
States Have Reason to Share Trump's Concern With Rates.

- **Rate increases boost taxpayer costs to float bond issues**
- **Benchmark 10-year muni yields hit highest since early 2014**

State officials have reason to share President Donald Trump’s unhappiness with rising interest rates.

California, Illinois, Wisconsin and Connecticut are preparing to sell $2.3 billion in bonds, collectively, just as interest rates reach multi-year highs. For cities and states, every basis point on a deal is important, given taxpayers usually are ultimately on the hook for the borrowing.

The 10-year benchmark yield for top-rated municipal borrowers hit the highest since early 2014 amid expectations the Federal Reserve will continue to raise rates. The move might sting for states and local governments tied to bond sales scheduled months in advance as part of planning public works.

David Erdman, capital finance director at the Wisconsin Department of Administration, said he’s watching the market to see how much more interest rates increase before making a decision on the timing of the state’s $362 million debt sale, which is currently set for next week.

“It’s been a pretty ugly market and we’d like to get some stability and enter the market when there’s more stability,” Erdman said.

Still, interest rates remain attractive for municipal-bond issuers compared to the past two decades, Erdman added.

California, which has sold bonds in October or November for the last five years, is one of the states affected by the selloff. The yield premium that investors demand on California 10-year general-obligation bonds — the type of debt the state is selling next week — has widened to about five basis points over the benchmark. Less than two months ago, the AA- rated state’s debt was trading at yields as much as seven basis points below AAA rated borrowers.

Bloomberg Economics

By Amanda Albright

October 11, 2018, 10:30 AM PDT

— With assistance by Elizabeth Campbell

The Week in Public Finance: How the New NAFTA Deal Impacts States.

The revised trade pact keeps the original agreement's free trade zone intact while placing some new burdens on the auto industry.

After President Trump threatened for more than a year to withdraw from NAFTA, auto-manufacturing states breathed a sigh of relief when he announced a renegotiated trade agreement earlier this month with Canada and Mexico.

A U.S. withdrawal from the 1994 pact would have resulted in the reimposition of tariffs on specific goods between the U.S., Canada and Mexico. The impact would have been felt most acutely by states such as Michigan that do a lot of business with the two countries.

The revised trade pact, dubbed the United States Mexico Canada Agreement, keeps the free trade zone intact while placing some new burdens on the auto industry. Two new key requirements include introducing a higher minimum-wage standard and boosting the required share of auto parts and components from North America up to 75 percent from 62.5 percent.

Industry observers have reacted positively to the deal mainly because there is one. "It's a positive compared with the alternative," says Moody's Investors Service analyst Ted Hampton. "But a lot remains to be seen."

Michigan stands to benefit the most from the deal; more than one-quarter of the state's economy is subject to the NAFTA trade zone, according to an analysis released this week by Moody's. That's largely thanks to both its heavy reliance on auto manufacturing and its shared border with Canada.

Alabama, Indiana and Kentucky also stand to benefit as large parts of their economy rely on auto manufacturing.

Still, a lot of uncertainty remains when it comes to the new agreement and trade in general.

For starters, Congress and the Canadian and Mexican legislatures still need to approve the deal, which is scheduled to take effect in 2020.

In addition, the new labor and part sourcing restrictions are expected to cut into the auto industry's bottom line. While that could encourage more auto jobs to move to the U.S., it could also discourage auto production overall in North America. "At this point we don't anticipate that," says Hampton, "but it certainly is a risk."

Meanwhile, other global trade hurdles imposed by the president still threaten state economies. Trump has imposed tariffs on Chinese goods worth $250 billion, has threatened tariffs on another $276 billion in Chinese products, and has applied tariffs on steel and on foreign aluminum — to which Canada and Mexico are still subject.

Those moves have raised import and domestic costs significantly. According to a report this week from the group Tariffs Hurt the Heartland, tariff costs increased by nearly half in August compared with a year earlier. In Michigan, tariff costs tripled and they more than doubled in states such as Illinois, Texas and West Virginia.

In other public finance news:

The Most- and Least-Solvent States

Nebraska, South Dakota, Tennessee, Florida, and Oklahoma are the top five most fiscally sound states, according to the Mercatus Center at George Mason University, which ranks the 50 states

according to their financial condition.

The study measures how well states can meet short-term and long-term bills by examining their financial statements. The study found that most states are in a stable condition, with the exception of those with large unfunded pension liabilities.

The least fiscally solvent state is Illinois. Not only are its long-term liabilities equal to three times the state's total assets, it doesn't even have enough cash on hand to meet its short-term liabilities. Illinois is followed by Connecticut, New Jersey, Massachusetts and Kentucky.

GOVERNING.COM

BY LIZ FARMER | OCTOBER 12, 2018

How Rainy Day Funds Help Cities Prepare for Revenue Volatility.

Officials from Los Angeles, Baltimore, Philadelphia, and S&P discuss how the reserves work and the impact on credit ratings

During and after the Great Recession, tax revenue plunged in many U.S. cities and states, forcing government officials to lay off employees and cut public services.

Today, more than a dozen major cities have rainy day funds to prepare for the next downturn. On Sept. 28, The Pew Charitable Trusts hosted a panel discussion in Philadelphia on the pros and cons of these reserves—and their role in city finances and credit ratings.

Ben Ceja, assistant administrative officer for Los Angeles, told the audience that he sees his city's rainy day fund as one part of a financial toolkit. "We don't want to be in crisis management" in the next downturn, Ceja said. "We want as many tools as possible for when times are not as good as they are now."

Continue reading.

The Pew Charitable Trusts

October 11, 2018

Disaster Recovery: School Infrastructure Resilience Roadmap & Best Practices

Communities facing the loss of a school after a hurricane, earthquake or other disaster can increase school infrastructure resilience. Get a roadmap for stakeholders, tools and best practices.

School districts that face the loss of a school in a natural disaster like a hurricane face myriad challenges after the immediate danger passes, ranging from education and public safety to reconstruction. To improve community resilience, replacement schools can be designed to mitigate disaster risk and increase school infrastructure resilience in affected areas following a disaster.

The World Bank Global Program for Safer Schools (GPSS) offers a 2017 roadmap to engage stakeholders and 2018 100 Resilient Cities workshop in Cali, Columbia, generated best practices for communities focused on or required to increase school infrastructure resilience.

Continue reading.

efficientgov.com

by Andrea Fox

October 11, 2018

FEMA Disaster Recovery Reform Requires Local Investment, Empowers Local Decisions.

The new Disaster Recovery Reform Act of 2018 (DRRA) makes changes to how local governments will fund disaster mitigation and respond in a crisis.

WASHINGTON – The Disaster Recovery Reform Act of 2018 (DRRA) was signed into law as part of the Federal Aviation Administration Reauthorization Act of 2018 late last week.

Agencies and governments receiving FEMA federal assistance will be required to set aside some of their disaster assistance funding for mitigation efforts, such as elevating existing structures, protecting utilities, making buildings more wind resistant, installing fire-resistant roofing. In addition, the executive branch would be able to authorize federal reimbursement of up to 75 percent of state and local hazard mitigation efforts under the law.

According to the FEMA announcement, the reforms "acknowledge the shared responsibility of disaster response and recovery, aim to reduce the complexity of FEMA and build the nation's capacity for the next catastrophic event."

"This transformational legislation will allow the emergency management community to continue to improve the way we deliver assistance before, during and after disasters," said FEMA Administrator Brock Long. "We'll never be able to eliminate all risks, but this enables us to take action now so that individuals and communities will be better positioned to recover more quickly when disasters do occur. We thank Congress, the administration and our state and local partners in their efforts to move this critical reform package forward."

Highlights from the DRRA include:

Continue reading.

efficientgov.com

by EfficientGov Staff

October 10, 2018

Investment in Infrastructure Is Booming.

Private-equity firms are on course to raise a record amount to invest in pipelines, telecom assets and the like

Private-equity firms are on track to raise a record amount for infrastructure investing in 2018, as money managers bet on the growing need to upgrade and expand the world's railroads, natural-gas pipelines and data centers.

The firms collectively raised $68.2 billion in the first three quarters of the year, up 18% over the same period in 2017 and already surpassing the $66.2 billion they amassed in all of 2016, according to data from Preqin.

Leading the charge are KKR & Co., Stonepeak Infrastructure Partners and I Squared Capital, which each raised a roughly $7 billion investment vehicle this year.

Continue reading.

The Wall Street Journal

By Miriam Gottfried

Oct. 7, 2018 10:00 a.m. ET

U.S. Conference of Mayors Releases New Report on How Competitive Bidding Can Help Nation's Troubled Water Infrastructure.

Report Shows Cities Could Save Billions of Dollars Over Next Decade on Replacing Aging Pipes

Washington, DC—As the nation's aging infrastructure continues to threaten water systems as well as the country's health and economic vitality, a new report released today by the U.S. Conference of Mayors (USCM) shows how cities could potentially save billions of dollars over the next 10 years. The report examines the daunting challenges cities face with replacing hundreds of thousands of miles of aging and failing pipes, which are the single costliest water and sewer capital investment. By changing the competitive bidding process, the report shows that the country could save an estimated **$20.5 billion for drinking water and $22.3 billion for storm water** in pipe material costs alone.

The report reviewed new data comparing cost per foot for different pipe materials and open versus closed procurement processes. It concludes that updating procurement policies can save as much as 30% of capital costs, helping mayors stretch the dollars needed to address local infrastructure challenges.

"The best way for us to protect our cities from a water crisis is to invest in upgrading the water and sewer infrastructure. Local governments already provide nearly 98% of the annual investments needed for their water infrastructure and struggle to keep water rates affordable for their communities. While this report shows promising ways in which cities can implement cost-savings

measures, we cannot do it alone. Mayors stand ready to work with Congress so that together we can meet the very real challenges the country is facing with its crumbling infrastructure," said USCM Vice President Rochester Hills (MI) Mayor Bryan Barnett.

The report illustrates that one solution cities can no longer afford to overlook is opening up their procurement processes so that managers have the freedom to consider all suitable project materials. As part of the report's findings, Burton (MI) Mayor Paula Zelenko shared that "allowing the bidding of different pipe materials, not only forced suppliers to sharpen their pencils, it ended up saving the city of Burton over $2 million by using PVC pipe…on our $25 million water main replacement project."

"Cities spent $360 billion on water and sewer pipes from 1993 to 2017. Mayors want efficient solutions that make the best use of limited resources without compromising the performance or safety of their water systems. This report sheds critical light on a viable alternative that should be explored. A strong national infrastructure is crucial if our country is to remain economically competitive with the rest of the world," said USCM CEO and Executive Director Tom Cochran.

Key Findings of the report include:

- The average cost to replace drinking water pipes in an "open competition" system is 26% per mile less expensive than in "closed competition" regions;
- For stormwater, the savings from "open competition" averages 39% per mile;
- Nationally, "open competition" could save an estimated $20.5 billion for drinking water and $22.3 billion for storm water in pipe material costs alone over the next 10 years.

See here for the full report.

Statement by U.S. Conference of Mayors President Columbia (SC) Mayor Steve Benjamin on Passage of America's Water Infrastructure Act of 2018.

Washington, DC — Below is a statement by U.S. Conference of Mayors President Columbia (SC) Mayor Steve Benjamin on today's passage of America's Water Infrastructure Act of 2018:

> "The nation's Mayors applaud Congress's bipartisan efforts to pass America's Water Infrastructure Act of 2018, a bill that addresses the pressing needs of the country's water infrastructure.
>
> "The bill marks a positive step forward and will bring much-needed investment to key water infrastructure projects, including harbors, locks, dams, and flood protection, all of which are critical to the safety of our communities and the strength of the nation's economy. We are also pleased that the bill provides financial resources and technical assistance to address other urgent concerns such as lead contamination in drinking water, resilience to natural hazards and workforce development and training.
>
> "We are grateful to our Congressional colleagues for their willingness to work with the nation's mayors, especially since local governments fund nearly 98 percent of all water and wastewater infrastructure investment. While the bill does not address all of our concerns, namely the shortfall of the Harbor Maintenance Fund and providing local governments the ability to address unfunded federal mandates, it does show how we can

deliver real solutions when we set aside partisan differences and work together. We look forward to continuing our work with Congress on these priorities."

October 10, 2018

Fitch Ratings: Minimal Roadblocks for U.S. Toll Roads

Fitch Ratings-San Francisco-11 October 2018: U.S. toll road performance continues to coast along despite idiosyncratic weaknesses affecting two rated toll roads, according to Fitch Ratings in its latest U.S. Toll Roads Peer Review.

Positive operating performance across the sector has continued largely unabated since Fitch's last Peer Review. Strong traffic and revenue growth largely drove upgrades on three toll road systems (Central Florida Expressway Authority, Grand Parkway System and Maryland Transportation Authority).

"The Grand Parkway system is building liquidity faster than anticipated, and it has little to no dependence on future growth to meet its debt service obligations," said Director Scott Monroe.

Even with the likelihood that some of these systems will have to take out more debt for future ramp-ups, revenue is more than sufficient to cover all first and second tier debt service obligations.

Fitch took two negative rating actions on toll road projects over the last year. It revised the Rating Outlook on Dulles Greenway to Negative from Stable due to weakening traffic and revenue performance. Fitch similarly revised the Outlook for Miami-Dade County Expressway to Negative because of state government intervention.

"By usurping local autonomy in order to lower toll rates and divert surplus revenues, the Florida State Legislature's unprecedented intervention could affect Miami Dade County Expressway's ability to allocate funds for capital expenditures in future years and to issue additional debt," said Monroe.

Strong performance is likely to continue for the new projects and liens Fitch has added to its publicly rated portfolio over the last several months, among them Bay Area Toll Authority (subordinate lien rated 'AA-' with a Stable Outlook), San Diego Association of Governments' (SANDAG; senior lien rated 'A-' with a Positive Outlook) and West Virginia Parkways Authority's (WVPA; senior lien rated 'AA-' with a Stable Outlook).

