paid with residual payments.

Additional proposed changes would affect (i) the eligibility of Joint Powers Authority (**"JPA"**) Applicants to apply for an Award, (ii) the term of the qualified project period (**"QPP"**) for acquisition and rehabilitation transactions associated with QRRPs, (iii) filing fees, (iv) general and rural multifamily deals, and (v) projects requesting an assignment and assumption of an existing housing assistance payment contract (**"HAP Contract"**).

Bond Issuance and Compliance Policies

The proposed Regulations would require all Applicants to submit Policies regarding the process of issuing private activity bonds and post-issuance compliance. For QRRP Applicants, the proposed

Regulations would require that Policies “be reviewed by counsel having expertise with the federal and state laws pertaining to the issuance or conversion and post-issuance compliance of private activity conduit bonds for consistency with applicable federal and state laws.” Such review would be documented by a letter from such counsel stating that the review has taken place. Policies would also be accompanied by an approving resolution of the Applicant’s governing board or a certificate of the Applicant’s Executive Director, Housing Director or Finance Director with delegated power to make such approvals.

Policies also would be required to include “a description of the fee structure, application and approval process (including TEFRA), threshold eligibility criteria for applicants and projects, long-term regulatory requirements and monitoring practices.” If a contractor were to provide services on behalf of the Applicant, “the Policies [would have to] clarify the relationship between contractor and Applicant and what, if any, rights the contractor [had] to income and obligations generated from issuance activity.”

Additional proposed changes to the Regulations would require that CDLAC review the Policies for compliance with its Regulations. The requirements would apply immediately to those Applicants who have not received an Award since January 2013 and any new Applicants. All other Applicants would have until December 31, 2017 to comply. An Applicant could request a one-year waiver, if it had not received an Award (presumably since January 2013), but had a 2017 project pending. All such Policies would have to be reauthorized every ten years. For those Applicants that had Policies in place, they would have to be approved by the Applicant in 2006 or later. These proposed revisions are contained in Sections 5000 (definitions) and 5031 of the Regulations.

Conditions on the Issuance of Certain Types of Subordinate Cash-Flow Bonds Paid with Residual Payments

The proposed Regulations introduce restrictions on certain subordinate bonds that are issued to provide permanent financing and paid with cash from residual payments based on cash-flow availability. These are bonds that do not otherwise meet CDLAC’s debt service coverage ratios and which (together with any other such bonds) “exceed 5% of the total project cost” (**“Cash-Flow Bonds”**). Such Cash-Flow Bonds include “bonds purchased by a property seller in consideration of the provisions of a purchase and sale agreement.”

For applications submitted after December 31, 2016, that include Cash-Flow Bonds, the proposed Regulations would require that the purchaser provide a traveling investor letter from a Qualified Institutional Buyer or an Accredited Investor three days prior to bond issuance, or provide for the issuance of the Cash-Flow Bonds in $100,000 authorized denominations. Cash-Flow Bonds also would have to comply with the requirements of Section 5062(a).

Further, the proposed Regulations provide that when Cash-Flow Bonds finance project costs, all units identified in the Award, including both the Federally Bond-Restricted Units (“Restricted Units”) and other affordable units identified in the Award as income and rent restricted (“Other Restricted Units”), would have to be incorporated into the Regulatory Agreement. The assumptions in the Regulatory Agreement regarding the Other Restricted Units would have to “include the area median income as outlined in the Award, a limitation that tenants pay no more than 30% of their income, and assume 1.5 persons occupy each unit.”

These proposed Regulations are contained in Sections 5062(b), 5170 (definitions) and 5220(b).

Monitoring Compliance with Terms and Conditions of the Award

Applicant's Submission of Compliance Certification

The proposed Regulations provide that for those projects receiving an Award prior to December 31, 2016, Applicants will be required to submit annually to CDLAC an Annual Application Public Benefits and Ongoing Compliance Certification via CDLAC's online compliance certification system ("Compliance Certification"). For projects receiving an Award after December 31, 2016, the Applicant would be required to submit the Compliance Certification to CDLAC "every year until completion of the project and every three years thereafter." In both cases, the Compliance Certification would be due by March 1 and Applicants would be subject to penalty (including disqualification) for failure to comply. These proposed revisions are contained in Sections 5144(a) and 5146 of the Regulations.

Sponsor's Verification of Tenant Income

The proposed Regulations provide that for all QRRPs receiving an Award after December 31, 2016, Sponsors will be required to: (a) use HUD Handbook 4350.3 to verify tenant income at initial occupancy; and (b) annually collect and retain the following income and verification documentation related to all the Restricted Units identified in the Award or as defined in Section 5200(e) of the Regulations: "Tax Credit Allocation Committee (**"TCAC"**) Tax Income Calculation (**"TIC"**) or equivalent documentation, all associated source income documentation, and evidence of the verifying income computation." Project Sponsors also will be required to provide a TCAC Project Status Report or equivalent report to the Applicant annually in connection with the Applicant's submission of the Compliance Certificate. Sponsors will have to retain this information for ten years. These proposed new Regulations are found in Section 5144(b).

For Non-TCAC QRRPs, Sponsors would have to elect additional compliance options, which would be included in the Award. In addition, these non-TCAC QRRPs would have to designate CDLAC to receive notice of project name and ownership changes, default, and foreclosure as may be provided in the bond documents. These new proposed Regulations are found in Sections 5144(d) and 5145(d).

CDLAC has also proposed revisions to its annual certification of compliance forms for use in all projects receiving allocation after December 2016. Applicants would be required to collect and retain from the Sponsor the applicable Certification of Compliance II as attached in the Award or other comparable form outlined in an Applicant's Policies (**"Sponsor Compliance Certificate"**). The Sponsor would submit the Sponsor Compliance Certificate to the Applicant annually until the Project is completed and then every three years thereafter during an existing regulatory period and/or compliance period. The Sponsor would also provide the Applicant with the applicable Certificate of Completion as provided in the Award or other comparable form outlined in an Applicant's Policies. The Applicant would have to confirm its receipt to CDLAC by March 1 via its online compliance certification system (or such other date as requested by CDLAC). CDLAC would have the right to enforce these requirements through an action for specific performance or other available remedy of the Sponsor. This new proposed Regulation is found in Section 5145(b).

Applicant's Verification and Certification of Tenant Income and Rent

Additional proposed changes provide that after December 31, 2016, an Applicant's compliance with the income and rental requirements of the Restricted Units identified in the Award and the Regulatory Agreement would have to be demonstrated by an initial review of 20% of all management files associated with the Restricted Units and subsequent review every three years thereafter, including review of all newly leased units. Units would be selected at random with a distribution based on unit locations, sizes, and income levels. "For this 20% of files, Applicants [would] review each initial or subsequent occupant and their associated TIC in conjunction with the supporting income verification documentation and make a determination if the project is complying with the income and affordability standards." This review could be performed on-site or through an electronic file audit.

Applicants would also be required to submit a Sponsor Compliance Certificate or equivalent form, which together with the above review would provide Applicants with the ability to report annually to CDLAC regarding compliance with the unit restrictions of the Restricted Units. Records of the income verification process would be kept on file for ten years together with documentation memorializing review and determination of income eligibility. Source income documentation would be retained for one year. These new proposed Regulations are found in Section 5144(c).

CDLAC (or an entity acting on its behalf) would monitor all TCAC QRRPs for compliance with the terms and conditions of the Award, and such projects would be subject to the provisions of the California Code of Regulations regarding the TCAC regulatory agreement.

This new proposed Regulation is found in Section 5145(c).

Regulatory Agreement Revisions

The proposed Regulations provide that for projects receiving an Award after December 31, 2016, the Regulatory Agreement for all QRRPs terminate prior to the end of the Award's affordability term only for:

> "(i) [I]nvoluntary noncompliance with the provisions of the Regulatory Agreement caused by fire or other casualty, seizure, requisition, change in a federal law or an action of a federal agency after the bond issuance, which prevents the Issuer, Fiscal agent and/or the Trustee (as applicable) from enforcing such provisions, or (ii) foreclosure, exercise of power of sale, and/or, transfer of title by deed in lieu of foreclosure in connection with a deed of trust directly or indirectly security[ing] repayment of bonds, or condemnation or a similar event, but only if, in the case of the events described in either clause (i) or (ii) above, if the bonds are redeemed within a reasonable period or the proceeds for the event are used to provide a project that meets the requirement of the Regulatory Agreement."

This new proposed Regulation is found in Section 5220(a).

For projects receiving an Award after December 31, 2016, the proposed changes provide that the Regulatory Agreement for all QRRPs (1) incorporate the Award by reference and as an attachment; (2) have the requisite 30 or 55 year term from the date of 50% occupancy or the commencement of the CDLAC QPP; (3) include all applicable income and affordability requirements outlined in the tax code and the applicable portions of the California Health & Safety Code; (4) clarify that compliance with items not contained within the body of the Regulatory Agreement but referred to in the Award are the responsibility of the Sponsor to report to the Applicant; and (5) list CDLAC as a contact to receive notice of changes in project name, ownership, issuer, and management company as well as a contact to receive notices of defaults associated with rents and income requirements, foreclosure, Regulatory Agreement termination and bond redemption. This new proposed Regulation is found in Section 5220(c).

Finally, CDLAC's proposed Regulations would require receipt of a digital copy of the recorded Regulatory Agreement as an additional condition for release of the Applicant's performance deposit.

This proposed revision is contained in Section 5051(a) of the Regulations.

Miscellaneous Proposed Revisions Regarding JPAs, the Term of the QPP, Filing Fees, General and Rural Multifamily Deals and Projects Seeking Assignment and Assumption of HAP Contracts.

JPAs

Another proposed revision to CDLAC's Regulations would restrict applications from its JPA Applicants to projects located within the geographical boundaries of one or more of the JPA members, except for certain projects that are exempted from such requirement under Section 6586.5(c) of the California Government Code related to the Marks-Roos Local Bond Pooling Act of 1985. This proposed revision is contained in Sections 5031 and 5033 of the Regulations.

Term of the QPP

For acquisition and rehabilitation QRRPs, CDLAC's proposed Regulations would amend its definition of QPP to acknowledge that, in certain circumstances, the income and rent restrictions identified in the Award begin 12 months after the bond issuance date and end the later of 31 years (and presumably 56 years during an open application process) after the bond issuance date or the date on which the bonds are no longer outstanding. This additional time would be available for such projects unless less than 10% of the units were available for occupancy within 60 days of the earlier of the date of project acquisition or the issuance date of the bonds. This proposed revision is contained in Section 5192 of the Regulations.

Filing Fees

CDLAC's proposed Regulations further increase its filing fees to review an application for an Award from $600 to $1,200 and introduce an additional $600 fee to review an application for a Supplemental Award. Both fees would be nonrefundable, but would be credited against the total filing fee. This proposed revision is contained in Section 5054(a) of the Regulations.

General and Rural Multifamily Allocation Limits

The proposed Regulations also provide that bond allocation limits for General and Rural Multifamily Pools are now subject to limits on a per unit basis as provided in Section 5233 of the Regulations.

Assignment and Assumption of HAP Contracts

Finally, CDLAC's proposed Regulations would require that all projects that request an assignment and assumption of an existing HAP Contract submit an application to HUD by the CDLAC application date. No later than four calendar days prior to the first posting, CDLAC would require that it receive a letter from HUD stating that it will approve the assignment and assumption of the HAP Contact prior to the expiration of the Award. This proposed revision is contained in Section 5255(d) of the Regulations.

Next Steps

These proposed revisions to the Regulations are available for public comment until October 26, 2016.

Last Updated: October 27 2016

Article by Paul A. Toland and Justin S. Cooper

Orrick

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

Monthly Muni Volume Soars to Highest Since 1985.

Monthly municipal bond volume surged to a three-decade high in October, as issuers rushed to take advantage of near-record low interest rates and get deals done before the presidential election.

October bond issuance totaled $53.16 billion, according to Thomson Reuters, the most in digital records going back to 1986 and surpassing the $50.79 billion total set in June 2008. The last time volume was higher was in December 1985, when it hit $59 billion, according to Bond Buyer yearbooks.

“We had three weeks of exceptionally large issuance and there were a couple of factors driving issuers into the market,”said Jim Grabovac, senior portfolio manager at McDonnell Investment Management. “You have the presidential election plus an increasing probability the Federal Reserve will raise rates again in December.”

Volume for the month was up 51.4%, from $35.12 billion in the same month last year. Issuance for the year-to-date is $339 billion, meaning volume is likely to surpass the $400 billion plateau for the second year in a row and could also challenge the yearly record of $433.3 set back in 2010.

“The volume is explainable, as concerns about rising interest rates and getting in ahead of the election, pushed issuers into the market,” said Natalie Cohen, managing director of municipal securities research at Wells Fargo Securities. “For the year through October there were 25 deals larger than $500 million and 200 deals larger than $100 million – much of which occurred on October. In October alone, there were 21 deals over $500 million and 126 over $100 million.”

New money sales increased by almost half to $21.62 billion in 575 deals from $14.49 billion in 489 deals a year earlier, fueling expectations that demand for infrastructure improvement will propel muni sales in the months ahead.

“Looking ahead, if there’s any testimony to the hope that bi-partisan agreement provides, look at transportation,” Cohen said. “At the end of 2015 Congress finally passed a longer term, five-year highway and transit bill. At this time there are more than $250 billion ballot measures related to transportation in the November election. Those that pass will create jobs and be good for economic growth.”

Refundings, which have been strong for most of the year due to persistent low interest rates, catapulted 60.2% higher to $20.54 billion in 451 transactions. from $12.82 billion in 397 transactions during the same period last year.

“Refundings are great for issuers because they help with balance sheets and cash flows,” Cohen said.

Issuance was also helped by a correction in market yields over the past several weeks, according to

Grabovac.

"We have seen a fairly decent correction, as a higher supply turned into a 25 basis point or so backup in yields, which is something that participants were wanting, and now I think we are at a comfortable level," he said.

Combined new-money and refunding issuance climbed 41% to $11 billion from $7.81 billion.

Negotiated deals, at $43.22 billion, were higher by 76.3%, while competitive sales increased by 8.6% to $9.25 billion from $8.52 billion.

Issuance of revenue bonds increased 54.5% to $35.85 billion, while general obligation bond sales gained 45.3% to $17.32 billion.

Taxable bond volume was 18.9% higher at $2.92 billion, while tax-exempt issuance increased by 64.9% to $49.66 billion.

Minimum tax bonds issuance slipped to $587 million from $2.55 billion, while private placements sank to $691 million from $2.08 billion.

Zero coupon bonds increased to $240 million from $98 million.

Bond insurance increased 52.6% for the month, as the volume of deals wrapped with insurance rose to $2.69 billion in 169 deals from $1.76 billion in 154 deals.

Variable-rate short put bonds inclined 30% to $1.09 billion from $841 million. Variable-rate long or no put bonds rose to $115 million from $2100 million.

Bank qualified bonds improved 11.4% to $1.88 billion from $1.69 billion.

Five out of the 10 sectors saw year-over-year gains. Health care more than doubled to $7 billion from $2.93 billion, general purpose also saw a more than double increase to $14.84 billion from $7.21 billion, education related more than doubled as well at $13.31 billion from $6.71 billion, hosing increased 23.7% to $1.99 billion from $1.61 billion and utilities improved 45.2% to $6.93 billion from $4.77 billion. The other sectors all saw at least 6.2% decrease.

California is still the top issuer among states for the year to date, followed by Texas, New York, Pennsylvania and Florida.

Issuance from the Golden State so far this year has totaled $57.38 billion, with the Lone Star State next at $48.44 billion. The Empire State follows with $39.49 billion. The Keystone State is in fourth with $18.49 billion and The Sunshine State rounds out the top five with $16.23 billion.

"Going forward, there should be more infrastructure spending, which will also create more jobs and will be good for the economy as a whole," said Cohen. "New money projects are much lower than 2010 but we are starting to see it come back and that is a good sign for infrastructure."

The Bond Buyer

By Aaron Weitzman

October 31, 2016

S&P: Western U.S. Ballot Measures Give Voters Chance To Leverage Recent Economic Growth.

The Mountain and Pacific states continue to add employment and attract new residents, with coastal metropolitan areas experiencing strong upward pressure on housing prices.

Continue reading.

Oct. 31, 2016

P3 Digest - Week of October 31, 2016

Read the Digest.

S&P Webcast Replay: An Update on State Pension and OPEB Liabilities in the U.S.

S&P Global Ratings held an interactive, live audio webcast and Q&A on Tuesday, November 1, 2016 at 3:30 p.m. Eastern Time where we discussed the results of our annual survey and our view of credit implications for U.S. States in the context of rising costs, funding trends, and revised accounting standards.

View the webcast replay.

Standard & Poors

Nov. 1, 2016 | New York, NY

October Sets New Record for Municipal Bond Issuance.

Sales of municipal bonds and notes soared to a record $52.5 billion in October, the biggest month of issuance since records began in the 1980s, according to Thomson Reuters data.