Fitch's latest 'Peer Review of U.S. Toll Roads' is available at 'www.fitchratings.com'

Contact:

Scott Monroe
Director
+1-415-732-5618
Fitch Ratings, Inc.
1 Post Street
San Francisco, CA 94104

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email:

sandro.scenga@fitchratings.com

Additional information is available on www.fitchratings.com

Why Public Transportation Works Better Outside the U.S.

The widespread failure of American mass transit is usually blamed on cheap gas and suburban sprawl. But the full story of why other countries succeed is more complicated.

When it comes to the quality of public transit, comparisons between American cities and international counterparts are usually met with a simple response: “It’s different over there.”

These differences, the argument goes, are vast and fundamental: Europe is far more densely built, and its older cities—settled centuries before the automotive age—will always be innately transit-friendlier. In Asian cities, meanwhile, explosive urban growth has been accompanied (and accelerated) by massive government investments in urban rail networks. But the U.S. boomed in the 20th-century’s automobile age, and the private car is still king; most American cities and their suburbs are utterly dependent on them.

How did transit become such an afterthought in Americans’ transportation habits? I addressed that question in detail in an earlier CityLab piece. But to briefly summarize: Transit everywhere suffered serious declines in the postwar years, the cost of cars dropped and new expressways linked cities and fast-growing suburbs. That article pointed to a key problem: The limited transit service available in most American cities means that demand will never materialize—not without some fundamental changes.

Continue reading.

CITY LAB

by JONATHAN ENGLISH

OCT 10, 2018

Report: Climate Risk, Real Estate, and the Bottom Line

OCTOBER 11, 2018 – BOSTON, MA – Four Twenty Seven & GeoPhy Release First Global Dataset on Real Estate Investment Trusts’ Exposure to Climate Change.

Four Twenty Seven and real estate technology company GeoPhy today announce the release of a data product that provides granular projections of the impacts of climate change on real estate investment trusts (REITs). REITs represent an increasingly important asset class that provides investors with a vehicle for gaining exposure to portfolios of real estate. The data was launched at the Urban Land Institute Fall Event in Boston, MA, accompanied by a white paper that lays out the implications of climate risk for the real estate sector.

Continue reading.

Four Twenty Seven

by Kendall Starkman

Posted on October 11, 2018

Municipal Utilities Need to Be Smart When Implementing a Smart Meter Program.

The United States Court of Appeals for the Seventh Circuit (the "Seventh Circuit") recently decided the case of *Naperville Smart Meter Awareness v. City of Naperville*, 900 F.3d 521 (7th Cir. 2018). The suit brought by Naperville Smart Meter Awareness ("NSMA") alleged that the collection of smart meter energy-consumption data by the City of Naperville, Illinois, (the "City") constituted an unreasonable search under the Fourth Amendment of the U.S. Constitution and should be prohibited.[1] The Seventh Circuit made two important holdings in the case. First, it held that the collection of smart meter data is, in fact, a search under the Fourth Amendment. Second, it held that under the specific facts of the case, the City's smart meter program constitutes a reasonable search and thus does not violate customers' Fourth Amendment rights.

[1] NMSA also brought state constitutional claims under the Illinois constitution that are not addressed here.

The Seventh Circuit's ruling in *Naperville* represents a significant precedent for how courts will consider challenges to the collection of smart meter data by government owned utilities throughout the Seventh Circuit (including Indiana). Indiana communities with municipally owned electric utilities would be well-served to consider the intricacies of the *Naperville* decision when planning, designing, and implementing smart meter systems. The case may also share applicability to municipally owned water utilities implementing smart meter programs.

Facts

The City received an $11 million federal grant to update its municipally owned electric utility and create a smart grid, including the installation of smart meters for every customer. Smart meters collect customers' energy-consumption data more frequently than traditional meters and store that data for extended periods of time. In this case, data was collected every 15 minutes and stored for up to three years. The municipally owned electric utility monitors the data and uses it to reduce utility costs, provide cheaper power, encourage energy efficiency, and increase grid stability. The City's municipally owned electric utility presented the only feasible option for the City's residents to obtain electricity, and customers were not allowed to opt out of the smart meter program.

NSMA's Argument

NSMA claimed that the frequency at which the smart meters collect data – in 15-minute intervals – amounted to an unreasonable government search of the customers of the municipally owned electric utility, thus violating their Fourth Amendment rights. The Fourth Amendment protects, among other things, people against unreasonable searches of their home and person by government entities. A municipally owned utility equates to a government entity for Fourth Amendment purposes.

Data Collection Constitutes a Fourth Amendment Search

Although no physical entry to the home occurs, the court determined that the collection of smart meter data is, in fact, a search because the frequency at which the data is collected can reveal the happenings inside the home by analyzing energy consumption patterns and appliance load signatures for individual homes. The Seventh Circuit noted that courts have held that thermal mapping constituted a search subject to the Fourth Amendment in other cases.

Search Reasonable under Unique Facts of City's Smart Meter Program

The Seventh Circuit determined, however, that the facts surrounding the City's smart meter program did not rise to the level of an unreasonable search. In making that determination, the court weighed the privacy interests of customers against the City's interest in the data. According to the court's analysis, in this specific instance, the government's interest in the data was substantial, and the customers' privacy interest was minimal. Therefore, the collection of data by smart meter was reasonable and did not violate customers' Fourth Amendment rights.

The court held that the collection of smart meter data by a municipally owned electric utility served a legitimate government interest because it can be used to reduce utility costs, provide cheaper power, encourage energy efficiency, and increase grid stability, which all serve to promote a significant public good. Furthermore, the search is minimally invasive and unlikely to result in corollary criminal consequences for customers because the City guaranteed that no data would be given to third parties, including law enforcement.

Conclusion

The *Naperville* decision provides a road map for any municipally owned electric utility, especially those in the Seventh Circuit, considering a smart meter program. The Seventh Circuit expressly limited its determination that the City's search was reasonable to the facts of the case. Accordingly, a municipally owned utility looking to implement a smart meter program should examine the details and circumstances of the *Naperville* case to avoid running afoul of customers' Fourth Amendment rights. Furthermore, it is likely that *Naperville's* application is broader than municipally owned electric utilities. It likely extends to any municipally owned utility employing highly technical devices to obtain more frequent data collection from consumers, such as smart meters for water consumption data.

To view all formatting for this article (eg, tables, footnotes), please access the original here.

Bingham Greenebaum Doll LLP

by David T. McGimpsey

October 11, 2018

CUSIP: Municipal, Corporate Equity and Corporate Debt Pre-Market Activity Slows from Record Highs Reached in August.

"The monthly decline we're seeing in CUSIP request volume this September looks dramatic when compared with the significant surge in volume we saw in August, but, the month did follow historically normal volume trends," said Gerard Faulkner, Director of Operations for CUSIP Global Services. "It is notable, however, that the September slowdown coincided with historic high yields on U.S. Treasuries, possibly indicating that the rising rate environment will crimp the growth of new

security issuance in the months to come."

Read report.

October 10, 2018

Tax or Just Spend? Colorado Ballot Box Fight Echoes U.S. Divide.

- **Fight over how to pay for road work mirrors national debate**
- **Two propositions on subject differ on taxes, size of bond sale**

The national debate on infrastructure funding has come to a head in Colorado, where voters are considering two clashing measures on the November ballot that propose record bond sales for much-needed road repairs in a state struggling to keep up with its rapid growth.

The key questions underlying the two measures, propositions 109 and 110, are whether the state should raise taxes or use existing revenues to pay for billions of dollars in transportation projects and whether some of the money should be spent on public transit.

Proposition 109, known as "Fix Our Damn Roads," would authorize Colorado to sell up to $3.5 billion in bonds without raising taxes to fund 66 road, bridge, and tunnel projects. Proposition 110, known as "Let's Go Colorado" would prompt the state to sell up to $6 billion in bonds, raise sales taxes from 2.9 percent to 3.52 percent for 20 years, and allocate 15 percent of new revenue toward public transit, including light rail and biking projects.

State law dictates that if both pass, the measure with the most yes votes supersedes any point of conflict with the other measure, such as how much to borrow, how to pay for it and how to spend the money. If neither passes, a law approved this year requires another bond measure, for $2.3 billion, go to voters in November 2019.

The Centennial State hasn't approved a bond measure for transportation in almost two decades, when a $1.7 billion bond was passed in 1999. Voters rejected a $2 billion measure in 2005. If either of the competing initiatives passes, it would be the biggest municipal bond approval in the state's history.

Right Plan?

On one side of the debate are rural, more conservative bond supporters who say the state should use money from the budget to back bonds and spend proceeds only on fixing roads and bridges.

"Quite frankly, most folks here don't really care if light rail or bus or bike paths are available," said Debbie Bell, a commissioner in Fremont County, an area with less than 50,000 people and home to several prisons. "Most citizens believe there is no rural need for multimodal transportation."

On the other side are business interests and government officials in population centers who say fixing transportation is more than just paving roads and filling potholes.

Proposition 110 and raising taxes make fiscal sense, argued Kelly Brough, president and chief executive of the Denver Chamber of Commerce. The burden of paying a sales tax would also be shared by visitors and tourists, Brough argued, easing the load on residents.

“It’s less expensive if we do this right and have a funding stream that the market can count on,” Brough said.

Bloomberg Politics

By William Green

October 12, 2018, 11:15 AM PDT

Rout Drives Discounts on Muni-Bond Funds to Most in Five Years.

- **Average closed-end fund trades at 11 percent less than assets**
- **Bond price drop, rising cost of leverage take a toll**

The swift rise in interest-rates and growing leverage costs have pushed discounts on municipal-bond funds to their widest in almost five years.

The discount, or the difference between a closed-end fund’s share price and the underlying value of its assets, is 11.1 percent, according to Ryan Paylor, a portfolio manager at Thomas J. Herzfeld Advisors Inc. in Miami. Such funds have lost 7.3 percent this year, more than five times the loss in the broader municipal market, and investors will likely sell shares if prices bounce to offset capital gains tax liability, he said. That could delay any recovery.

“It has been ugly,” said Paylor.

Many closed-end funds use leverage, which boosts returns when prices rise and sharpens losses when they fall. Yields on 30-year municipals have climbed 0.23 percentage point since the beginning of the month, reducing the value of debt held by the funds. Meanwhile, leverage costs have continued to rise as the Federal Reserve increases short-term rates, shrinking the income generated by the funds.

Closed-end funds raise a fixed amount of money from shareholders in a public offering, unlike mutual funds, which continually sell and redeem shares. The funds are traded on stock exchanges and can sell at premiums or discounts to their net value of the securities they own.

Tax-loss selling before the end of the year could cause discounts on muni-closed end funds to widen further. More than 90 percent of municipal closed-end funds have posted a loss this year. About 15 percent of 168 funds have lost more than 10 percent.

“Even if munis bounce, muni CEFs won’t until 2019,” Paylor said.

Bloomberg Markets

By Martin Z Braun

October 11, 2018, 9:30 AM PDT

Short Bets Against Muni Bond ETFs Are on the Rise.

- **Short positions in BlackRock, State Street muni funds jump**
- **Adds to bearish signals after some ETFs had record outflows**

Speculators are increasing their bets against some of the biggest municipal-bond exchange traded funds, wagering the share prices will drop as rising interest rates sting the state and local government debt market.

Traders have boosted their short positions in State Street Corp.'s $2.8 billion SPDR Nuveen Bloomberg Barclays Municipal Bond ETF to the highest on record, according to the most recent figures. And short interest in BlackRock Inc.'s $9.4 billion iShares National Muni Bond ETF has risen the highest since late 2017 as tax-exempt debt keeps posting losses.

The short positions by late September add to other bearish signals facing the market, where ETFs serve as a bellwether for investor sentiment. Some of the largest muni ETFs, including the BlackRock fund, have seen record outflows in the last two weeks.

State and local debt has posted a 1.3 percent loss since September as data showing the economy is expanding at a solid pace led investors to anticipate the Federal Reserve will continue to raise interest rates. Analysts are closely watching for signs of whether individual investors who dominate the market will react by pulling out funds, as they have en masse during previous downturns.

Bloomberg Markets

By Amanda Albright

October 10, 2018, 6:39 AM PDT

Investors Yank Record Cash Out of Stock, Real Estate, and Muni ETFs.

- **Analysts say big moves are part of a market rotation**
- **Ten-year Treasury yield remains near highest since 2011**

With U.S. Treasury yields at multiyear highs, investors are pulling record amounts of cash out of large-cap stock, municipal bond and REIT exchange-traded funds.

The huge drawdowns are part of what some strategists are calling a big market rotation as growth stocks and smaller companies, winners earlier this year, get pummeled.

"We have really established this new range on the 10-year," said Victoria Fernandez, chief market strategist for Crossmark Global Investments Inc., who expects 10-year Treasury yields to stay around the 3.25 percent level. "Everyone's trying to figure out how they want to be positioned for this."

Large Caps

The $18.3 billion iShares Russell 1000 ETF, ticker IWB, saw $2.7 billion pulled from the fund Monday, the largest outflow in its 18-year existence, amounting to a loss of more than 12 percent of its assets. The ETF tracks the performance of the Russell 1000 Index, which includes the largest 1000 companies in the Russell 3000 Index.

The fund's outflow looked like it was driven by one large investor, according to Josh Lukeman, head of ETF market making for the Americas at Credit Suisse Group AG. The block trades didn't seem to show up in the print until about 8:10 a.m. Tuesday in New York, when three blocks of about 5.5 million shares each hit the tape one after another.

"A lot of volume trades on the close, so given the fund is mostly U.S. large caps, that's going to be the best point for liquidity," Lukeman said.

The FANG cohort of high-flying growth stocks are all top-10 holdings in the fund. Together, Apple Inc., Microsoft Corp., Amazon.com Inc., Facebook Inc., and Alphabet Inc. make up nearly 15 percent of the ETF. That's been a drag as the tech stocks have languished in the wake of rising rates.

Real Estate

The run-up in yields has pushed ETF investors to flee typical bond proxies. The iShares Cohen & Steers REIT ETF, or ICF, saw its biggest outflow ever Monday, losing more than $464 million. The outflow reduced the fund's assets by 19 percent. The iShares U.S. Real Estate ETF, or IYR, lost $87 million on Monday following a week of record outflows that totaled more than $834 million. It's already on pace this month to lose the most since April 2015.