Municipal supply has surged in recent months as state, city and other public agencies eagerly sell bonds and notes at low interest rates.

October brought nearly $52.5 billion of new supply to the $3.7 trillion U.S. municipal market. The last time the market reached similar levels was in 2008, when $51.4 billion was sold in April 2008 and $50.6 billion was sold in June 2008, according to Thomson Reuters data.

Muni bonds have outperformed other fixed income securities and retained value for domestic investors seeking a tax exemption. Historically low and negative sovereign interest rates have also driven foreign investors, even if they cannot benefit from tax-exempt status.

The pace of issuance, however, may be slowing. Forecasts for November show supply dropping somewhat, perhaps reflecting higher interest rates, fewer refunding opportunities and the uncertainty surrounding the U.S. presidential election on Nov. 8, Janney Fixed Income Strategy's Alan Schankel said last week.

Reuters

By Robin Respaut

Mon Oct 31, 2016

(Reporting by Robin Respaut; Editing by Dan Grebler)

[Fitch: Clinton's Healthcare Plan Mixed for Nonprofit Hospitals.]

Fitch Ratings-New York-04 November 2016: If Hillary Clinton's presidential bid is successful and her broad healthcare proposals are implemented, they have the capacity for near-term benefits for nonprofit hospitals, but they may also create some operating risk and uncertainties. While the proposed universal Medicaid expansion and proposed cost controls are generally positive over the near term, the longer term effect of expanding Medicare eligibility and implementing a "public option" is uncertain, Fitch Ratings says.

On the positive, Clinton's plan to expand Medicaid in the 19 states that have thus far declined to do so would be beneficial in the short term for nonprofit hospitals in those states. Mirroring the impact seen in states that have already expanded Medicaid, Fitch would expect an increase in patient volumes and reduction in bad debt and charity deductions from revenue. Hospitals in the few states that have implemented expansion alternatives — such as waiver programs — would likely experience a more muted benefit.

However, over the long run, Fitch would expect the benefits to wane with deterioration in payor mix. As seen in states that expanded Medicaid, hospitals have experienced a decline in commercial insurance which has not been fully offset by reduced bad debt or supplemental reimbursement from the state through programs like the Disproportionate Share Hospital program and provider-tax and provider-fee programs. These supplemental revenue streams are always susceptible to cuts in funding.

Similarly, Clinton's plan to expand access to health insurance exchanges regardless of immigration status, as well as increasing reimbursement to aid access in rural areas, is likely to be positive for nonprofit hospitals. Likely outcomes include a reduction in charity and bad debt expense, and incremental reimbursement for telehealth, federally qualified health centers and rural health clinics.

The impact of Clinton's plan to implement premium and drug cost controls is uncertain and will vary by hospital especially related to premium increases with the growing interest in owning health plans.

Lastly, Clinton's proposal to broaden Medicare eligibility and provide a "public option" has the potential to negatively impact the sector, though the plan details remain unclear. Her proposal includes allowing people over 55 years old to purchase Medicare coverage, which may push revenue mix further toward Medicare and away from commercial insurance, compressing overall reimbursement. The impact largely depends on whether existing supplemental reimbursement mechanisms that offset care would be reduced for the uninsured/underinsured. The impact could also hinge on whether the incremental revenue from Medicare/Medicaid, and the public option, reimbursement would offset that loss.

Fitch has not commented on the Trump healthcare plan due to the lack of specificity on what would be implemented after “repeal and replace.” The Trump platform emphasizes the use of health savings accounts, increased price transparency, modification of state insurance laws and allowing easier access to foreign pharmaceuticals, which may or may not have a residual impact on hospital providers.

A repeal of the current Medicaid program (and the expansion of eligibility) with a block grant program would have to be evaluated on a state by state basis. The level of infrastructure and investment in the current ACA has been significant. However, the ongoing pressure on healthcare costs and funding and push toward value-based reimbursement by Medicare would likely result in reform measures remaining in place regardless of a repeal of ACA.

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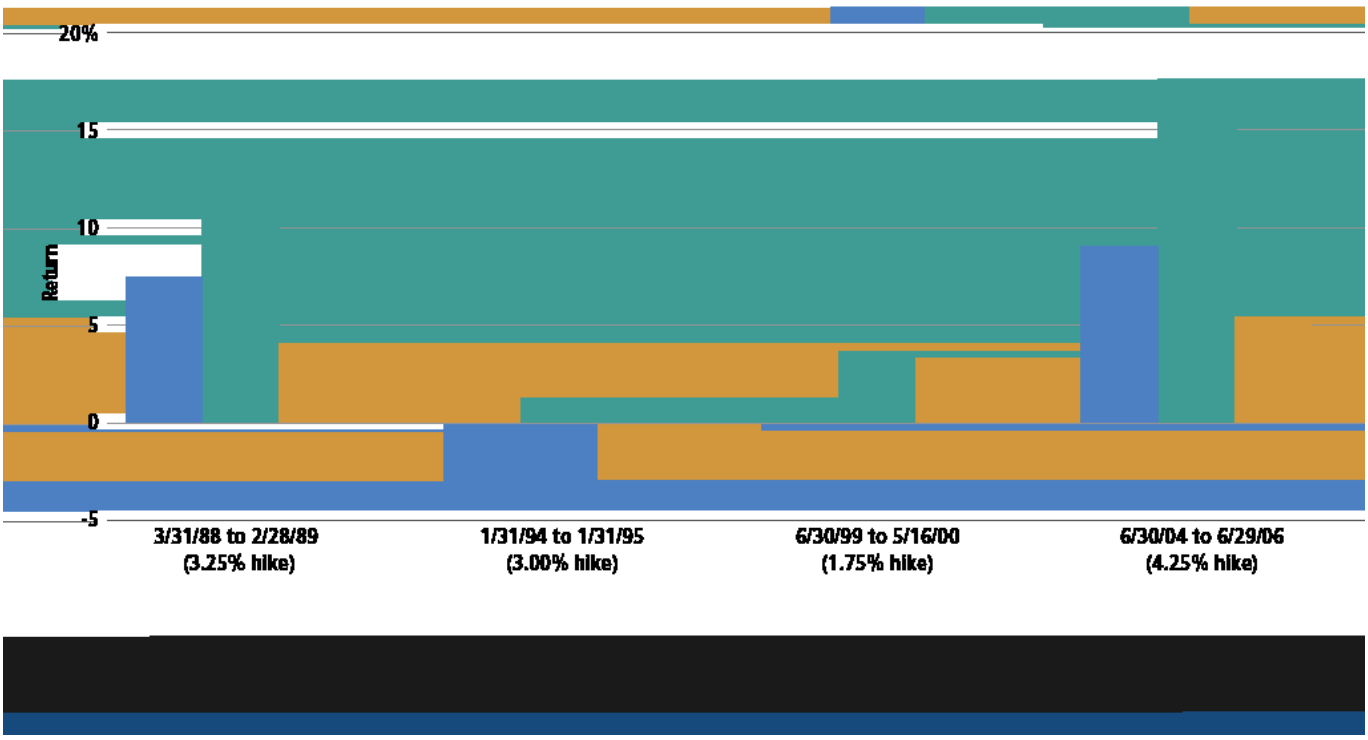
[Pimco: Municipal Bonds vs. Taxables in Rising Rate Cycles.]()

Munis have historically outperformed taxable bonds during periods of rising rates



[Bloomberg Brief Weekly Video - 11/03]

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

[Watch video.]

Bloomberg Business

November 3, 2016

[Kuroda Dismisses Idea of BOJ Buying Municipal Bonds.]

TOKYO — Bank of Japan Governor Haruhiko Kuroda on Wednesday signalled that the central bank's massive asset purchases will continue to focus on government bonds, saying it was difficult to buy municipal bonds given the fairly small market for them.

"It's hard to see how we can buy municipal bonds as part of our monetary policy," Kuroda told parliament, when asked by a lawmaker whether it could be a policy option.

Kuroda also said prices are not determined by the pace of money printing alone, distancing himself from the views of BOJ Deputy Governor Kikuo Iwata – a former academic who was an architect of the central bank's asset-buying programme dubbed "quantitative and qualitative easing" (QQE).

"Price moves are influenced by various factors like oil price fluctuations and exchange-rates… so you can't say inflation is completely a monetary phenomenon," Kuroda said.

"But from a long-term perspective, you can say monetary policy has significant influence on inflation," he said.

Under QQE deployed in 2013, the BOJ set base money – or the amount of deposits and cash in circulation – as its policy target under Iwata's theory that the central bank can accelerate inflation simply by printing money aggressively.

But after more than three years of aggressive government bond purchases failed to end economic stagnation, the central bank in September switched its policy target to interest rates in an overhaul of its policy framework.

The BOJ still loosely commits to buying government bonds so its holdings increase at an annual pace of 80 trillion yen (627 billion pounds) per year. It does not buy municipal bonds, though some analysts have proposed doing so if it were to ease policy.

On Wednesday, Kuroda dismissed concerns voiced by some market participants that the central bank's aggressive purchases were drying up bond market liquidity.

"I don't think the market's liquidity has shrunk sharply, or its functions have deteriorated significantly, compared with historical levels," Kuroda told parliament, when asked about the rising costs of the BOJ's stimulus programme.

Trading volumes of Japanese government bonds hit their lowest levels in years in October, as the BOJ's large presence in the market squeezed opportunities for trading.

By REUTERS

NOV. 2, 2016, 5:12 A.M. E.D.T.

(Reporting by Leika Kihara; Editing by Richard Borsuk)

School, Infrastructure Bond Measures Fill U.S. Ballots.

CHICAGO/SAN FRANCISCO — U.S. voters on Tuesday will decide the fate of $70.3 billion of municipal bond issuance, the largest amount of borrowing requests in a decade, with much of it earmarked to help pay for fixing the nation's crumbling infrastructure.

The biggest concentration of bonds hanging in the balance is in California, which accounts for nearly 60 percent of the total.

Nationwide, the state, school and local government bond measures, 682 in total, would fund building and repairing schools, mass transit and roads, and even biomedical research in one state, according to data company Ipreo.

To view the historical amount of bond ballot measures, click on http://tmsnrt.rs/2e9Z5bb.

The governments will be able to take advantage of still-low borrowing costs and a stable economy, even when considering the possibility of an increase in historically low benchmark interest rates by the Federal Reserve in December.

"This year, the finances at the state level look better. We've had more stability in revenues and more stability in the economy as a whole, so we would expect a substantial amount of these proposals to be accepted," said Philip Fischer, municipal research strategist at Bank of America Merrill Lynch.

Yields on top-rated 10 and 30-year bonds hit all-time lows in July on the U.S. municipal market's benchmark scale. While yields have risen since then they remain attractive for state and local government borrowers.

BOND MEASURES PLENTIFUL IN CALIFORNIA

California ballots are bursting with 195 bond measures totaling $41.7 billion, including the biggest nationwide — $9 billion of state general obligation debt to finance new construction and modernization for K-12 and charter schools and community colleges.

Another California ballot measure is aimed at reining in debt by requiring statewide voter approval for revenue bonds exceeding $2 billion for projects financed, owned, or managed by the state.

Opponents of the initiative, called Proposition 53, say mandating voter approval would delay critical infrastructure projects.

"The drought over the past four years has highlighted the need for infrastructure in California," said David Guy, Northern California Water Association president, at a September panel on California propositions. "We don't need another hurdle to progress in California."

While school and infrastructure financing are dominant themes this election, a measure on Montana's statewide ballot would create a biomedical research authority funded by $200 million of bonds over 10 years.

Voters will also be weighing 154 state-wide measures, including bonds, taxes, gun control and the minimum wage, in 35 states, according to the National Conference of State Legislatures.

In several states, voters will be deciding whether to increase various sales, income, property, cigarette and other taxes.

For example, in Colorado there is a proposed constitutional amendment calling for a public option universal healthcare payment system, funded by a new 10 percent state payroll tax. Employers would cover two-thirds and employees one-third of the cost, according to the citizen-led initiative known as Amendment 69.

Washington state voters will weigh the nation's first tax on carbon emissions, while five states, including California, seek to legalize and tax recreational marijuana.

Oregon voters will consider changing the corporate tax code to collect revenue equivalent to one-third of the state's general fund expenditures. The legislature would decide how to use the proceeds.

Eno Center for Transportation, a nonprofit think tank, reported that voters will decide tax and bond measures for roads, seaports, railroads, airports and mass transit that would raise an estimated $250 billion for specified projects over a period of years during which specific taxes would be collected.

These include $3.5 billion of bonds to repair and improve the San Francisco area's BART transit system, a regional property tax hike to raise $3.1 billion over 20 years for mass transit in the Detroit area and $70 million of bonds to improve Rhode Island's seaport.

Kerry O'Hare, vice president of Building America's Future, a bipartisan coalition on infrastructure investment, said the dearth of reliable long-term federal transportation funding has left a void that state and local governments are trying to address via ballot measures.

"At the state and local level, it's 'Listen, we need to step up and raise money for transportation needs,'" she said.

By REUTERS

NOV. 4, 2016, 1:39 P.M. E.D.T.

(Reporting By Karen Pierog and Robin Respaut; Editing by Daniel Bases and Tom Brown)

Why Boston Logan Airport Has a Great Credit Rating While LaGuardia's Is Lousy.

Moody's gives its highest airport credit rating to just one major airport, Boston Logan, and its lowest to privately operated Terminal B at New York's LaGuardia.

In Moody's rating of credit at 92 leading U.S. airports, only one — Boston Logan — has the highest rating.

Two hundred miles and seven credit notches separate Logan from New York's LaGuardia Airport, where privately operated Terminal B, home to every airline but Delta (DAL) , is grouped with six small airports that have the lowest rating.

"Our ratings are basically an assessment of the issuer's ability to repay principal and debt obligations on time," said Maria Matesanz, Moody's senior vice president.

"We have the highest current airport ratings for government-owned Massachusetts Port Authority," Matesanz said. "It has credit strengths that we think are important — strong debt service coverage ratios, a strong service area, and a very diverse airline carrier base, with no airline responsible for more than 27% of enplanements."

Boston Logan is a hub for JetBlue (JBLU) , which has about 30% of all domestic passengers, according to Bureau of Transportation statistics for the 12 months ended July 30. American is second with 23%; Delta, which has 12%, said it will grow its Boston presence.

The bonds, issued primarily against revenue for Boston Logan, but also covered by Worcester Regional Airport and Hanscomb Field in Bedford, have an Aa2 rating.

Moody's next highest rating, Aa3, is assigned to 10 leading airports including Atlanta, Charlotte, Los Angeles and the Port Authority of New York and New Jersey.

But the bonds that cover Terminal B at LaGuardia are a special case, not covered by the Port Authority because the terminal is operated and financed by LaGuardia Gateway Partners LLC. Those bonds are rated Baa3.

While the City of New York owns all of the LGA terminals, LaGuardia Gateway Partners won the right to manage the airport's recently started construction project, which could cost as much as $8 billion. The partnership includes Vancouver-based Vantage Airport Group, Swedish construction firm Skanska, and Paris-based Meridiam SAS.

All of the airlines except for Delta operate out of Terminal B. Delta operates out of Terminal D, which is covered by its balance sheet and its credit, which also has a Baa3 rating. Corporate bond ratings are generally lower than municipal bonds or project finance bonds.

Privately managed airports and terminals are rare in the U.S., which partially explains the low ranking. In this country, only the San Juan, Puerto Rico airport, JFK Terminal One and the JFK International Air Terminal are privately managed.

"There's not a history," said Earl Heffintrayer, Moody's lead airport analyst. "From our reading of the documents, they should be able to recover the debt service."

Globally, privately managed airports are not uncommon. In general, their coverage is 1.5 to 2 times debt. The LGA Gateway Partners is at the low end of that range.

Another rating issue is the ongoing improvement project. "It's the most complicated construction project we have rated at Moody's," Heffintrayer said. "They are building a new terminal beside, above and around an existing facility while trying to maintain the existing facility.

"The methodology we use for construction is informed by our view that it's an investment grade credit, but it hits every bucket of complexity that we have."

In its June credit opinion for the Massachusetts Port Authority, Moody's said, "The Aa2 is based on the credit fundamentals of the authority, which are currently among the strongest of Moody's rated airports.

"The airport has a strong and improving relative market position in a robust and diverse economy and is expected to maintain above-average financial metrics for the foreseeable future despite substantial additional planned debt to fund its 2016-2020 capital program.

"Massport's enplanement base remains among the most diversified in the US airport sector and the airport has had above average growth in recent years, which is continuing into 2016. The high rating is tempered by expectations of an additional $1 billion in debt through 2020."

In its June opinion on LaGuardia Gateway Partners, Moody's said that during the construction project, which began this summer, "the requirement to build around the existing facility while maintaining operations introduces the potential for schedule delays.

Moreover, "the construction risk is additionally amplified by poor geotechnical conditions, known environmental contamination, and limitations on the ability to access the site by commercial vehicles," Moody's said.

Nevertheless, it said, "the high level of air traffic demand at LaGuardia will overcome the high project costs."