"The real estate sector has sold off to start October, as investors have sold out of high-dividend yielding bond proxies," said Todd Rosenbluth, director of ETF research at CFRA Research. "Further, the large-cap REITs that are well-represented in these ETFs are expected to generate below-average earnings in the second half of the year."

Municipal Bonds

The Vanguard Tax-Exempt Bond ETF, or VTEB, is the market's third-largest fund tracking municipal bonds. It got hit with a massive outflow of over $25 million on Monday, the biggest since the $3.6 billion fund launched in 2015. Investors also yanked record cash from BlackRock's $9.5 billion iShares National Muni Bond ETF, the largest muni ETF, last week. State and local debt has posted a nearly 1 percent loss this year after mounting fears over rising interest rates prompted a sell-off last week.

Bloomberg Markets

By Sarah Ponczek, Carolina Wilson, and Vildana Hajric

October 9, 2018, 8:40 AM PDT

— With assistance by Amanda Albright, and Tom Lagerman

City to Borrow $46 million - But Incurring This Debt Won't Require Voter Approval.

The Palo Alto City Council tonight (Oct. 15) will consider a plan for financing construction of a $45.8 million parking garage in the California Avenue district, using a process that doesn't involve voter approval.

Under the financing method, called Certificates of Participation, or COPs, the city would lease some

of its property to the Palo Alto Public Improvement Corp., an entity formed by the city in 1983 to serve as an intermediary in financing activities. The Public Improvement Corp.'s board consists of the city council's members.

The leased property would be the parking garage itself after construction is complete; before then, the leased property would likely be the Rinconada Library, according to a report to the council from City Manager Jim Keene.

After leasing the property, Palo Alto Public Improvement Corp. would then lease the property back to the city. Investors who buy the certificates of participation would be paid with a portion of the lease payments.
Money for the lease payments — an estimated $2.417 million per year for 30 years — would come from the city's General Fund. Voter approval is not needed to sell Certificates of Participation.

Bonds require voter approval

In contrast, California cities need voter approval to issue general obligation bonds, which are backed by property tax revenue.

In a document issued in the mid-1990s, the California state treasurer's office offered cities advice on lease-based financing such as Certificates of Participation. The treasurer said the lease-based strategies were becoming the financing method of choice for many cities.

"This 'quiet revolution' in municipal finance, however, has raised concerns as to the role of the public in deciding questions of infrastructure spending and public borrowing," the treasurer noted.

The state treasurer recommended that cities establish a lease capacity, "that portion of general fund revenues which safely can be devoted to lease payments on an annual basis." Other guidelines advised determining the need for the proposed project, as well as the cost-effectiveness of the lease financing.

In addition, the treasurer said, cities should create financial reports that include all leasing activity "as a check against the unplanned accumulation of general fund lease obligations."

$410,000 in fees

The city would raise up to $50 million by selling the Certificates of Participation, which would be used to build the parking garage. The proceeds would also cover the approximately $410,000 in costs to issue the certificates.

Standard and Poor's is giving the certificates a rating of AA+, the highest possible for certificates of participation. That should lead to more competitive bidding for the certificates, according to Keene's report.

With council approval, the Certificates of Participation would be sold by the end of the year.

The California Avenue parking garage will be built on the city's surface parking lot at 350 Sherman Ave. It will provide a total of 636 parking spaces on six levels: four above ground and two underground.

The city says construction of the garage is a "key step" toward building a new police station on neighboring property at 250 Sherman Ave. Construction of the police station would proceed after the parking garage is completed.

The parking garage and police station are part of the city's infrastructure plan. Palo Alto is also looking to raise money for infrastructure projects through Measure E, the city's proposal on the November ballot to raise the hotel tax in Palo Alto from 14% to 15.5%. Measure E is expected to generate about $2.6 million a year.

Tax-exempt COPs?

Another detail to be determined regarding the certificates of participation for the California Avenue parking garage is whether all the certificates issued will be tax-exempt. While tax-exempt certificates may be more appealing to investors, issuing a portion of the certificates as taxable would allow the city to lease a floor of the garage to a private entity.

If one-quarter of the certificates were taxable, the city's debt service would increase by an estimated $1.1 million over the 30-year amortization period.

The Daily Post

by Elaine Goodman

October 15, 2018

Pimco CEO's First Acquisition: a Muni-Bond Business

Pacific Investment Management Co. agreed to buy a municipal-bond specialist to beef up its tax-exempt investments business

Pacific Investment Management Co. agreed to buy a municipal-bond specialist, the firm's first acquisition since appointing Emmanuel Roman as chief executive.

Gurtin Municipal Bond Management oversees $14 billion in assets for wealthy individual investors. Pimco said Tuesday it plans to add the San Diego-based firm to its dedicated muni-bond arm, the people said, giving the combined business $38 billion in that business. Terms of the deal weren't disclosed.

Pimco oversees a total of $1.7 trillion across all assets, making it one of the world's largest money managers.

Mr. Roman ran hedge-fund firm GLG Partners before spearheading its sale to Man Group PLC, and made a string of deals there. While his arrival at Pimco's Southern California headquarters raised expectations that the bond manager would begin to snap up rivals, Mr. Roman repeatedly has said a takeover spree was unlikely.

"As you have heard us say before, Pimco's strategy is to grow mostly organically but we will consider making small acquisitions where it fits strategically with our business strategy and vision for the firm," Mr. Roman and Pimco investment chief Dan Ivascyn wrote Tuesday in a memorandum to employees. "This is precisely the case with Gurtin."

Messrs. Roman and Ivascyn said that Gurtin's investment team will continue to manage its funds and separate accounts. The firm's founder, Bill Gurtin, plans to remain "involved in the business for several years," they wrote in the memo, which was reviewed by The Wall Street Journal.

Pimco said it expects to complete the Gurtin deal by the end of the year.

The Wall Street Journal

By Justin Baer

Oct. 2, 2018 12:30 p.m. ET

NACo: Trump Signs First Round of FY2019 Spending Bills.

The president's signature is on three of 12 necessary spending bills for FY2019

President Trump signed into law Sept. 21 a bipartisan minibus spending package consisting of three FY2019 spending bills: the Energy-Water, Military Construction-Veterans Affairs and Legislative Branch appropriation bills. The president's signature completes three of 12 spending bills that need to be signed into law for FY2019.

Following are highlights from the bills of interest to counties:

Energy and Water Appropriations bills

The Energy and Water portion of the bill funds the U.S. Department of Energy (DOE), U.S. Army Corps of Engineers civil works program, U.S. Department of Interior's Bureau of Reclamation and several other federal government agencies at a total cost of $44.64 billion for FY 2019.

The Energy and Water Appropriations bill is important to counties because it funds federal energy, water and flooding-related infrastructure projects in local communities.

U.S. Department of Energy (DOE): The bill contains $35.7 billion for DOE, $4.9 billion above FY2018 levels. DOE's Office of Energy Efficiency and Renewable Energy (EERE) will see its budget increased by $57 million to $2.4 billion. EERE works to develop and promote clean, affordable and secure energy.

U.S. Army Corps of Engineers (Army Corps) civil works program: The Army Corps will see its budget increased by $172 million to $7 billion. The Army Corps is charged with building, maintaining and operating coastal and inland waterways, addressing flooding risk and strengthening ecosystem restoration through their civil works program.

Specific programs of importance to counties include the Harbor Maintenance Trust Fund, which will receive $1.55 billion, a $150 million increase above FY2018 levels and water infrastructure projects funded at $2 billion to be allocated toward flood and storm damage reduction activities.

U.S. Department of Interior's Bureau of Reclamation: The legislation includes $134 million for water storage projects authorized in the Water Infrastructure Improvements for the Nation (WINN) Act, which is overseen by the Bureau of Reclamation.

Military Construction-Veterans Affairs Appropriations bill

The Military Construction-Veterans Affairs portion of the bill provides more than $86.5 billion in discretionary funding for the U.S. Department of Veterans Affairs (VA), an increase of $5 billion over FY2018 enacted levels.

This funding, which will help ensure the nation's veterans receive the quality health care services they have earned, is broken down as follows:

VA Medical Care: $72.3 billion is allocated to the VA to provide health care services, about $5 billion above FY2018 levels. Of this, $8.6 billion is allocated toward mental health services; $206 million for suicide prevention outreach; $400 million for opioid abuse prevention; $270 million for VA rural health initiatives; and $7.5 billion for treatment, housing and other services for homeless veterans.

Medical Community Care: $9 billion is provided to the Medical Community Care program, which funds non-VA care provided to veterans, family caregiver programs and other services. Specifically, the family caregiver program will receive $865 million in FY2019.

Veteran Homelessness: $1.8 billion will be directed to VA's homeless assistance programs such as the Supportive Services for Veteran Families (SSVF) program, which will receive $380 million.

Veterans Justice Outreach: This program, which provides access to mental health and substance abuse resources and treatment for justice-involved veterans, will receive more than $54 million.

Congress has until Sept. 30, the end of the fiscal year, to wrap-up the FY2019 annual appropriations process or pass a continuing resolution to keep the government open past that date.

National Association of Counties

Oct. 1, 2018

Tolls for All May Pay for Nation's High-Speed Rail: Joe Mysak

- **Bond lawyer suggests making transportation 'fundamental right'**
- **Universal collection system would charge for roads, parking**

The subject of infrastructure is like the weather. Everybody complains, but nobody does anything about it.

The reason we can't have nice things is because nobody wants to pay for them. What we get are isolated, often political, projects, deferred maintenance, expedient patchwork.

Kenneth Bond, a municipal bond lawyer with Squire Patton Boggs who has been involved in public finance since 1975, has an idea about how to fix the nation's infrastructure, or at least the public transportation piece of it.

"It requires making transportation a fundamental right and mandated regionalization on a national level, entitled to equal protection analysis like the right to vote or freedom of worship," Bond recently told the Transportation Committee of the Bar Association of the City of New York. He reprised his remarks over dinner and subsequent emails.

Make transportation a right? "It's not a stretch," said Bond. "In the modern era, without good transportation and infrastructure, a person cannot exercise their first amendment rights. A poor person is denied first amendment rights if the cost of commuting is prohibitive or facilities don't exist. Wealth, as well as race, has been recognized by courts as a suspect classification entitled to strict scrutiny under equal protection. Combined with an argument that transportation is a

fundamental right, you have a powerful tool for allocating transportation resources."

What does this mean in practice? A transportation plan has to be a national mandate, and regionalization of transportation facilities must "discard political boundaries in favor of boundaries of economic activity."

This also means encouraging the development of cities that reduce the use of automobiles, as well as mandating rail connectivity from central cores to airports, Bond said.

How do we pay for this? The lawyer favors user fees collected through an electronic toll collection system like "EZ Pass," with all automobiles mandated to have such a system installed at the point of manufacture. "Oregon has experimented with electronic vehicle metering for the cost of road usage. The idea may seem radical, but so did seat belts, headrests and air bags when mandated for vehicle safety 40 or more years ago."

Fees for all road use and parking would be billed to the owner of the vehicle, and if they didn't pay, an electronic boot would disable the vehicle.

"Under this system, users pay for the roads and highways, not taxpayers," and generate money to be used for intra- and intercity rail projects. "A national plan for getting people out of interminable traffic with single-passenger trucks and SUVs into high-speed rail from anywhere to anywhere is all about fare equity, efficiency, resiliency, a clean environment and national security," Bond said.

Bloomberg Business

By Joe Mysak

October 3, 2018, 6:24 AM PDT

(Joe Mysak is a municipal market columnist who writes for Bloomberg. The observations he makes are his own and are not intended as investment advice.)

Build America Mutual Launches BAM GreenStar Assessment to Identify Municipal Green Bonds.

Independent review will be available to issuers of BAM-insured bonds at no added cost

NEW YORK–(BUSINESS WIRE)–Build America Mutual today announced the BAM GreenStar Assessment program to identify green bonds sold by U.S. municipal bond issuers for infrastructure projects that provide clear environmental benefits.

New BAM GreenStar Assessment will highlight green bonds from US state and local governments

"BAM GreenStar is an additional service we can provide to our issuer members and the investing public," said BAM Chief Executive Officer Seán W. McCarthy. "BAM GreenStar will build on our successful efforts to make municipal credit information more accessible in our BAM Credit Profiles by adding transparency about the environmental benefits of the projects we help finance."

BAM GreenStar designations will be available on qualifying BAM-insured bonds at no extra cost to the issuer. BAM's criteria for identifying green bonds is aligned with the International Capital

Markets Association's Green Bond Principles and eligible projects include investments in sustainable water and wastewater systems, renewable energy and the construction or renovation of energy efficient buildings, among others.

Bond issuers who sell green bonds to finance qualifying projects can access the growing pools of capital that are dedicated to investments in sustainable infrastructure for essential services in the U.S.

"America's cities, towns and villages are leaders in sustainability and resilience," said Clarence E. Anthony, CEO and executive director of the National League of Cities (NLC). "By making it easier for cities and all municipal bond issuers to sell Green Bonds, the BAM GreenStar Assessment will help cities continue to invest in infrastructure that is resilient, sustainable and environmentally-friendly."

U.S. municipal bonds made up approximately 9% of global supply of green bonds in 2017, and the Climate Bonds Initiative has identified the market as a source for increased volume in the future. BAM has applied for status as an Approved Verifier for Certified Climate Bonds, which can be sold by issuers whose projects align with CBI's Taxonomy for low-carbon investing.

"There is a significant opportunity to scale up green bond sales by U.S. municipal issuers and BAM is well-positioned to contribute to that effort by raising awareness of the benefits of green bond financing for issuers and reducing the transaction costs for green bond sales," said Sean Kidney, CEO of the Climate Bonds Initiative. "We look forward to working with them to expand the US market for financing climate-aligned projects."