In general, airlines have no place else go to because JFK operates under slot constraints while Newark, where slot constraints are ceasing, "lacks large amounts of gate capacity to accommodate a large scale diversion of operations from LGA," Moody's said.

The Street

by Ted Reed

Oct 28, 2016 7:00 AM EDT

[Chicago Schools Set to Ignite Construction Boom with $840M Debt Proposal.]

Dive Brief:

- The Chicago Board of Education is expected to greenlight up to $840 million in additional debt today for new school construction and renovations, according to the Chicago Tribune. The board will also vote on a $160 million bond deal to refinance previous obligations.
- After a Moody's downgrade in the board's bond rating, detractors of the school board's plan claim that the cost to sell the new property tax-backed bonds will be high. However, the prospect of such a large construction program for the city is bound to garner favor, according to the Tribune.
- The school board's borrowing and construction plan relies on a tentative $200 million state contribution, outlined in the as-of-yet unapproved board budget. The district had put forward a $338 million capital budget, with $233 million financed through property taxes, before its most recent proposal.

Dive Insight:

School districts have been increasingly taking on ambitious construction and renovation programs, with many of them focused on boosting energy efficiency and producing more sustainable structures. For example, California voters will decide next month on Proposition 51, a measure that would authorize a $9 billion bond deal to finance new school construction, as well as repair and replace older facilities. State officials said this measure is only the beginning of a necessary $22 billion in school construction spending for the next 10 years. The state's construction industry is obviously pro-51, but Gov. Jerry Brown said the state can't afford the extra $500 million payment on education bonds.

While not as pricey as California's proposed plan, Baltimore has started construction of two multimillion-dollar schools as part of a $1.1 billion school upgrade and construction initiative. The program, financed though revenue bonds, will see 28 new and rehabbed schools completed by 2020, all managed by the Maryland Stadium Authority. The project will allow for at least double the district's current enrollment.

Although it's the job of public watchdogs to play devil's advocate when it comes to public spending, this is truly the time for bond-financed deals. According to Bloomberg report, more local public entities are using municipal bonds to finance their public building and infrastructure projects, thanks to record-low interest rates. In the dash to complete these deals, Barclays Plc said municipal bond issues might reach $400 billion by the end of 2016.

Construction Dive

by Kim Slowey
@kimslowey

Oct. 26, 2016

Kalotay Licenses Tax-Neutral Muni Bond Methodology to BlackRock.

NEW YORK, Oct. 25, 2016 (GLOBE NEWSWIRE) — Kalotay Analytics, a provider of high speed, high precision fixed income valuation software, announced the licensing of patent-pending tax-neutral municipal bond valuation and risk analysis methodology to BlackRock.

When interest rates rise, the prices of lower coupon bonds may drop much more precipitously than predicted by traditional risk calculations. The traditional approach fails to account for the tax payable at maturity on the discount when prices fall below par, which pushes prices further down.

"Incorporating tax effects is vital for the proper risk analysis and tax management of municipal bonds. We're thrilled that BlackRock recognizes the benefits of our innovative methodology, and is implementing it across its existing platforms," said Andy Kalotay, president of Kalotay Analytics.

Antonio Silva, the head of the Financial Modeling Group at BlackRock said, "We continually look for improvements to our analytics platform and are pleased to integrate the tax effects model into the new valuation methodology used for municipal bonds."

About Kalotay Analytics
Kalotay Analytics has been providing fixed income valuation and risk measurement tools to major market participants since 1990. Applications of its patented, lightning-fast, technology include real-time pricing of bond ETF's, risk management, tax management, and pre-trade analysis. The firm has

unparalleled expertise in the valuation and risk analysis of callable municipal and agency bonds. Analytics coverage spans the global fixed income universe, including fixed rate bonds, floaters, MBS, and inflation-indexed structures. Kalotay technology drives the recently introduced live municipal yield curve distributed by the Associated Press.

For more information about Kalotay Analytics, please visit: www.kalotay.com.

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About BlackRock
BlackRock is a global leader in investment management, risk management and advisory services for institutional and retail clients. At September 30, 2016, BlackRock's AUM was $5.1 trillion. BlackRock helps clients around the world meet their goals and overcome challenges with a range of products that include separate accounts, mutual funds, iShares® (exchange-traded funds), and other pooled investment vehicles. BlackRock also offers risk management, advisory and enterprise investment system services to a broad base of institutional investors through BlackRock Solutions®. As of September 30, 2016, the firm had approximately 13,000 employees in 30 countries and a major presence in global markets, including North and South America, Europe, Asia, Australia and the Middle East and Africa. For additional information, please visit the Company's website at www.blackrock.com | Twitter: @blackrock_news | Blog: www.blackrockblog.com | LinkedIn: www.linkedin.com/company/blackrock

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Fitch Replay: What Impact Does Event Risk Have on Infrastructure Ratings?

Date: Thursday 6 October

Click here to listen to the replay.

Fitch analysts discussed our recent report that focuses on the ratings impact of event risk on airports and other infrastructure projects, including natural disasters, terrorism and conflict or political instability.

Speakers:

- Joseph Cass, Associate Director, Global Investor Development
- George Abbatt, Associate Director, Global Infrastructure Group
- Ian Dixon, Managing Director, Head of Infrastructure EMEA

Key discussion points included:

- Recovery of Passenger Volumes – Major Airports' Traffic Resilient
- Potential Benefits of Asset and Creditor Protections

- Historical Impact on Credit Ratings
- Rating Approach to Event Risk

S&P Video: How Quality and Timeliness of Information are Incorporated In U.S. Public Finance Ratings.

S&P Global Ratings clarifies its treatment of information sufficiency in the U.S. public finance ratings process. In this CreditMatters TV segment, Managing Director Robin Prunty explains why the receipt of quality and timely information is essential to maintaining our ratings of municipal credits.

Watch the video.

Oct. 25, 2016

S&P: How Quality and Timeliness of Information are Incorporated Into U.S. Public Finance's Rating Process.

S&P Global Ratings is clarifying its approach to information sufficiency in U.S. public finance (USPF) as part of the ratings process. S&P Global Ratings monitors and updates public credit ratings on an ongoing basis.

Continue reading.

Oct. 25, 2016

S&P: Third Quarter of 2016 Marks 16 Straight Months of More U.S. Public Finance Rating Upgrades than Downgrades.

In this CreditMatters TV segment, Larry Witte, Senior Director with Global Fixed Income Research, discusses recent findings for the third quarter of 2016, which marked 16 straight months in which there were more upgrades than downgrades. The downward trend for state ratings continued, however, with two downgrades compared to one upgrade.

Watch the video.

Oct. 27, 2016

CDFA Announces Winners of the CDFA Excellence in Development Finance Awards.

Read the press release.

New U.S. Wind Power Capacity Falls in 3rd qtr, Construction Rises.

U.S. wind energy installations fell 44 percent in the third quarter, though projects under construction are approaching record levels thanks to its low cost and the recent five-year extension of a key tax credit, according to an industry group.

Installations of wind capacity fell to 895 megawatts during the quarter from 1,603 a year earlier, according to a quarterly report by the American Wind Energy Association (AWEA).

Wind energy makes up about 5 percent of U.S. electricity, while solar lags at about 1 percent. There is still far more wind capacity, 75.7 gigawatts, than solar, which had nearly 32 GW installed at the end of the second quarter.

Wind is converted into mechanical energy then electricity. A wind turbine 80 feet tall can power a single home while a utility-scale turbine powers hundreds of homes.

With the renewal late last year of a tax credit for wind projects through 2019, developers are no longer under pressure to begin projects this year, AWEA officials said.

All of the capacity added during the quarter was in two states: Texas, the nation's top state for installed wind capacity, and Minnesota.

The pace of wind energy development has been highly dependent on the federal production tax credit over the last decade, and goes through boom and bust cycles when it is renewed or allowed to lapse by Congress.

Projects under construction were up 2 percent from the third quarter of last year, and have climbed 16 percent, on average, every quarter this year. At 13,563 MW, projects under construction are within 1,000 MW of the record hit in 2014, the AWEA said.

The cost of wind energy dropped 61 percent between 2009 and 2015, according to a study by investment bank Lazard last year, which also found wind to be competitive with, and often below, the cost of conventional generation like natural gas.

New power contracts for wind facilities are up 39 percent so far this year, with the majority coming from corporate and other nonutility purchasers. Amazon.com Inc, Johnson & Johnson and Target Corp all struck deals for wind power during the quarter.

With contracts for wind power, big corporations are able to lock in electricity rates for 10 or 15 years, according to AWEA Chief Executive Officer Tom Kiernan.

"They appreciate that stability and seeing the benefit," Kiernan said.

During the quarter, Iowa became the first state to generate more than one-third of its electricity, 35.8 percent, from wind power. Iowa has 6,365 MW of wind capacity installed, and an additional 3,100 MW under construction or in advanced development.

REUTERS

Thu Oct 27, 2016 | 3:00pm EDT

(Reporting by Nichola Groom; Editing by Jeffrey Benkoe)

P3 Digest - Week of October 24, 2016

Read the Digest.

S&P's U.S. Public Finance Podcast (Texas Economy Update & Revised State Criteria)

Nora Wittstruck and Oscar Padilla discuss a recent report on how the Texas economy is weathering the prolonged downturn in oil prices and Sussan Corson provides an overview of the revised state criteria and our approach to pensions.

Listen to the podcast.

Oct. 25, 2016

Bloomberg Brief Weekly Video - 10/27

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

Watch the video.

Bloomberg Business

October 27, 2016

October Sets New Record for Municipal Bond Issuance.

Sales of municipal bonds and notes soared to a record $52.5 billion in October, the biggest month of issuance since records began in the 1980s, according to Thomson Reuters data.

Municipal supply has surged in recent months as state, city and other public agencies eagerly sell bonds and notes at low interest rates.

October brought nearly $52.5 billion of new supply to the $3.7 trillion U.S. municipal market. The last time the market reached similar levels was in 2008, when $51.4 billion was sold in April 2008 and $50.6 billion was sold in June 2008, according to Thomson Reuters data.

Muni bonds have outperformed other fixed income securities and retained value for domestic investors seeking a tax exemption. Historically low and negative sovereign interest rates have also driven foreign investors, even if they cannot benefit from tax-exempt status.

The pace of issuance, however, may be slowing. Forecasts for November show supply dropping somewhat, perhaps reflecting higher interest rates, fewer refunding opportunities and the uncertainty surrounding the U.S. presidential election on Nov. 8, Janney Fixed Income Strategy's Alan Schankel said last week.

REUTERS

Mon Oct 31, 2016 | 5:20pm EDT

By Robin Respaut | SAN FRANCISCO

(Reporting by Robin Respaut; Editing by Dan Grebler)

S&P Q&A: U.S. State Rating Methodology.

In this edition of CreditMatters TV, Senior Director John Sugden and Director Sussan Corson discuss our updated criteria for rating U.S. state governments and territories. They explain the key changes and impact on existing ratings.

Watch the video.

Oct. 17, 2016

S&P: Revised U.S. State Rating Methodology Is Published.

NEW YORK (S&P Global Ratings) Oct. 17, 2016—S&P Global Ratings today updated its methodology for rating United States state governments. The revised rating criteria is effective immediately.

"The changes are intended to better align our criteria with new pension reporting and disclosure, and provide additional transparency and guidance with respect to potential rating caps and overrides," said credit analyst Sussan Corson.

The updated methodology applies to all U.S. state governments and U.S. territories. We do not expect any rating changes as a result of the revised criteria.

Concurrently, we published an FAQ on the revised criteria, as well as a process summary. The revised rating criteria follows the publication on May 25, 2016, of our Request For Comment on proposed changes to our methodology. The new criteria fully supersede the U.S. State Ratings Methodology that we published on Jan. 3, 2011. The articles published today are:

- U.S. State Ratings Methodology
- Credit FAQ: Changes In U.S. State Ratings Methodology
- RFC Process Summary: U.S. State Ratings Methodology

The report is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@spglobal.com. Ratings information can also be found on the S&P Global Ratings' public website by using the Ratings search box located in the left column at www.standardandpoors.com. Members of the media may request a copy of this report by contacting the media representative provided.

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Cities, States Need Top Financial Talent, but Fall Short on Pay.

Help wanted: Top-notch financial talent needed to face intense regulatory scrutiny; no bonuses or equity awards; modest civil servant's paycheck.

That is not a job that would appeal to most of the nation's best and brightest financial executives, who enjoy the big cash and stock incentives—not to mention the prestige—offered by the private sector. But states and towns increasingly need such executives to manage bond sales and pension deficits, as they come under closer government oversight.

"Getting people in government is not easy," said Robert Mayer, chief fiscal officer for the town of Fairfield, Conn. "They're all making more than the mayor."

Municipal finance chiefs in the Midwest earn between $85,000 and $160,000, depending on the town's size and affluence, while those working on either coasts can expect slightly more, said Heidi Voorhees, head of GovHR USA LLC, an Illinois recruiter for the public sector and nonprofit groups. By contrast, the median compensation package—salary, bonus and stock options—for public-company finance executives was valued at $3.57 million, based on proxies filed as of late June.

"It's always our toughest recruitment," said Ms. Vorhees.

Adding to the difficulty: Municipalities and for-profit businesses follow very different bookkeeping and budget rules, she said.

One thing many public-sector CFOs have in common with private-sector peers is that they have to answer to the Securities and Exchange Commission. The agency regulates municipal-bond sales, as well as corporate offerings, and can impose fines for violations.

While most corporations have the resources they need to monitor compliance, SEC disclosure rules pose a special challenge for cash-strapped states and cities, which are under pressure to do more with less. While disclosure rules are less stringent for municipalities than for companies, that doesn't get them off the hook for even small lapses.

If a municipality is 30 days late in filing its budget with state and federal regulators, the SEC considers that a disclosure violation, even if the delay is unlikely to harm its bondholders.

The SEC is "really naive in their understanding of what municipalities are capable of," said Jeffrey Esser, chief executive of the Government Finance Officers Association, which has about 18,000 members in the U.S. and Canada.

In August, the SEC reached settlements with 71 municipalities and other public entities across 45 states over alleged bond-disclosure violations. Many of the parties that settled had voluntarily reported their violations, such as failing to disclose a change in tax-revenue forecasts.

The town of Fairfield was among those that self-reported, a move that tends to win leniency. It settled with the SEC without admitting or denying wrongdoing or paying a monetary penalty.

Mr. Mayer, Fairfield's fiscal chief, is a career finance executive who left Wilkes-Barre, Pa., where he held a corporate job as a divisional chief executive, to be closer to his wife and daughters, who didn't want to relocate.

"To keep myself a little bit busy I ended up getting into local politics," he said. In 2012, Fairfield's first selectman appointed him chief of staff. When the CFO job later opened up, Mr. Mayer was asked to step in. "Most good CFOs could make a positive impact," he said of government service.

Most towns, hard-pressed to find money for such projects as pothole repair, park upgrades or a new public-transportation extension, are reluctant to spend precious cash staffing up their finance departments to ensure regulatory compliance. "The attention isn't there, the budget isn't there," Mr. Mayer said.

Despite such pressures, municipalities and related entities don't get a free pass, Andrew Ceresney, director of the SEC's enforcement division, said at a conference last week. They have a total of over $3.7 trillion in outstanding debt, spread across about 44,000 issuers, compared with the about 8,600 corporate issuers the SEC regulates, he said.

Mason Neely, finance chief of East Brunswick, N.J., voluntarily reported to the SEC that his town failed to let investors know that S&P Global Ratings dropped coverage of the town's sewer bonds when it decided to pay them off early. He said that while he takes responsibility for not immediately informing bondholders, the violation was minor.

Another potential pitfall for public-sector CFOs is that their predecessors often leave them with decades worth of financial information they know little about. When their town or regulators want to investigate something, "Well, I didn't know that" is a common refrain, said J.T. Klaus, a partner at Kansas law firm Triplett Woolf Garretson LLC.

Succession planning is also nearly impossible for some towns and cities, said Mr. Klaus, who represents Andover, Kan., one of the 71 municipalities and related nonprofits that recently settled with the SEC. "There are not enough people living in the community who can do the job," he added.

Mr. Klaus declined to discuss specifics of the town's settlement.

To lure financial talent, towns need to modernize and be more flexible when it comes to issues like work-life balance, given they lack the pay scale to compete with the private sector, said Elizabeth Kellar, CEO of the Center for State and Local Government Excellence, a research group focused on helping municipalities meet staffing needs. “The governments that are making the best decisions are upgrading on technologies,” she said.

THE WALL STREET JOURNAL

By MAXWELL MURPHY

Oct. 17, 2016 4:21 p.m. ET

New Jersey, Alaska deals Will Lead Big Week in Muni Supply.

U.S. municipal market supply will likely be among the highest in a decade when an estimated $16.7 billion of bonds and notes goes up for sale next week, lead by deals from New Jersey and Alaska.

With $16.5 billion in expected bond sales and $213 million in notes, according to Thomson Reuters estimates on Friday, the week would be one of the 10 biggest for supply in the last 10 years. Looking at just bonds, it would be the biggest since December 2006.