October 02, 2018 07:00 AM Eastern Daylight Time

About Build America Mutual

BAM is a mutual bond insurance company operated for the benefit of its members – the cities, states and other municipal entities that use BAM's financial guaranty to lower their cost of borrowing. BAM is the National League of Cities' preferred provider of bond insurance for its members. Through September 28, 2018, BAM has insured more than $50 billion of municipal securities for more than 3,000 municipal issuers nationwide. Learn more at http://buildamerica.com/mission/

Contacts

Build America Mutual
Michael Stanton, 212-235-2575
Head of Corporate Strategy and Communications
mstanton@buildamerica.com

BlackRock, UBS Join Shift to Muni Market's Middle as Rates Rise.

- **More investors are saying to buy intermediate-dated bonds**
- **The shift comes after pullback from pricey short-term debt**

The hot new trade in the $3.9 trillion municipal-bond market is in the middle of it all.

Investors and strategists from BlackRock Inc., UBS Wealth Management and McDonnell Investment Management say investors in state and local debt should buy intermediate-maturity securities, such

as those due in 10 to 15 years. The calls come after short-dated debt — a previously flocked-to haven for investors seeking protection from rising interest rates — was bid up to pricey levels by late July, only to since retreat.

“That part of the curve is interesting right now, where you can capture a lot of the steepness that exists in the muni market,” said Neuberger Berman portfolio manager James Iselin, who favors bonds maturing between seven to 12 years.

Investors can pick up “meaningful” additional yield compared with short-dated debt, with top-rated tax-exempt bonds maturing in 10 to 12 years offering about 65 to 70 basis points more than two-year debt, he said in an interview.

BlackRock, which oversees $129 billion in municipals, is also shifting its weight toward that part of the curve and going out a bit longer. The firm favors buying municipals maturing between 15 to 20 years, said Sean Carney, head of municipal strategy.

“That is a preferential area for us,” he said in an interview. BlackRock still uses a barbell strategy that allows it to have an allocation to the front end of the curve, Carney added.

The difference between short- and long-term yields has stayed larger on municipal bonds than it has for Treasuries for most of 2018 because investors have clamored for short-dated securities, pushing yields lower. At the same time, long-dated municipals have seen less demand from corporate buyers as a result of the tax-rate cut, which has helped to keep those yields higher.

Some investors say going out even longer on the curve is beneficial. Susan Courtney, head of the municipal-bond team for PGIM Fixed Income, said the firm favors longer maturities, such as 20 to 25 year debt, when the yields are adequate.

Municipal debt maturing in 22 years or longer has delivered a negative return of 1.8 percent this year, a steeper loss than other maturity group, according to Bloomberg Barclays indexes. Courtney said the firm is willing to buy longer debt because PGIM’s view is that interest rates aren’t likely to go much higher.

“It comes down to specific credits and where we think we’re getting compensated for being longer,” she said.

Bloomberg Markets

By Amanda Albright

October 5, 2018, 10:07 AM PDT

— With assistance by Danielle Moran

Muni-Bond Slide Leaves Test: Will Key Buyers Flee in Droves?

- **Individual investors are slow to react, but prone to panic**
- **They own more than half of bonds, directly or in funds**

Municipal bonds suffered their worst week since early February, but the real test of the market lies ahead: Will slow-to-react individual investors pull their money out in droves, as they have during

previous downturns?

Individuals, who own more than half of all state and local governments bonds directly or through mutual funds and don't follow the minute-by-minute movement of interest rates, haven't hit the sell button yet. They pulled just $44 million from municipal debt funds in the week ended Wednesday, according to Lipper U.S. Fund Flows data, even after the securities posted their worst monthly return since January.

Prices have slipped steadily since Wednesday and continued to edge down Friday, when the U.S. Labor Department reported that the unemployment rate hit a nearly half-century low. That pushed benchmark 30-year yields up 0.14 percentage point this week to 3.4 percent, a more than three-year high.

"Rates have moved but there hasn't been a material sell-off," said Nicholos Venditti, a municipal-bond portfolio manager with Thornburg Investment Management in Santa Fe, New Mexico. "Until you see more dramatic outflows, either because people are afraid of rates or because they want to get out of munis and go buy Amazon.com stock, that test isn't going to take place."

Even though state and local government debt is one of the world's safest investments, buyers are still prone to so-called headline risk, or bad news stories that undermine its perception as a haven and cause investors to sell when they should stay put.

That happened in 2010, when banking analyst Meredith Whitney triggered a sell-off by predicting that recession-battered governments would default on "hundreds of billions of dollars" of bonds. That forecast proved widely off the mark, and in 2011 municipals returned 11 percent.

Since municipal bonds don't trade heavily, spikes in inflows or outflows can have a larger impact on prices than in other markets.

The pace of selling may quicken when investors start opening their statements and see losses, or if the pace of new debt sales picks up, Venditti said. Fixed-rate municipal-bond issuance has declined 12 percent compared to last year, adding ballast to the market. But the pace may quicken in the closing months of the year.

"Bankers want to do their deals before year-end, especially when it's in conjunction with a rising rate environment," said Robert DiMella, executive managing director and co-head of MacKay Municipal Managers.

Tax loss selling could bring further pressure, he said. With the S&P 500 Index up more than 7 percent this year, bondholders may sell to offset gains in stocks to cut next year's tax bills. But DiMella said a downturn could be a good thing: He and other professional investors may have a chance to pick up bonds on the cheap.

Bloomberg Markets

By Martin Z Braun

October 5, 2018, 10:32 AM PDT Updated on October 5, 2018, 12:18 PM PDT

How Public Pension Boards Are Making a Crisis Worse.

Because of the way they're structured, they have incentives to ignore the retirement plans' long-term health.

For the last decade, analysts have been arguing over whom to blame for America's state and local pension crisis. Politicians? Public employee unions? Financial markets? Amid the din, the detrimental role of public pension boards has been overlooked.

There is a mounting body of evidence that pension boards, which oversee the funds created by employer and employee contributions, are partly to blame for the underfunding problem. Pension board members' incentives lead them away from a focus on the plans' long-term fiscal health. In a new report, I document those incentives and their consequences and recommend ways to mitigate — and even eliminate — the governance issues.

The long-term costs of failing to act to deal with mounting pension debt are enormous. In 2015, the Federal Reserve estimated that states' and localities' pension funds had accumulated $5.52 trillion in liabilities but had set aside only $3.7 trillion in assets. To ensure that public employees receive the benefits promised by their plans, state and local governments are spending more every year on their pension systems. According to census data, those governments contributed $40.1 billion to their pension systems in 2000; by 2016, that number had skyrocketed to $140.5 billion. In addition, pension funds are making riskier investments in an effort to catch up.

How are public pension systems governed? For state pensions, the governor and the legislature determine what percentage of workers' salaries will be replaced in retirement and how much government employers contribute annually to the funds. Then state governments delegate authority to manage the funds to boards with, typically, 15 or so members.

These boards decide how fund assets are invested, designate money managers and determine the assumed rate of return on the funds' investments (these days, usually between 7 and 8 percent). The actual market performance of the pension funds affects taxpayers' future liabilities and governments' future contributions.

In theory, the pension boards are supposed to balance the interests of government employers and public employees. To strike this balance, boards are comprised of both employer and worker representatives. The employer side is made up of members appointed by governors or who hold other public office and serve ex-officio. The plan-participant side elects workers and retirees to the boards, individuals who are also often union officials.

The problem is that both the political appointees and the elected representatives have incentives to ignore the long-term health of the funds. Political appointees are responsive to constituencies, such as the governor who appointed them or local businesses, that distract them from managing the fund strictly in its beneficiaries' long-term interest. Meanwhile, public employees and their union representatives are tempted to trade pension savings tomorrow for higher salaries today.

How do these incentives play out? To hold down short-run costs, political appointees are likely to favor high assumed rates of investment returns, which keep employer contributions lower and avoid throwing a wrench in the governor's budget. Political appointees also tend to favor investing in local industries — whether or not they are actually profitable. Two Texas funds were heavily invested in Enron before it went bankrupt, for instance. And in 1990, Connecticut's state-employee fund lost $25 million investing in Colt's, the firearms manufacturer, to preserve local jobs.

Likewise, public employee representatives respond to workers' demand for higher salaries today by keeping the assumed rate of investment returns high. In a recent study, political scientists Sarah Anzia and Terry Moe found that elected representatives of public employees did not seek to impose more realistic — that is, lower — assumed rates of investment returns. Rather, they found, more worker representation on boards and stronger public unions led to more fiscally irresponsible decisions.

The larger consequence of the misaligned incentives of pension boards is that they don't protect employees and taxpayers from major financial risks. Poorly managed pension systems are now consuming the politics – and much of the budgets — of Connecticut, Illinois, New Jersey and other states.

Therefore, governments should take two steps. In the short term, they should require greater financial expertise, more clearly define fiduciary duties and implement other controls. In the longer term, states should move away from traditional defined-benefit plans and offer 401(k)-style defined-contribution plans for new employees. Since workers with defined-contribution plans decide for themselves on their contributions and investments, making defined-benefit plans a thing of the past would wisely eliminate the need for pension fund boards altogether.

governing.com

By Daniel DiSalvo | Contributor

OCTOBER 1, 2018

A Moot Point: Court Of Appeals For The Eleventh Circuit Holds That The Doctrine Of Equitable Mootness Is Applicable In A Chapter 9 Bankruptcy Case.

The consummation of a plan of reorganization typically involves a series of complex actions by the debtor and its stakeholders (for example, existing debt and equity are extinguished and new debt and equity issued in their place). If an appeal of a confirmation order is taken, and the appeal reaches the appellate court following consummation of the plan, it raises the difficult question of whether it is possible to grant effective relief to the appellant at that stage. As a constitutional matter, courts — including appellate courts — cannot hear matters that have become moot. Constitutional mootness, however, has a high bar of requiring a showing that no relief is possible at the time. Bankruptcy appeals create the unique problem that relief might technically be possible, but due to the actions taken in connection with consummation of the plan, it may no longer be possible to grant the relief requested in any practical manner. The doctrine of equitable mootness has been developed as a bridge between the rigorous requirements of constitutional mootness and the practicalities of an appellate court no longer being able to grant effective relief following consummation of a plan of reorganization.

Although equitable mootness has been applied in numerous different situations, it had not previously been considered by a circuit court of appeals in the context of a municipal bankruptcy case under chapter 9 of the Bankruptcy Code. That changed when, on August 16, 2018, the United States Court of Appeals for the Eleventh Circuit issued a decision holding that equitable mootness is applicable in chapter 9 municipal bankruptcy cases. This decision, which reversed the lower courts, noted that the doctrine of equitable mootness can apply particularly where a claimant does not seek a stay pending

appeal.

Background

Jefferson County filed for bankruptcy relief in November of 2011. In June of 2013, the County announced the terms of an agreement with almost all of its major creditors, whereby the County would issue and sell in public markets new sewer warrants, with the proceeds and other funds being used to redeem and retire the prior sewer warrants (totaling about $3.2 billion) at a reduced amount of about $1.8 billion. Pursuant to the agreement, the County (or the bankruptcy court if the County failed to act) would implement a series of single-digit-percent sewer rate increases over 40 years, which the County would not be able to decrease in a given fiscal year unless it could somehow offset the decrease.

At the confirmation hearing, a group of Jefferson County ratepayers objected to the County's proposed plan. They argued, among other things, that by taking the ability to set rates out of the hands of elected Jefferson County commissioners, the plan infringed on their rights to vote and to be free from overly burdensome debt without due process. The bankruptcy court confirmed the plan over the ratepayers' objections. The confirmation order provided for the bankruptcy court to retain jurisdiction for the 40-year life of the new sewer warrants to, among other things, adjudicate controversies regarding the implementation or enforcement of the approved rate structure and issuance of the new sewer warrants. The bankruptcy court exercised its discretion to waive the automatic stay of the effectiveness of a confirmation order when it entered the confirmation order.[1]

The ratepayers filed their notice of appeal on December 1, 2013, two days before the plan's effective date. The ratepayers, however, did not seek a stay of the implementation of the confirmation order from either the bankruptcy court or the district court (which acts as the first level of appeal for bankruptcy cases) pending the appeal, nor did they request that their appeal be expedited. In December of 2013, pursuant to the terms of the confirmation order, the County issued the new sewer warrants. The proceeds from the sale of those warrants went in part towards retiring the prior sewer warrants, with more than $1.454 billion going into a clearinghouse system to pay individual and institutional investors.

In their appeal, the ratepayers argued that the bankruptcy court had allowed the County commissioners to bind the County as a whole, impermissibly reducing the autonomy of the County and the political voice of the voters of Jefferson County. The ratepayers also argued that the bankruptcy court could not constitutionally retain jurisdiction to conform sewer rates to the plan over a 40-year period (which rate instead had to be set in compliance with Alabama law). The County moved to dismiss the ratepayers' appeal, arguing that any challenges to the confirmation order were constitutionally, equitably and statutorily moot because the plan had been consummated and the transactions that were contemplated could not be unwound.

The district court rejected each of the County's mootness arguments. The district court concluded that, with respect to constitutional mootness, while the consummation of the plan might limit the scope of relief available to ratepayers, the court still could fashion some form of meaningful relief. The district court also held that equitable mootness does not apply to constitutional challenges to a confirmation order in a chapter 9 proceeding, despite the failure of the ratepayers to seek, let alone obtain, a stay of the confirmation order.[2] The County appealed that decision to the Court of Appeals for the Eleventh Circuit.

Decision

The Court of Appeals agreed with the district court that the case is not constitutionally moot. The Court of Appeals noted that constitutional mootness emanates from the "case or controversy" requirement of Article III, and agreed with the district court that the ratepayers did not meet their heavy burden of establishing that the courts lacked the legal authority to issue the relief sought by the ratepayers.

The Court of Appeals, however, reversed the district court on the basis that the ratepayers' appeal is equitably moot. The Court of Appeals identified several considerations for deciding whether the doctrine of equitable mootness bars an appeal (e.g., when permitting an appeal to proceed will impact actions taken in good faith reliance on a final and unstayed judgment), but noted that overall, the more complex the transaction and the longer the time that has passed since confirmation of the plan, the harder it will be to undo the past. Consistent with the decisions of other courts in the chapter 11 context, however, the Court of Appeals also made clear that regardless of the complexity and time that has passed, if the relief sought does not undermine actions taken in reliance on the judgment, then effective relief may be possible. Importantly, courts will be less likely to find an appeal equitably moot if the aggrieved party did everything it could to limit the passage of time by seeking a stay pending appeal, and that the appeal itself be expedited.

Turning to the question of whether equitable mootness applies in the chapter 9 context, the Court of Appeals reasoned that because the doctrine is driven by its principles rather than any particular codification or arbitrary limitation, there was no reason to reject the doctrine entirely in chapter 9 cases. The Court of Appeals dismissed the ratepayers' argument that chapter 9 bankruptcies implicate issues of sovereignty, whereas corporations or individuals and their bankruptcies do not. Indeed, the Court of Appeals noted that these principles will sometimes weigh more heavily in the chapter 9 context precisely because of how many people will be affected by municipal bankruptcies.

The Court of Appeals also noted that the ratepayers never asked any court to stay the implementation of the plan.[3] When the County commenced the appeal, the confirmation order (and the plan) had been in effect for more than a year. Moreover, the County and others have taken significant and irreversible steps in reliance on the unstayed plan which was confirmed by the bankruptcy court, including issuing over $1 billion of new sewer warrants, which were sold based on a commitment—backed up by an unstayed court order—to set sewer rates at particular amounts over the course of the next 40 years, and used the proceeds to retire the old sewer warrants. The Court of Appeals found that the relief sought—even if limited to striking the provision of the plan giving the bankruptcy court jurisdiction with respect to future rates—would seriously undermine actions taken in reliance on the confirmation order.

Finally, the Court of Appeals was not persuaded by the ratepayers' argument that the plan has resulted in an end-run around political processes. Although the County has indeed bound itself to raise rates for decades according to a particular schedule and with limited exceptions, elected officials can and often do bind their successors—and consequently, their constituents—to all kinds of unavoidably long-lasting financial effects. The Court of Appeals stated that it knows of no authority for the proposition that such government action becomes an illegal end-run around constitutional governance. As a result, after evaluating the factors relevant to an equitable mootness determination, the Court of Appeals held that the ratepayers' appeal was equitably moot.

Discussion

The Court of Appeals noted that the doctrine of equitable mootness emerged at least a few decades ago in the various federal courts of appeals in connection with corporate bankruptcy cases, and that, while the Supreme Court has never endorsed the doctrine, neither they—nor any court of appeals—have ever rejected it outright. The Eleventh Circuit saw no reason the underlying purpose

of equitable mootness in chapter 11—namely, the inability to grant effective relief post-consummation of a plan—would not apply equally to a municipal bankruptcy case. Although the decision is not binding on other circuits, it is difficult to see why other circuits would reach a different conclusion about the applicability of the doctrine of equitable mootness in chapter 9 cases. Likewise, the decision may offer some insights into how the doctrine may apply in appeals in a PROMESA[4] case involving Puerto Rico or its instrumentalities, as PROMESA relies heavily on chapter 9 concepts.

To view all formatting for this article (eg, tables, footnotes), please access the original here.

by Fredric Sosnick, Solomon J. Noh, Joel Moss and Ned S. Schodek

USA October 1 2018

Shearman & Sterling LLP

Task Force on Climate-Related Financial Disclosures: 2018 Status Report

2018 Status Report: Executive Summary

In June 2017, The Task Force on Climate-related Financial Disclosures (Task Force or TCFD) released its final recommendations (2017 report), which provide a framework for companies to develop more effective climate-related financial disclosures through their existing reporting processes. In its 2017 report, the Task Force emphasized the importance of transparency in pricing risk—including risk related to climate change—to support informed, efficient capital-allocation decisions. The Task Force also recognized the challenges associated with measuring and disclosing information on risks related to climate change, but underscored that moving climate-related issues into mainstream annual financial filings would allow practices and techniques to evolve more rapidly.

For many investors, climate change poses significant financial challenges and opportunities. The expected transition to a lower-carbon economy is estimated to require around $3.5 trillion, on average, in energy sector investments a year for the foreseeable future, generating new investment opportunities. At the same time, the risk-return profile of companies exposed to climate-related risks may change significantly because of physical impacts of climate change, climate policy, or new technologies. In fact, one study estimated the value at risk to the total global stock of manageable assets because of climate change ranges from $4.2 trillion to $43 trillion between now and the end of the century. The study highlights that “much of the impact on future assets will come through weaker growth and lower asset returns across the board.” This suggests investors may not be able to avoid climate-related risks by moving out of certain asset classes as a wide range of asset types could be affected.

Both investors and the companies in which they invest, therefore, should consider their longer-term strategies and most efficient allocation of capital. Companies that invest in activities that are susceptible to climate-related risks may be less resilient to the transition to a lower-carbon economy; and their investors may experience lower returns. Compounding the effect on longer-term returns is the risk that present valuations do not adequately factor in climate-related risks because of insufficient information. As such, long-term investors need adequate information on how companies are preparing for a lower-carbon economy; and those companies that meet this need may have a competitive advantage over others.

Climate-Related Financial Disclosure Review

As part of its efforts to promote adoption of the recommendations, the Task Force prepared this status report to provide an overview of current disclosure practices related to core elements of the TCFD recommendations as well as additional information to support preparers in implementing the recommendations. It is important to note that the Task Force has not attempted to assess the level of adoption of its recommendations for this report nor whether existing climate-related financial disclosures fully meet the TCFD recommendations. Companies implementing the recommendations in their 2017 reports had a very limited amount of time between the release of the Task Force's 2017 report and the start of their internal processes to prepare their 2017 financial filings. As a result, in its review of disclosures, the Task Force focused on how many companies, in eight specific groups, included information in recent reports that addressed the core elements of the Task Force's recommended disclosures.

While the Task Force found some of the results of its disclosure review encouraging, it also recognized further work is needed for disclosures to contain more *decision-useful* climate-related information. The majority of companies reviewed disclosed information that is aligned with at least one of the recommended disclosures in their financial filings, annual reports, or sustainability reports. In addition, the Task Force found several instances of disclosures addressing the core element of each of the 11 recommended disclosures. These results demonstrate that it is both possible and practicable for companies to disclose certain baseline climate-related information today. Key takeaways from the review are summarized in Figure E1.

The review results also indicate that climate-related financial disclosures are still in early stages. This is consistent with the Task Force's view that implementation of its recommendations is a journey and companies are in different places in terms of their exposure to climate-related risks and opportunities and their reporting capabilities. The Task Force encourages more companies to use its recommendations as a framework for reporting on climate-related risks and opportunities during the next reporting cycle, especially companies with material climate-related risks. Companies in early stages of evaluating the impact of climate change on their businesses and strategies and those that have determined climate-related issues are not material are encouraged to disclose information on their governance and risk management practices.

The Task Force believes the results of its climate-related financial disclosures review highlight the need for continued efforts to support implementation of the recommendations. To this end, companies supporting the Task Force's work have undertaken many initiatives to encourage implementation in different industries and with different areas of focus. The TCFD Knowledge Hub, with more than 400 resources, offers a starting place for companies working on implementing the TCFD recommendations. In addition, industry working groups are tackling industry-specific implementation challenges, including scenario analysis. These and many other efforts are critical for achieving climate-related financial disclosures that provide decision-useful information for investors and others.

Next Steps

In the nearly 15 months since the 2017 report was released, the Task Force has focused on promoting and monitoring adoption of its recommendations. During that time, the Task Force has seen significant momentum around and support for its work. When the report was issued, it was supported by just over 100 chief executive officers. Less than six months later, at President Emmanuel Macron's One Planet Summit in Paris, Michael Bloomberg announced the TCFD had over 230 supporters. Today, the TCFD has more than 500 supporters, including 457 companies and 56 other organizations (e.g., industry associations, governments). The companies represent a broad

range of sectors with a combined market capitalization of over $7.9 trillion. This includes over 287 financial firms, responsible for assets of nearly $100 trillion. In addition to the 457 companies that support the TCFD, the Task Force's review identified another 104 companies that, in their financial filings or sustainability reports, stated they are already aligning their reporting with the TCFD or expressed intent to implement the recommendations. The TCFD has also received support from governments—Belgium, France, Sweden, and the United Kingdom—as well as financial regulators around the world, including in Australia, Belgium, France, Hong Kong, Japan, the Netherlands, Singapore, South Africa, Sweden, and the United Kingdom.

Over the next nine months, the Task Force will continue to promote and monitor adoption of its recommendations and will prepare a second status report for the Financial Stability Board in mid-2019. The Task Force believes the success of its recommendations depends on continued, widespread adoption by companies in the financial and non-financial sectors. Through widespread adoption, climate-related risks and opportunities will become a natural part of companies' risk management and strategic planning processes. As this occurs, companies' and investors' understanding of the financial implications associated with climate change will grow, information will become more useful for decision making, and risks and opportunities will be more accurately priced, allowing for the more efficient allocation of capital.

2018 Status Report: Key Takeaways

The majority disclose some climate-related information. The majority of companies reviewed disclosed information aligned with at least one recommended disclosure, usually in sustainability reports.

Financial implications are often not disclosed. While many companies disclose climate-related information, few disclose the financial impact of climate change on the company.

Information on strategy resilience under different climate-related scenarios is limited. Few companies describe the resilience of their strategies under different climate-related scenarios, including a 2°C or lower scenario, which is a key area of focus for the Task Force.

Disclosures vary across industries and regions. Companies' areas of focus in terms of climate-related financial disclosures vary significantly. For example, a higher percentage of non-financial companies reported information on their climate-related metrics and targets compared to financial companies; but a higher percentage of financial companies indicated their enterprise risk management processes included climate-related risks. In terms of regional differences, a higher percentage of companies in Europe disclosed information aligned with the recommendations compared to companies in other regions.

Disclosures are often made in multiple reports. Companies often provided information aligned with the TCFD recommendations in multiple reports—financial filings, annual reports, and sustainability reports.

Download 2018 Status Report

September 2018

How Green Infrastructure Yields Urban Safety and Health.

Greenprint Partners is field-testing a green infrastructure-financing approach that could help make communities healthier and safer in a small group of Rust Belt cities. In an interview, Nicole Chavas, the company's CEO and cofounder, and Rose Jordan, its marketing director, said the models have expansion potential. If adopted on a larger scale, they could improve the quality of life in many low-to-moderate-income urban neighborhoods.

Continue reading.

Conservation Finance Network

by Kat Friedrich

September 23, 2018

The Big U.S. City Trying to Break with Wall Street.

In a push to divest public funds from corporate giants, Los Angeles is asking voters to approve a city-owned bank.

"Wall Street owns the country." That was the opening line of a fiery speech by populist leader Mary Elizabeth Lease in 1890. Franklin Roosevelt said it again in a letter to Edward "Colonel" House in 1933, and U.S. Sen. Dick Durbin was still saying it in 2009. "The banks—hard to believe in a time when we're facing a banking crisis that many of the banks created—are still the most powerful lobby on Capitol Hill," Durbin said in an interview. "And they frankly own the place."

Wall Street banks triggered a credit crisis in 2008 to 2009 that wiped out more than $19 trillion in household wealth, turned some 10 million families out of their homes, and cost almost 9 million jobs in the United States alone; yet the banks were bailed out without penalty, while defrauded homebuyers were left without recourse or compensation. The banks made a killing on interest rate swaps with cities and states across the country, after a compliant and accommodating Federal Reserve dropped interest rates nearly to zero. Attempts to renegotiate these deals have failed.

In Los Angeles, the City Council was forced to reduce the city's budget by 19 percent after the banking crisis, slashing essential services, while Wall Street has not budged on the $4.9 million it claims annually from the city on its swaps. Wall Street banks are now collecting more from Los Angeles just in fees than the city has available to fix its ailing roads.

Continue reading.

Yes! Magazine

Ellen Brown posted Oct 03, 2018

Fitch U.S. Public Finance and Global Infrastructure and Project Finance 2017 Transition and Default Study.

Read the study.

28 Sep 2018

Fitch Ratings Updates US State Revolving Fund and Muni Finance Pool Program Criteria.

Fitch Ratings-Austin-27 September 2018: Fitch Ratings has published an update to its "U.S. Public Finance State Revolving Fund and Municipal Finance Pool Program Criteria." This report replaces the previous report of the same title initially published on Oct. 10, 2017. There have been no changes to Fitch's underlying methodology.

Read the Updated Criteria.

S&P U.S. Municipal Retail Electric And Gas Utilities: Methodology And Assumptions

S&P Global Ratings is publishing its methodology for assigning ratings and related credit products to U.S. municipal retail electric, retail gas, steam, chilled water, and combined utility systems where electric and/or gas is the predominant service (together, hereafter referred to as "municipal retail electric and gas"). These criteria are implemented under the rating framework established in cha…

Continue Reading

Sep. 27, 2018

S&P RFC Process Summary: U.S. Municipal Retail Electric And Gas Utilities: Methodologies And Assumptions

On Nov. 27, 2017, S&P Global Ratings published a request for comment (RFC) on its proposed approach for assigning ratings and related credit products to U.S. municipal retail electric and gas utilities, including municipal retail electric utilities and electric distribution cooperatives, retail gas, steam and hot water heating, chilled water, and combined utility systems for which the before-menti…

Continue Reading

Sep. 27, 2018

S&P Advance Notice Of Proposed Criteria Change: Priority-Lien Tax Revenue Debt

S&P Global Ratings intends to publish within the next two months its revised criteria for assigning ratings and related credit products to priority-lien tax revenue debt issued by municipal

governments, state governments, or other U.S. public finance obligors where the pledged revenue stream is limited. The proposed revised criteria provide market participants with greater insight into the ratings…

Continue Reading

Sep. 24, 2018

America's Libor Alternative Is Gaining Traction on Wall Street.

- **Issuers have sold more than $9 billion of SOFR-linked debt**
- **Yet tepid futures trading shows new benchmark has a ways to go**

After some early struggles, America's Libor alternative appears to be finding its footing.

Since the debut of the Secured Overnight Financing Rate almost six months ago, futures have launched in Chicago, swaps are being cleared in London and about half-a-dozen issuers have sold debt linked to the nascent benchmark. Measured against the Alternative Reference Rates Committee's transition plan, efforts to develop SOFR as a viable replacement for the scandal-tainted London interbank offered rate appear to be proceeding ahead of schedule.

That's not to say it doesn't have a long way to go. Volumes and open interest in derivatives products indicate the market is still highly illiquid. And firms remain hesitant to commit resources to SOFR when there's a chance Libor's administrator and the panel banks that determine its setting could keep it alive past 2021, when global regulators intend to sound its death knell. Yet it's a far cry from April, when two weeks after SOFR's introduction the Federal Reserve Bank of New York disclosed it had made errors calculating the rate, an inauspicious start for a benchmark racing against time to gain traction.

Continue reading.

Bloomberg Markets

By Alex Harris

September 23, 2018, 10:01 PM MDT Updated on September 24, 2018, 9:13 AM MDT

Libor Replacement Carries Risk for States and Cities, Group Says.

- **Muni finance officers group issues bulletin on benchmark shift**
- **'There's a whole world of costs here,' says GFOA official**

The end of the London interbank offered rate after 2021 could have costly consequences for states and cities and managers need to start preparing, the Government Finance Officers Association said Thursday.

About $44 billion of floating-rate municipal bonds and an unknown amount of loans and interest-rate swaps entered into by states and cites are tied to the U.S. dollar Libor. Many of these securities and

contracts will continue long after 2021, when Libor is phased out.

Municipalities will need to take inventory of debt and investments tied to Libor and hire lawyers and advisers to review contracts and renegotiate them before 2022, according to the GFOA. States and cities should also develop mechanisms to transfer Libor-based products to the Secured Overnight Financing Rate, Libor's replacement.

"There's a whole world of costs involved here that we haven't quite explored," said Emily Brock, federal liaison for the GFOA, which represents local government officials. "We don't understand the magnitude of it."

About $350 trillion of derivatives, loans, mortgages, commercial paper and other debt is tied to Libor, which was used for decades as a global floating-rate borrowing benchmark until rate-rigging scandals ruined the index's credibility. The Federal Reserve Bank of New York selected the Secured Overnight Financing Rate as Libor's recommended replacement.

Instead of a daily survey of about 20 large banks that estimate how much it would cost to borrow from each other without putting up collateral, SOFR is calculated using trades in the U.S. Treasury repurchase agreement market. S&P Global Ratings expects the SOFR rate to be lower than Libor because SOFR is secured by collateral.

It may not be feasible for banks and counterparties to amend trillions of dollars of derivative contracts before 2022, Loop Capital Markets said in March. Municipalities may be forced to terminate swap contracts, triggering millions of dollars in payments to banks or endure expensive and drawn-out legal battles.

In addition, switching outstanding tax-exempt floating-rate debt from Libor to a different index may cause them to be considered "reissued" under Internal Revenue Service guidelines, resulting in the debt becoming taxable, Loop said.

City managers that are well-versed in the transition to SOFR from Libor and actively preparing to amend documents will be viewed more favorable than those ignoring the issue or waiting until 2021 to deal with it, S&P Global Ratings said in a June comment.

"The often-restrictive procedures U.S. public finance issuers must follow to amend documents will make the three years go by very quickly," the rating company said.

Bloomberg Markets

By Martin Z Braun

September 20, 2018

— With assistance by Danielle Moran

Do Non-Municipal Exposures Help or Hurt a Bond Insurer?

The bond insurance industry was devastated in the financial crisis of 2008-2009. The failure of almost all of the bond insurers was not a result of the municipal bonds they insured but was instead largely tied to the non-municipal exposures such as asset-backed securities (ABS) and collateralized

debt obligations (CDOs).

In this article, we examine why the insurers decided to insure these riskier assets and how non-municipal exposures changed bond insurers for the better.

Continue reading.

municipalbonds.com

by Joshua Hudson

Sep 19, 2018

Muni Bonds Are More Exciting Than You Think: An Activist Investor's Approach.

- **Not many people are aware that Flint's water crisis resulted from a fraudulent infrastructure bond.**
- **Justice is needed for those who have been financially and culturally harmed, and muni bonds are one of the best-kept secrets for getting us there.**

Let's face it—no one gets particularly excited about muni bonds. They are a portfolio bedrock for stability and liquidity, but they don't make for great cocktail conversation. The latest on your munis in Texas doesn't seem nearly as riveting as Tesla's last quarterly call.

But perhaps that's just because we're not paying enough attention. The "muni" in muni bonds is "municipality"—these are bonds issued by government entities that raise money for communities to do critical public works. Funding muni bonds isn't just pushing paper around to make a return—its enabling real projects in the real world.

Sometimes these projects are great for communities, like helping a city improve its water supply or building low-income housing. Other projects can harm a community or reinforce its questionable and inequitable practices.

Continue reading.

Forbes

by Morgan Simon

Sep 27, 2018

Muni Bonds Report Reinforces Stability.

Moody's Investors Service's recently released annual municipal bond market snapshot, *US Municipal Bond Defaults and Recoveries, 1970-2017*, with updates through 2017, reaffirms two hallmark benefits that muni bonds continue to offer. First, muni bonds continued to be highly rated in 2017, with upgrades narrowly outpacing downgrades for a second year running. Second,

municipal bankruptcies and defaults remain extremely rare, even amidst headline-grabbing defaults by Puerto Rican entities.

The latest report also featured a significant update to Moody's entire dataset extending back to 1970. Using an algorithm, the authors were able to bring the historical credit ratings in line with Moody's 2010 Global Scale Recalibration, which affected most of the main default and performance metrics. According to Moody's, this recalculation has rendered key metrics more meaningful and offered greater explanatory power, enabling more powerful inferences regarding long-term trends.

To save you the hassle of poring through a 100-page document, we highlight three takeaways from this year's report.

Ongoing Stabilization in Muni Bonds

Nearly a decade after the Great Recession (2007-2009), the municipal bond sector is now stable and recovering, aided in part by growth and economic recovery in many regions of the U.S. For the second year running, muni bond rating upgrades have outweighed downgrades, resulting in a positive rating drift1 overall of 0.017 notches per credit by the end of 2017. "In fact," the authors observe, "rating drift has been mildly positive since late-2015." The trend had been generally negative since mid-2008, since reaching a low of -0.082 notches per credit in 2012. The report also found that greater stability was demonstrated by A-and-above rated munis when compared to like-rated global corporates.

Muni Bond Defaults and Bankruptcies Remain Rare

The five-year all-rated cumulative default rate (CDR) on municipal bonds throughout the study period (1970-2017) remained quite low, at just 0.09%, especially when compared to the 6.7% CDR of global corporates over the same time period. In this context, it is perhaps unsurprising that even in a year with a relatively elevated number of defaults, there were only ten in all of 2017 out of many thousands of issues.

The report observes that municipal defaults have been notably rare throughout the study period, even in times of financial stress, thanks to a defining feature of state and local governments: delinked revenues and expenditures. This enables municipalities to "kick the can down the road" and delay a crisis, even taking on more debt where corporate issuers might be unable to do so. Still, default volumes have grown, with 55 of the 113 defaults since 1970 occurring after 2007.

Muni Defaults Concentrated in Puerto Rico in 2017

Of the 10 defaults that occurred in 2017, entities associated with the Commonwealth of Puerto Rico accounted for seven. Due in large part to Puerto Rico's ongoing financial woes, 2017 set a U.S. dollar record for defaults: $31.15 billion, a 15% increase from 2016. The lion's share was concentrated in Puerto Rico, while the three non-Puerto Rico defaults accounted for a relatively tiny $85 million.

As the authors of the study observed, municipal credits can be strongly correlated with one another. Although a range of different entities in Puerto Rico defaulted in 2017, they were "tied together by overlapping debt burdens and shared economies and tax bases," which exacerbated the competition among the entities for revenues.

Moody's expects defaults in 2018 to be fewer in number and substantially smaller in amount, consisting of a few remaining speculative-rated Puerto Rico issuers with roughly $4.7 billion in debt outstanding.

Conclusion

Although it is still a struggle to obtain the same amount of timely disclosure from issuers of municipal bonds as one sees in other asset classes, the pure empirical evidence suggests that muni bonds continue to offer a fiscally sound vehicle for deriving an income stream free from federal and, in some cases, state taxes.

A total contrarian might say that this cannot, or will not, hold true for the long haul. But as best one can tell from Moody's study, there are no red flags flying over the industry. True, not all public sector projects succeed, but more conservative fiscal management coming out of the deep recession of 10 years ago seems to be the backstory. Ride the wave!

1 Rating drift measures the net average number of notches a credit will change over the study period. It is defined as the average upgraded notches per issuer minus the average downgraded notches per issuer.

Seeking Alpha

Sep. 27, 2018

For First Time, Columbus Letting Small Investors Buy Bonds Before the Big Dogs.

When the city of Columbus goes to market with $400 million in bonds in just over a week, Sweney Cartwright & Co. – a 10-person locally owned firm – will be selling them right alongside Bank of America, Merrill Lynch and Goldman Sachs & Co.

The city sells bonds every year, but for the first time, the process will have the feel of a crowdfunding campaign, under first-year Auditor Megan Kilgore.

Columbus has cut the lowest denomination of this offer to $1,000, from the usual $5,000, and is directly marketing the bonds to city residents as a way to support resurfacing roads, replacing aging water mains and building a new Linden Community Recreation Center.

"The city has never made an effort quite like what we're doing right now," Kilgore said.

Usually the first issue of a bond is "eaten up" by wealthy investors going after the tax-free income and by huge institutions like insurers and mutual funds, she said. This time, they have to wait a day.

"On Oct. 2, we're dedicating an entire day to just individual investors," she said.

To facilitate the transactions, Kilgore's office canvassed Columbus-area brokerages to find those serving the majority of local retail accounts. The brokerages also have to be dealers that can execute a bond transaction. Anyone with an account with one of the listed firms can buy on the day of the sale.

Bank of America and Goldman are still the senior managers, which are the main underwriters of the sale. But the first-day selling group adds atypical local offices, including Huntington Investment Co. and Sweney Cartwright. Usually they handle big-city bonds only on the secondary market.

The 82-year-old Sweney spun out of Huntington Bancshares Inc. in the Great Depression. It was the main underwriter of bonds to build St. John Arena at Ohio State University. But for more than a decade, it hasn't been involved in underwriting big institutional bond issues, President Frank Ingwersen said.

"We've got 10 people in our office here in Columbus and that's it," Ingwersen said. "As a small broker-dealer, it's tough to compete with a Goldman.

"For Megan to do this is kind of neat."

Find the full list of participating brokerages and other information on the sale here.

Anyone wanting to invest needs to set up an account before Oct. 2 to be ready. That's an opportunity to add business for the smaller firms.

"I really doubt Merrill Lynch or Goldman Sachs are going to open up an account for somebody from German Village or Clintonville who has (only) $1,000 to invest," Ingwersen said.

Columbus is among a handful of large U.S. cities to consistently land the highest credit rating of AAA from all three major ratings agencies, a feat largely attributed to longtime Auditor Hugh Dorrian, who retired last year.

Although a property tax levy secures the city's debt, the actual payments are made from income taxes and user fees, like water bills.

"You're pretty darn sure you're going to get paid back on a bond that's backed by taxes," Ingwersen said.

But for the same reason, that means Columbus pays lower interest on its bonds, so a $1,000 investment might bring something like $30 in interest a year. It's not a way to get rich.

"To be quite honest, you're not going to get much yield off these bonds," Kilgore said. "For someone like me, it's because I care about the projects. Social investing has grown hugely in the last few years."

Columbus residents have a greater sense of civic engagement than in many communities, she said, basing that on her observations in several years as a municipal consultant. Take for evidence voters who approved an income tax increase in the middle of the last recession, and Columbus Crew fans launching their movement to support local ownership to stop the team from moving to Austin, Texas.

In her nine months in office, Kilgore – a Dorrian protege – has focused on bringing more technology to the office and simplifying payments of city income tax.

A big goal: online filing of returns. The current system involves downloading a PDF with a balky fill-in-the-blank function and printing it out to file.

Columbus Business First

By Carrie Ghose – Staff reporter

Sep 21, 2018

Homeowners Who Live on the Coast are Sleepwalking Toward Climate Catastrophe.

About 41 million Americans live in areas that have a chance of flooding — and the number exposed to serious flooding is as much as 3.1 times higher than previous estimates.

Time is clearly not on our side. Sea levels are rising faster than predicted, and homeowners in particularly vulnerable areas, such as South Florida, could see their properties literally under water within their lifetimes. Relative sea levels there are roughly four inches higher now than in 1992; various projections, including by the Army Corps of Engineers, see rises in South Florida of 12 inches by 2030 and between 2 to 3 feet by 2060.

What's more, "rare events are going to become more common in the future strictly due to sea level rise," William Sweet, an oceanographer at the National Oceanic and Atmospheric Administration (NOAA), told The Guardian.

Continue reading.

CNN Wire

Sep. 22, 2018

The Week in Public Finance: Some States Are Less Prepared for a Recession Than a Decade Ago.

But according to two analyses, a majority of states have nearly enough savings to weather a downturn.

A decade after the worst financial crisis in modern American history, two separate analyses of government finances have found that most states are better prepared to weather the next recession.

S&P Global Ratings and Moody's Analytics have concluded that a majority of states have either adequate funds or almost enough to make it through the next recession without the massive layoffs and draconian cuts governments had to resort to following the 2008 global financial crisis.

But both firms also discovered a disturbing trend: A subset of states have continued to struggle and remain worse-off than they were a decade ago. "All else equal, this is going to result in a faster recovery [compared with 2008] among the states that are most prepared," says Dan White, a director at Moody's Analytics. "What's troubling, though, is we're seeing an increasing gap between the have and have-nots."

Continue reading.

GOVERNING.COM

BY LIZ FARMER | SEPTEMBER 21, 2018

U.S. Muni Bond Market Rises to $3.853 trillion in Second Quarter: Fed

NEW YORK (Reuters) – The size of the U.S. municipal bond market inched up to $3.853 trillion in the second quarter, from $3.851 trillion the quarter before, the Federal Reserve said in a report released on Thursday.

Households, or retail investors, held $1.625 trillion of debt sold by states, cities, schools and other muni issuers in the latest quarter, down from $1.631 trillion in the first quarter, the Fed report said.

Property and casualty insurance companies took on $16.7 billion of munis in the second quarter, a rise from $14.1 billion in the previous quarter. Life insurance companies bought $4.6 billion, compared with $7.7 billion the prior quarter.

Exchange-traded funds bought $7.9 billion of muni funds compared with $2.8 billion in the first quarter.

Meanwhile, U.S. mutual funds' buying of municipal bonds dropped to $20.5 billion in the second quarter from $64.9 billion the first quarter.

U.S. banks continued to offload muni bonds in the second quarter. The financial institutions shed $40.3 billion, after selling $55.7 billion the previous quarter.

by Laila Kearney

SEPTEMBER 20, 2018

Reporting by Laila Kearney; Editing by Steve Orlofsky

Municipal-Bond Yields Hit Four-Year High as Cash Leaves Market.

- **Ten-year benchmark bonds jumped to 2.6 percent on Tuesday**
- **That's the highest the yield has been since February 2014**

A two-week slide in the price of state and local government securities has pushed yields to a more than four-year high as investors pull money from municipal bond funds and the flood of debt payments that boosted demand over the summer recedes.

The yield on 10-year benchmark bonds jumped to more than 2.6 percent Tuesday, the highest since February 2014. The securities have slid along with Treasuries after a slew of strong economic data reinforced speculation that the Federal Reserve will raise interest rates twice more this year.

"I would suggest that the Treasury market is leading the muni market at this point, slowly grinding higher as the Treasury market makes it difficult for the muni market to stabilize," said Michael Pietronico, chief executive officer of Miller Tabak Asset Management, which manages $1.1 billion of municipal debt in New York.

Mikhail Foux, head of municipal strategy at Barclays Plc, said that while the Treasury movement is probably the biggest driver of municipal yields right now, the anticipated uptick in new bond sales through the end of the year is figuring in as well. The supply-demand mismatch that led to positive

returns recently is waning as the new debt issues are expected to outpace the amount of money investors receive from interest payments and bonds that are being paid off.

“A main reason for muni underperformance is that technicals are not as strong as they were,” Foux said.

Buyers of state and local bonds are showing signs of caution, Foux said, with investors pulling money out of municipal mutual funds for the last two weeks. Such outflows typically occur when rising interest rates threaten the value of outstanding bonds, he said.

“It seems like a lot of investors are a little cautious right now and they don’t want to put money to work even if they have money,” Foux said.

Bloomberg Markets

By Danielle Moran

September 18, 2018, 11:30 AM MDT

Muni-Bond Market Headed for Longest Rout Since Trump's Election.

- **The market is headed for its fourth straight weekly drop**
- **‘The trading environment this year has been quite brutal’**

U.S. state and local government bonds are headed for the fourth straight weekly loss as investors anticipate that the Federal Reserve will continue to raise interest rates, the market’s longest losing streak since President Donald Trump’s surprise victory in 2016.

The Bloomberg Barclay’s municipal index has lost 0.82 percent since the start of the month, with 10-year bond yields hitting a four-year high. The rout tracks a selloff in the Treasury market, which has lost 1.12 percent this month as traders bet that the Fed will raise interest rates four more times by the end of 2019.

“Not just the past several weeks, but in general, the trading environment this year has been quite brutal,” Barclays Plc analysts led by Mikhail Foux said in a note sent to clients Friday. “Munis have started the year rich outright and versus Treasuries, and most of the year has been a constant struggle for investors.”

Municipals tend to be more volatile during the final months of the year, when debt sales typically pick up and investors no longer have as much money from bond payments to reinvest.

Barclays said it sees “very few positive signs for munis on the horizon.”

Bloomberg Markets

By Danielle Moran and Martin Z Braun

September 21, 2018, 12:00 PM MDT

— With assistance by Liz McCormick

Guggenheim Restructuring Team Looks to Muni Debt, Derivatives.

- **Stress from pension obligations emerging on state, city level**
- **Guggenheim bought Millstein & Co. to create new advisory group**

Guggenheim Partners, which recently merged its restructuring business with Millstein & Co., sees opportunities in helping struggling local government creditors as budget impasses and pension liabilities put pressure on municipal bond issuers.

“We’re starting to see some stress” on the state and local government side, driven by pension and other post-employment benefits and liabilities, which states are having “an impossible time funding,” said Elizabeth Abrams, a senior managing director at Guggenheim, who came over from Millstein when the two advisory firms combined this month.

Pension liabilities in particular are an issue, she said, with the Federal Reserve estimating shortfalls for public pensions standing at around $1.8 trillion. Millstein was an adviser to Puerto Rico in the island’s $74 billion bankruptcy.

Companies have also been taking on more debt relative to assets, while offering weaker loan safeguards to investors. As a result, one place the combined firm is looking for opportunities is reviewing companies’ debt documents to advise them on how to position themselves in negotiations with lenders, Abrams said.

Guggenheim Securities, the investment banking arm of the New York-based company, on Monday closed on its takeover of the advisory firm founded in 2011 by Jim Millstein just after he counseled the U.S. Treasury during the Great Recession. The deal creates a combined restructuring group with around 50 employees in anticipation that the expansion of corporate credit will turn into a bust for over-indebted companies.

Restructurings have grown more complicated as distressed investors and companies have grown more likely to use credit derivatives, which can give them unexpected incentives.

‘Smart Money’

“Smart money is attracted to the distressed space, and with that smart money, more creative structures,” said Morgan Suckow, a senior managing director at Guggenheim. “That has changed our jobs, it has made our jobs a lot more interesting.”

CDS have stirred controversy in debt markets recently, a decade after they played a key role in the 2008 financial crisis. Some hedge funds, as part of financing packages they extend to troubled companies, are pressing the companies to trigger or avert payouts on these derivatives, depending on what side of the trade the hedge funds are on. Critics say using CDS trades this way amounts to rigging an $11 trillion market.

Guggenheim’s takeover of Millstein comes as other financial firms expand their restructuring offerings: Greenhill & Co. hired Rothschild & Co. veteran Neil Augustine in March to help run its North American turnaround business. Todd Snyder, formerly of Rothschild, opened up his own shop in February. Last August, UBS Group AG hired LLoyd Sprung from Evercore Partners LLC to build a new practice in the area. Lazard Ltd., Perella Weinberg Partners and AlixPartners are also among firms that have expanded their turnaround teams.

“We’re expecting activity in the market to intensify,” said Ronen Bojmel, who will lead the combined Guggenheim restructuring team.

Guggenheim’s Chief Investment Officer Scott Minerd has projected a U.S. recession may come within the next two years. So has Millstein who has cited both trade wars heating up under President Donald Trump and a wall of corporate debt. They are echoing views across Wall Street that tighter fiscal and monetary policies will create problems for the world’s biggest economy by 2020.

Millstein’s firm has advised US Airways in its acquisition of American Airlines and Caesars Entertainment Corp. in its Chapter 11 proceedings. It has also worked on Venezuelan debt. Guggenheim’s recent restructuring work includes Iconix Brand Group Inc., Payless Inc. and Intelsat SA.

Bloomberg Markets

By Katherine Doherty

September 19, 2018, 4:00 AM MDT

Pensions Are Shelling Out Billions in Fees -- and It's Not Paying Off

SPEED READ:

- According to a new report by the Pew Charitable Trusts, pension plans spend at least $2 billion a year on investment fees.
- Over the past decade, pension plans have devoted more of their assets to alternative investments, such as hedge and private equity funds.
- The shift means that pensions are more vulnerable to stock market swings and are paying far more in fees than ever.
- The report recommends pension plans to change their reporting requirements.

Public pension plans spend at least $2 billion a year on investment fees to high-priced Wall Street firms to boost their returns. But, according to a new report, it doesn’t appear to be paying off.

The report, released Wednesday by the Pew Charitable Trusts, attributes the steep bill to the fact that more and more pension funds are putting money in alternative investments, such as hedge and private equity funds. Over the past decade, the average plan has gone from devoting about 11 percent of its assets to those types of investments to 26 percent.

The uptick is part of a larger trend over the past 30 years of pensions reducing their reliance on stable, fixed income investments like bonds in favor of more volatile — but potentially more lucrative –investments like stocks and alternatives. Since 1986, the latter two have gone from representing roughly 38 percent of pension portfolios to 75 percent in 2016.

The shift means that pensions are more vulnerable to the swings of the stock market and are also paying far more in fees than they ever were before. Pew’s Director of Public Sector Retirement Systems Greg Mennis estimates that, in addition to the $2 billion in fees pension plans do report, Wall Street fund managers are pocketing an additional $3 billion to $4 billion in fees each year. That’s because the majority of funds don’t disclose so-called performance fees, which allow

investment fund managers to get a cut of the investment earnings if their returns hit a certain target.

Meanwhile, pension plan performance has waned over the past decade. Among the 44 funds that the Pew report studied, the average rate of return during that period was 5.5 percent, and no plan's average investment return met its target of 7.5 percent. (In general, plans tracked closer to their investment return goals when the years around the 2008 financial crisis are excluded.)

Among the plans studied, Mennis says that the ones that had more experience investing in alternative assets tended to do better. For example, South Dakota's pension, which has for more than a decade been investing up to 20 percent of its portfolio in alternatives, averaged a 6.8 annual rate of return. But Indiana's public employees fund, which has ramped up its alternative investments rapidly over the past five years to account for roughly 40 percent of its assets, averaged 3.8 percent over the 10-year period.

Pension plans' reporting requirements "haven't kept pace with the risk" they've opened themselves up to, according to Pew. To rectify that, it recommends that all plans disclose their net return after fees and include costs like performance fees. The report also suggests pensions implement stress-test reporting, which throws different economic loss scenarios at pension plans to see how each could affect a plan's fiscal health and funded status.

The report notes that many plans are lowering their assumed rate of return to prepare for a future with lower annual earnings. Over just a two year period, 33 states have done so. Still, Pew estimates that most plans should prepare for an average annual investment return of somewhere near 6.5 percent. Some — Kentucky and South Dakota — are at or below that mark, but most still have higher expectations.

GOVERNING.COM

BY LIZ FARMER | SEPTEMBER 26, 2018

CDFA Annual Volume Cap Report.

An Analysis of 2017 Private Activity Bond & Volume Cap Trends

Read the Report.

Released September 2018

U.S. States Are Showing Their Age: How Demographics Are Affecting Economic Outlooks.

The U.S. is facing an "old-age" crisis as national population growth becomes insufficient to balance the needs of aging baby boomers. In S&P Global Ratings' opinion, the national aging is affecting state economic output, with different parts of the country being more resilient than others.

Continue Reading

Sep. 25, 2018

S&P: When The Credit Cycle Turns, U.S. States May Be Tested In Unprecedented Ways

It has now been 10 years since the start of what former Federal Reserve Chairman Ben Bernanke called the “worst financial crisis in global history.” What ensued in its wake was also the most severe economic downturn since the Great Depression. In retrospect, U.S. states weathered the historic turmoil remarkably well from a credit perspective.

Continue Reading

Sep. 17, 2018

The Increasing Cost Of Governmental Pensions: Discount Rate And Contribution Practices

As part of S&P Global Ratings’ ongoing efforts to educate the market about our views on how unfunded pension liabilities could affect credit risks for state and local governments, this report focuses on how certain plan assumptions and methods may negatively influence future budgets.

Continue Reading

Sep. 27, 2018

Removing the Impediments to Infrastructure Investment.

Insurers are eager to provide hundreds of billions in capital. There are things governments can do to help that happen.

Nearly every aspect of our nation’s infrastructure could benefit from restoration and modernization. If done the right way, these repairs and upgrades can create jobs, boost economic output and raise Americans’ living standards.

But improving our infrastructure will be costly. By some estimates, simply updating and maintaining our transportation networks, communications systems, and social- and public-service facilities would cost more than $1 trillion. With limited sources of funding, every dollar will have to be used to maximum effect, including leveraging private financing for public works.

While the Trump administration and Congress have put forth proposals to address our infrastructure challenges at the federal level, much of the activity and heavy lifting happens at the state and local levels. With a few critical steps, state and local leaders can help unlock new levels of capital ripe for infrastructure investment.

RELATED

How Inclusive Contracting Can Produce the Infrastructure We Need The Road Funding Policy That Doesn't Improve Roads Much Even When Teams Pay, Stadiums Still Aren't Free for Cities For Muni Bond Sales, Brand Matters Navigating the Complex Landscape of P3s
The insurance industry, which includes companies like mine, is eager to invest hundreds of billions of dollars in infrastructure. These projects typically deliver stable, strong returns, often with less risk than some other investment options. A new toll road, utility plant or airport has a long shelf life. And it produces predictable revenue, with a built-in base of users that may increase over time.

Unfortunately, a few things hold back such investment. One is the patchwork of regulatory requirements that apply to infrastructure projects. States and local jurisdictions have a variety of different rules governing the use of public-private partnerships (P3s), and 17 states don't allow P3s at all. Furthermore, projects must go through numerous regulatory reviews, which can be lengthy and duplicative. And political uncertainty may result in the plug being pulled on a project after capital has been expended but before it generates revenue.

A second factor inhibiting infrastructure investment by insurers is the complex and varied processes that state insurance commissioners use to determine valuation and risk in infrastructure projects. These methods often require insurers to maintain capital ratios that are more appropriate for riskier investments.

Finally, tax-policy uncertainty has the potential to restrain insurers' investments. U.S. insurance companies account for about 10 percent of the holdings in the $3.8 trillion municipal bond market that supports many infrastructure improvements. These low-risk investments deliver solid returns due in part to the tax-free treatment of interest earned on them. The recent federal tax reform preserved this exemption. However, with federal budget deficits expected to top $1 trillion annually, there could be pressure to reverse course, which would effectively lower the return on bonds, reduce demand and raise borrowing costs for states and municipalities.

Fortunately, while maintaining our infrastructure requires collaboration and partnership at all levels of government, state and local policymakers are in a position to help remove these impediments. Here are a few key steps they can take:

First, states and municipalities should work together to create more harmony around P3 rules. A national set of rules is unlikely, but some states have developed effective policies that could be a model for others.

Second, governments at all levels should strive to limit duplication of regulatory reviews, which add time and raise costs for both taxpayers and private investors.

Third, the National Association of Insurance Commissioners can work with insurance companies to develop standards for evaluating the risk and quality of infrastructure investments while safeguarding policyholders.

And fourth, state and local leaders should keep up the pressure on Congress and the White House to preserve the tax exemption on municipal bond interest, ensuring that debt financing remains an affordable option for infrastructure projects.

Insurers stand ready to partner with states and municipalities, as well as the federal government, to modernize America's infrastructure. By removing some of the barriers that prevent insurers from increasing investment in infrastructure projects, policymakers at all levels of government can unleash new private capital to spur economic growth and bring much-needed benefits to communities across the country.

governing.com

By Larry Chadwick | Contributor
Senior managing director of government relations for TIAA

September 27, 2018

Statement by U.S. Conference of Mayors CEO & Executive Director Tom Cochran on FCC's Order Subordinating Local Property Rights.

Washington, DC — Below is a statement by U.S. Conference of Mayors CEO and Executive Director Tom Cochran on today's FCC final Order on removing barriers to small cell deployment:

"The U.S. Conference of Mayors conveys its strongest opposition to today's final Order issued by the Federal Communications Commission. While The U.S. Conference of Mayors supports the nation's efforts to win the race to 5G, today's FCC action misapplies federal law to federalize local public property as part of its efforts to bestow upon a class of private companies special rights to access local rights-of-ways and public property.

"Despite efforts by local and state governments, including scores of commenters in the agency's docket, the Commission has embarked on an unprecedented federal intrusion into local (and state) government property rights that will have substantial and continuing adverse impacts on cities and their taxpayers, including reduced funding for essential local government services, and needlessly introduce increased risk of right-of-way and other public safety hazards.

"This wrongful intrusion threatens to slow down and undermine the FCC's own efforts to accelerate the deployment of new wireless infrastructure. In another action, the commission even seeks to rewrite and overturn decades-old compensation agreements between local (and state) governments and cable providers.

"Over the past year and in several instances, the federal government – the Administration, Congress and/or FCC – chose not to make deployment of small cells a federal priority in its own actions, be it new statutes and rules pertaining to federal property use rules, federal tax policy, federal spending and/or even federal spectrum revenue uses; yet, today's Commission actions seek to use a misapplication of federal power to confiscate local taxpayer property to this end. Mayors and other local and state government leaders rightly and strongly oppose these actions.

"The Conference believes this aggressive, and surely unlawful, intervention will prove counterproductive. The record on 4G deployments shows that the nation's mayors with other local and state officials partnered successfully with the private sector to build out the nation's fourth generation (4G) network, with the U.S. today accounting for roughly 40 percent of the world's 4G facilities. Regrettably, the Commission is choosing conflict over cooperation, and subordination over partnership.

"The Conference and its members now look to the federal courts to review and rectify this unlawful taking of local property, actions which we believe will compel local elected officials to subsidize, or "gift", local public property to a small, favored group of private businesses."

Counties, Cities Voice Concern Over FCC's Small Cell Ruling.

Washington – The National Association of Counties and the National League of Cities today released the following statement regarding the Federal Communications Commission's (FCC) vote on the Declaratory Ruling and Third Report and Order on state and local governance of small cell wireless infrastructure deployment.

"Cities and counties are strongly committed to the timely and successful deployment of 5G facilities and services throughout the nation, just as we led and supported public and private partnerships that resulted in the successful introduction and expansion of 4G infrastructure and services.

"Today's vote, however, overlooks significant concerns from the nation's cities and counties. Over 100 local governments from 22 states filed comments in opposition to the proposed ruling during the FCC's comment period.

"The FCC's impractical actions will significantly impede local governments' ability to serve as trustees of public property, safety and well-being. The decision will transfer significant local public resources to private companies, without securing any guarantee of public benefit in return.

"Counties and cities are the stewards of substantial amounts of public rights-of-way, which many telecommunications providers use to construct their own communications networks. By narrowing the window and resources for evaluating small cell applications, the FCC is effectively hindering our ability to fulfill public health and safety responsibilities during the construction and modification of broadcasting facilities.

"Local governments share the FCC's goal of ensuring affordable broadband access for every American, regardless of their income level or address. However, today's vote applies a one-size-fi-s-all approach to broadband deployment that simply will not work in the vast majority of cities and counties across the country.

"With this ruling, the FCC is overlooking its overall goals to 'build on the commonsense reforms adopted in state legislatures and town councils across the country.'

"Local governments share the FCC's urgency; however, this ruling promises to force local governments to rubber-stamp small cell applications or face crippling legal recourse from providers racing to corner the 5G communications market.

"We urge the FCC to delay the rule, and we plan to support local effort to mitigate its impacts."

September 26, 2018

FCC Sets Rules for 5G Infrastructure, Limiting State and Local Control.

The new industry-backed regulations are likely to attract lawsuits from state and local government groups that worry they will cost them revenue, make it easier for internet providers to sue them and do little to address the digital divide.

The Federal Communications Commission (FCC) approved sweeping regulations on Wednesday for 5G wireless infrastructure, significantly curtailing the authority of states and localities.

The industry-backed declaratory ruling includes several preemption provisions aimed at accelerating deployment of 5G networks that are expected to offer higher internet speeds. It prompted immediate pushback from a wide-range of public-sector association groups and is expected to face legal challenges.

“The ultimate result from this is going to significantly and negatively impact local governments’ ability to protect and serve public property, safety and welfare,” said the National Association of Counties’ (NACo) Arthur Scott.

The federal regulations carry major ramifications, particularly given the buildout of 5G networks that’s ramping up or is already underway in many larger cities.

Underpinning the networks is wireline fiber supporting “small cell” nodes, typically antennas mounted on street poles or other public infrastructure. Small cells are akin to WiFi-networks in that their coverage is limited, typically 300 to 500 feet, requiring providers to deploy hundreds of the devices to cover relatively small areas.

Time Limits

One of the more controversial provisions of the order establishes “shot clock” time limits for jurisdictions to process applications for mounting small cells on public infrastructure. Installations on existing infrastructure must be processed within 60 days, while requests to build new poles need to be processed within 90 days.

The shot clock resets if a company submits an incomplete application and a government notifies them of the issue within 10 days. Under the new order, failing to act within the specified time limits constitutes a presumptive prohibition of services, giving companies further ammunition to take governments to court.

According to NACo, applications were generally taking about 120 days to process. Scott is concerned that many local governments lack the resources to process them within the new, tighter deadlines and would need to hire additional staff.

“[The ruling] forces local governments to make a decision between rubber stamping applications or facing crippling litigation with these providers in court,” he says.

Under the FCC ruling, batch applications of multiple requests for the same type of facilities filed simultaneously are subject to the same deadlines. Greg Wilkinson, the city administrator for Yuma, Ariz., says his city would have no problem processing a few applications quickly but receiving a hundred or more at once could pose challenges. For instance, some companies seek to affix old, bulky equipment to poles, potentially leading to safety concerns or violations of the Americans with Disabilities Act if they obstruct sidewalks.

“You have to look at location by location,” he says. “You can’t just give them blanket approval to deploy everywhere.”

Fee Guidelines

The FCC order also effectively limits what local governments can charge — $500 for an initial application fee covering up to five small cells and $270 for an annual right-of-way access fee per small cell — both considerably lower than what cities have typically charged. Localities could still levy higher fees, but if a wireless provider sued, local officials would need to demonstrate the fees are a “reasonable approximation” of costs incurred. In larger jurisdictions where fees are higher, the

FCC ruling could amount to seven-figure losses in unrealized revenues.

Part of the FCC's motivation for the lower fees is to enable providers to bring high-speed internet to rural and unserved areas of the country.

Commissioner Brendan Carr recounted at Wednesday's meeting that he heard from officials in unserved communities who worried delays and higher small cell fees levied in big cities would effectively hinder deployment to their jurisdictions.

"Cutting these costs changes the prospects for communities that might otherwise get left behind," he said.

But state and local officials argue that lower fees will make little difference in bridging the digital divide unless there is adequate market demand making it economically feasible for companies to deploy. Furthermore, the ruling lacks any requirements for telecommunication companies to provide service to unserved and underserved areas.

Some cities fear that the fee recommendations wouldn't cover their costs. Philadelphia, for instance, provided estimates to Governing tallying labor costs for all approvals and field inspections that amounted to $800 per small cell node.

"The city will have incurred disproportionate, unrecoverable costs and lost all its leverage to incentivize deployment in a manner that ensures a complete citywide deployment and reduces the digital divide," said Michael Carroll, deputy managing director of the Office of Transportation and Infrastructure Systems, of the ruling.

Some telecoms complain that cities use aesthetic concerns about the small cells as a way to delay wireless infrastructure projects. The FCC order doesn't prohibit localities from outlining their own aesthetic requirements, provided they are "reasonable" and "no more burdensome than those applied to other types of infrastructure deployments."

The vast majority of state and local officials filing comments opposed the FCC rules. One of the few expressing support was Chairman Jeffrey Bohm of the St. Clair County (Mich.) Board of Commissioners.

"By making small cell deployments less expensive, the FCC will send a clear message that all communities, regardless of size, should share in the benefits of this crucial new technology," wrote Bohm.

The order was modeled largely after similar laws passed in 20 states that preempt local authority to varying degrees. They've been mostly adopted in Republican-controlled states, usually passing by wide margins.

Although the FCC's fee levels and regulatory guidelines mirror those passed by states, the ruling would preempt any existing legislation not meeting its requirements. In response, the National Conference of State Legislatures and the National Governors Association filed a joint statement opposing the ruling.

"Not only will these 20 states be affected, but it also ties the hands of any other state that is looking to ensure inclusive and equitable access to high-speed internet services to residents," the groups wrote.

What Happens Next?

Many larger localities, such as Austin, Boston and San Jose, have already entered into agreements with telecoms in states where they're permitted to do so. Attorneys for the municipal advocacy group Next Century Cities believe it is unlikely that telecom providers will pursue litigation seeking to void existing agreements. While the ruling doesn't explicitly exempt preexisting agreements or prohibit local governments from negotiating future agreements, it does significantly reduce their leverage in these deals.

The ruling is expected to face multiple legal challenges over the FCC's regulatory authority.

One group likely to lead litigation on the matter is the Smart Communities and Special Districts Coalition, which is made up of localities and association groups in 11 states and the District of Columbia. Gerard Lavery Lederer, an attorney with Best Best & Krieger representing the group, told Governing prior to the meeting that they were considering litigation.

"We're committed to defending local governments rights wherever we have to do it, including the courts," he said.

Blair Levin, a former FCC official, said that if the rules aren't overturned, a second wave of litigation will ensue over the meaning of several phrases used to define different provisions, such as fees that are a "reasonable approximation" of localities' costs.

Next Century Cities has issued guidance for localities, recommending they quickly move to enact zoning, installation requirements and any other regulations. Developing pre-approved design and aesthetic requirements, it also noted, could be particularly beneficial in processing applications faster and defending legal challenges.

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BY MIKE MACIAG | SEPTEMBER 26, 2018

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of dollars in infrastructure. These projects typically deliver stable, strong returns, often with less risk than some other investment options. A new toll road, utility plant or airport has a long shelf life. And it produces predictable revenue, with a built-in base of users that may increase over time.

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A second factor inhibiting infrastructure investment by insurers is the complex and varied processes that state insurance commissioners use to determine valuation and risk in infrastructure projects. These methods often require insurers to maintain capital ratios that are more appropriate for riskier investments.

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governing.com

By Larry Chadwick | Contributor
Senior managing director of government relations for TIAA

September 27, 2018

Which States Are Voting on Transportation Funding This Year?

Lawmakers have long wrestled with how to raise money to fix roads and other infrastructure. In four states this November, voters will have a chance to weigh in.

SPEED READ:

- Voters in four states — California, Colorado, Missouri and Utah — face ballot measures this year that could affect gas taxes or transportation funding.
- California voters may roll back a gas tax that's only a year old, while Missouri looks poised to raise its fuel tax for the first time in 22 years. Meanwhile, Colorado voters face a confusing trio of conflicting ballot measures, and Utah could become only the second state to use gas tax money to fund schools.

Gas taxes may be the most practical way to raise money for transportation, but they can also be politically perilous. That's why transportation advocates are closely watching four statewide ballot measures this November that would affect fuel taxes or transportation funding.

The questions that voters in California, Colorado, Missouri and Utah face are all the more contentious because they deal directly with issues that have stymied lawmakers for months, and in most cases, years.

It is unusual to see as many statewide ballot measures on transportation funding; local measures are much more common. But these four statewide transportation questions could be in reaction to a growing willingness by state lawmakers to raise taxes or find other sources of new money to improve roads and other infrastructure. Over the last six years, 31 states have increased revenues for transportation, according to Joung Lee, the policy director for the American Association of State Highway and Transportation Officials.

Continue reading.

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BY DANIEL C. VOCK | SEPTEMBER 25, 2018

Fitch Ratings: U.S. Colleges Turning to P3s More Frequently.

Fitch Ratings-New York-10 September 2018: Strains on revenue are leading more U.S. colleges and universities to seek extra help in the form of public private partnerships, according to Fitch Ratings in a new report.

Colleges and universities are finding P3s increasingly more attractive in addressing campus infrastructure and physical plant needs in an effort to keep demand high for their institutions while retaining both students and staff. Use of P3s could prove to be pivotal in certain parts of the country where enrollment in colleges has dropped off considerably.

‘The number of high school graduates in the Northeast and Midwest has declined over the last decade,’ said Director Emily Wadhwani. ‘Additionally, recent private institution closures and consolidation among some public intuitions are showing that demand can vary greatly by market and by institution.’

Digging deeper, the number of high school graduates is expected to plateau over the next decade, with schools in the Northeast and Midwest likely to see more declines. As such, ‘a university’s strategy to address its housing and other auxiliary needs must be executed in the context of an increasingly competitive and revenue-strained environment,’