New Jersey will sell $2.76 billion of highway reimbursement notes through Bank of America Merrill Lynch, and Alaska plans to offer $2.35 billion of taxable pension obligation bonds via Citigroup, with both deals set to price on Wednesday.

Muni supply is surging lately. This week, an estimated $15.9 billion of bonds and notes hit the market.

“We expect the issuance pipeline to remain robust over the next few weeks as some issuers look to place deals prior to the November general election and a potential (Federal Reserve) rate hike in December,” Barclays analysts said in a Friday report.

Barclays said the weakness in the muni market “is technical in nature, and as soon as supply subsides, the market should regain its footing.”

As this week’s big supply hits, U.S. municipal bond funds’ net flows turned negative for the first time since the end of September 2015, according to Lipper, a unit of Thomson Reuters Corp. Funds reported nearly $136 million of net outflows in the week ended Oct. 19.

Next week’s biggest competitive offering comes from Maryland, whose department of transportation will sell more than $690 million of new and refunded bonds in a two-part deal on Wednesday.

Reuters

Fri Oct 21, 2016 | 3:20pm EDT

By Nick Brown

(Reporting by Nick Brown and Karen Pierog; Editing by Lisa Shumaker)

Q3 2016 Municipal Credit: It's Never Boring In Muniland!

There was a tremendous amount of volatility in the quarter in terms of state ratings. This is unusual because state ratings tend to be sticky – it takes major deterioration to cause a downgrade. States have vast resources and the ability to institute revenue increases and reduce budgets. States are also prohibited from filing for bankruptcy – they cannot just fold up and go away – which is true of most municipal issuers as well. States can manage spending by reducing funding to state instrumentalities and municipalities in the state as well as by reducing services provided, thus reducing the budget. However, as has been cited in our past commentaries, the factors that have caused state ratings to be weakened and eventually downgraded include (1) the severe underfunding of pensions due to overpromising and falling short on both required contributions and investment returns; (2) slow or declining revenue and economic growth combined with dipping into reserves rather than cutting budgets or raising revenues – also referred to as structural imbalance; and (3) exposure to the oil and gas industry, which has led to volatile revenue and economic growth and financial operations.

Five states were downgraded during the third quarter:

- Alaska was downgraded by Moody's to Aa2 due to political instability, structural imbalance, outsized pension liabilities, and economic difficulties caused by low oil prices -basically, for all the reasons cited above!
- Mississippi was changed by Fitch to AA from AA+ due to weaker than expected operating performance and, in this case, a change of methodology in Fitch's rating of states.
- Kansas was downgraded by S&P to AA- due to structural budget pressures, drawdown of reserves, and deferral of pension contributions.
- West Virginia was downgraded by Fitch to AA because of economic and fiscal challenges associated with the state's dependence on the coal industry, and Fitch continues to maintain a negative trend on the state's rating as a consequence of significant domestic and international momentum to reduce coal utilization.
- Finally, Illinois was again downgraded by S&P to BBB on September 29thafter just having been downgraded by the agency in June. The downgrade reflects continued weak financial management and increased long-term and short-term pressures tied to declining pension funding levels. Illinois pensions are 41% funded, compared with an average funding level of 75% for the states, per a recent Pew Charitable Foundation brief.

New Mexico's Aaa rating was put under review for a downgrade by Moody's because of an extremely large revision in 2016 and 2017 revenues, resulting in a large drawdown of reserves. The New Mexico legislature has a history of promptly addressing issues and has scheduled a special meeting. Expect a downgrade if the structural imbalance is not addressed. Although not a downgrade, the flooding in Louisiana (Aa3/AA by Moody's and S&P, both with negative trends) devastated a state already weakened by exposure to the oil and gas industry. However, the long-term ramifications remain to be seen, as the economic stimulus from rebuilding may help the state's revenues.

Pennsylvania received a reprieve in the form of Moody's changing the negative trend to stable on its Aa3 rating. The revision of the commonwealth's outlook to stable recognizes that Pennsylvania's problems – while sure to persist – are unlikely to lead to sharp liquidity deterioration, major budget imbalances, or other pressures consistent with lower ratings for US states. After the revision to stable, Pennsylvania resorted to interfund borrowing, which is a credit negative, though Moody's maintained the stable trend.

Alaska's AA+ S&P rating was removed from CreditWatch negative – which indicates S&P was conducting a review that may have resulted in a downgrade; instead, it put in place a negative trend – a contrast to Moody's downgrade action. Both agencies recognize that the state has a sizable structural imbalance, i.e., annual expenses exceed annual due to low oil prices and dependence on the oil industry; but the state still has substantial reserves. However, Moody's views more negatively Alaska's political instability resulting from ineffective governance and a divided legislature, which impacts long-term decision making.

States continue to be pressured, though there are bright spots.

Hawaii was upgraded by Moody's and S&P to Aa1 and AA+, respectively, due to economic and revenue growth resulting in restoration of strong reserves and strong fiscal management. Minnesota was upgraded to AAA by Fitch – above the Moody's and S&P ratings of Aa1 stable and AA+ positive – due to its broad-based economy, low debt, stable employee benefits, and strong, flexible finances and management.

To put this in perspective, the average rating for a state is AA and has recently been trending down. Generally, a state rating in the single-A category is considered very low.

Ten states are rated AAA by all three rating agencies. They are: Delaware, Georgia, Iowa, Maryland, Missouri, North Carolina, Tennessee, Texas, Utah, and Virginia. They stand in contrast to those states that have not been faring so well and that we have expounded on in the past. These include Illinois (rated Baa2, BBB, BBB+) – plagued by huge pension and revenue issues, New Jersey (A2/A/A) – dealing with revenue, economic, and pension issues, Kentucky (Aa2, A+, AA-) – affected mostly by pension issues, and Connecticut with all three ratings in the double A category at Aa3, AA-, AA-, but the ratings are tenuous due to the inability of the state to come up with long-term solutions as it continues to lose population.

The continuing pressure on state ratings puts other areas on our radar screen, including the increasingly visible burden of OPEB (other post-employment benefits), in addition to pension benefits, that will now need to be disclosed in a concise manner in accordance with GASB 74 and 75, to be instituted for fiscal years ending after June 15, 2016 and June 15, 2017, respectively. Many states and municipalities fund on a pay-as-you-go basis, so to estimate future obligations may add, or rather make more visible, significant liabilities. Governments can change other post-employment benefits more easily than pensions, which are constitutionally mandated; however, OPEB burdens are growing.

We will also be sensitive to state agencies and municipalities that may experience reduced funding from the state. We will evaluate credits to make sure there is financial flexibility in the form of strong reserves and revenue flexibility – which are characteristics of highly rated bonds. For example, the State of Maryland has announced it will be reducing funding to counties in the state. For the most part, Maryland counties are strong, although like most counties they have few revenues and numerous social service spending obligations. State institutions of higher education and state housing agencies have traditionally been hit by state reductions; however, these institutions are currently displaying resilience, and many should be able to handle reduced state funding.

Other developments over the quarter were:

Zika spread to the United States and may have credit implications for Puerto Rico and Miami – these situations will be watched for long-term implications. We will also watch for spread of the virus to other locales. Immediate effects may be a decline in tourism and population, while longer-term implications could be increased social service spending. These outcomes will depend on preventative measures, which may be helped by recent congressional approval of Zika funding.

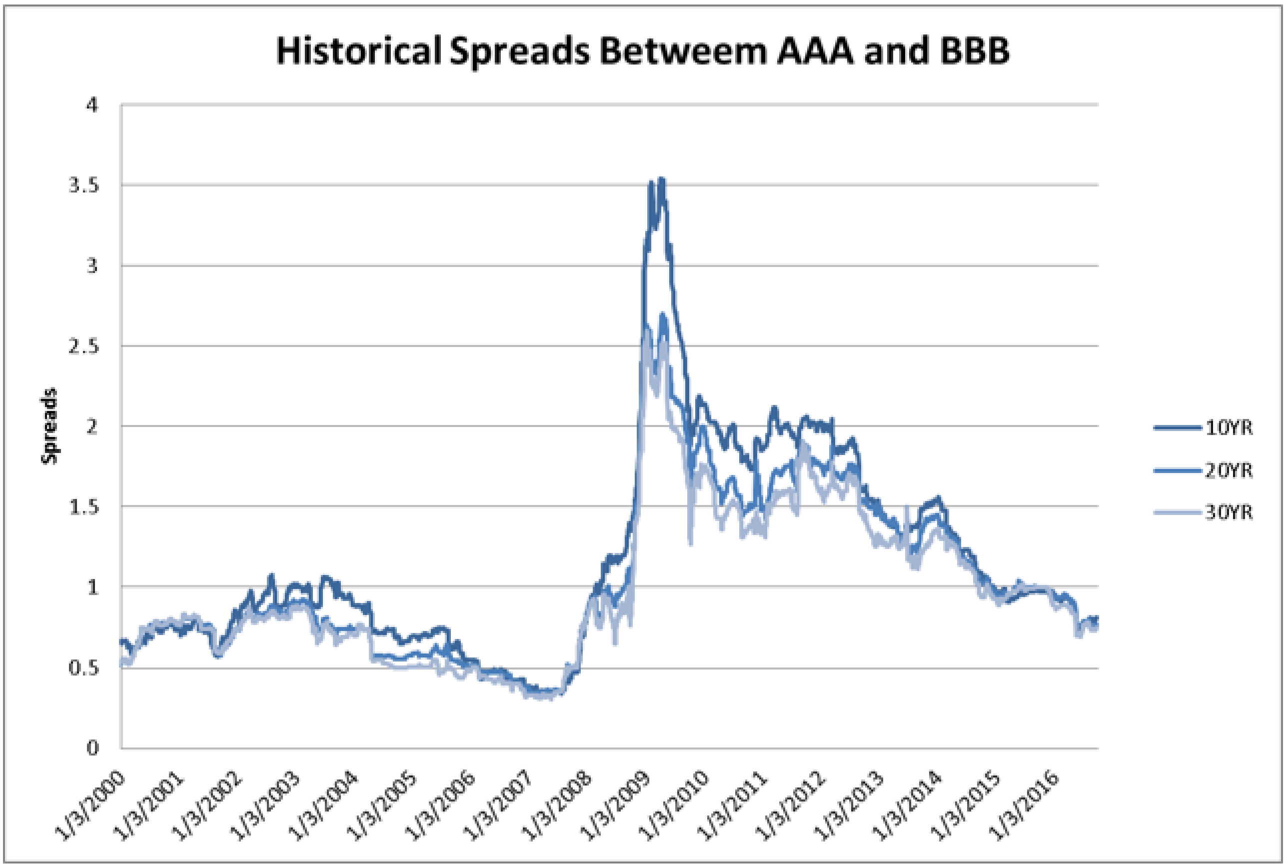
Bond insurance industry strength was affirmed after rating agencies reported that bond insurers' exposure to numerous defaulted entities in Puerto Rico would not affect their claims-paying ratings. Moody's, KBRA, and S&P all published reports or updates in the quarter.

Insurer Ratings	Moody's	KBRA	S&P
AGC	A3	AA+	AA
AGM	A2	AA+	AA
National	A3	AA	AA-

The City of Chicago, suffering from pension problems and political gridlock, approved a rate increase for its water and sewer utility to help prop up one of its severely underfunded pension funds. We will be watching to see if this move causes contagion risk to other city utility systems.

One reason municipal utilities have gotten stronger is limits on the ability of municipalities to use utilities as a cash cow. This trend came about at least 20 years ago when utilities needed market access to fund improvements to their systems to comply with clean water and clean drinking water acts. Rating agencies and investors looked unkindly on unlimited and unscheduled transfers, so there was pressure to make transfers predictable. Consequently, transfers to the general fund of a municipality from its utility are generally limited to something akin to a tax or a fixed percentage of revenues. This provides certainty for the utility to accumulate funds for operations, maintenance, and capital improvements as well as reserves for unexpected events – and to maintain strong credit ratings. As has been widely reported, there is considerable underfunding of our nation's infrastructure, including water and sewer systems. Thus, we expect increased debt issuance from the sector, so any extra "tax" on the system to fund something outside of the system will be scrutinized for its overall burden on the utility involved.

Our strategy of investing in higher-rated bonds will continue as we move into a rising interest rate environment. Some pundits think that because municipal bonds are generally so safe, lower-rated and longer-dated bonds will provide enough yield to compensate; however, credit spreads tend to widen with rising interest rates. You can see the narrowing spread as interest rates decline in the following chart, which compares the yields of AAA-rated bonds with BBB bonds over time.



Source: RBC Capital Markets, LLC

Interest rate increases contribute to outperformance of higher-quality credits. Although the absolute return may be negative, the performance of AA and AAA-rated bonds will be better than that of lower-rated bonds.

This is why Cumberland Advisors invests predominantly in AA bonds and single A-rated bonds that are stable or improving.

David Kotok
Registered investment advisor, portfolio strategy
Cumberland Advisors

By Patricia Healy, CFA

Oct.23.16

[P3 Digest: Week of October 17, 2016]

Powered by [P3 INGENIUM]: The most comprehensive source for P3 project updates in North America

State-level debates over how to fund transportation projects continued to dominate the landscape over the past week with proposals ranging from gas and sales tax hikes to toll charges to mileage-based fees. Meanwhile, legislators continue to consider bills that would make it easier for agencies to enter into transportation P3s and one state continues to spur innovation by encouraging developers to submit original proposals for such projects.

Continue reading.

Presidential Politics a Boon to the Muni Market?

This year has seen a boost in bonds sold by states and localities in the municipal market. Experts are predicting 2016 will be the busiest year in a half-decade. RBC Capital Markets' Chris Mauro said this week that October will likely represent the third consecutive month of record bond issuance volume. In fact, he predicts that total issuance this year "will likely exceed the $433 billion record set in 2010 — a particularly impressive accomplishment, given that Build America Bond issuance greatly inflated 2010 volume."

The Takeaway: A big driver of all this activity on the governments' end is uncertainty. The biggest question mark has been over who will win the presidential election, followed closely by whether or not the Federal Reserve will raise short-term interest rates by the end of the year. Given the vastly different positions of the candidates, governments are unwilling to gamble on the tax and spending policies of a new administration. As such, Mauro predicts bond issuance could creep up to $450 billion by the end of the year.

GOVERNING.COM

BY LIZ FARMER | OCTOBER 21, 2016

Funds From Japan to Europe Pivot to Munis as Credit Appeal Wanes.

If you're a pension fund or insurer from Europe or Japan, U.S. investment-grade credit may be getting a little passe.

That's the view of Principal Global Investors, which sees taxable municipal notes becoming a more popular alternative for some overseas-based institutional investors as they chase additional yield in a world of record-low central bank interest rates. Tax-free munis typically have little appeal for overseas buyers, who may not benefit from the securities' exemption, although local government notes with taxed payouts do draw buyers from abroad.

"From a non-U.S. investor standpoint, taxable munis have the same yield as you get from U.S. investment-grade credit," said Mark Cernicky, who oversees about $100 billion at Principal in London. "It's higher credit quality, they have much lower default rates, and it's also a play in infrastructure."

The average yield on taxable munis due in 5-to-10 years is 3 percent and the rate on similar tenor U.S. corporate notes is 2.95 percent, Bank of America Merrill Lynch indexes indicate. While data compiled by Bloomberg show issuance of investment-grade corporate bonds in the U.S. has already topped $1.17 billion this year and is running at a record pace, Cernicky said the advanced age of the current credit cycle will spur investors to pivot more toward taxable munis.

The increasing prevalence of behavior that's more friendly to shareholders than creditors — such as acquisitions — may also encourage that shift, as could the prospect that the European Central Bank will eventually dial back stimulus measures that have supported the corporate bond market, he said in an interview in Sydney on Thursday.

"You're going to continue to see that diversification trend in taxable munis," Cernicky said.
Local governments sell taxable bonds when the issues don't meet Internal Revenue Service standards for tax-exemption, such as for pension funding because the money is invested to make a profit, or if a certain amount of proceeds goes toward commercial use.

Pension funds and other institutional buyers are also looking to do more private lending to companies as a way of diversifying the riskier part of their portfolios away from speculative-grade bonds, Cernicky said. There's been a "significant increase" in requests for such arrangements among Japanese and European clients, he said.

"They're reducing high-yield exposures and going into private credit, illiquid credit or private lending," he said. "You get a similar type of return, but you get no mark-to-market volatility."

The shift has come amid a reduction in junk bond sales this year, with new issuance in the U.S. 19 percent less than at the same point in 2015, according to data compiled by Bloomberg. Cernicky is tipping that to turn around next year, with energy, metals and mining companies leading the charge in the world's biggest non-investment-grade note market. He also expects more industrial companies to make their debut in the European junk bond market next year.

"The story in 2017 is likely going to be about high-yield issuance, not so much the IG issuance," he said. "In Europe, you see a lot of new companies coming into the market which is actually pretty positive."

Bloomberg Business

by Ruth Liew

October 20, 2016 — 8:28 PM PDT
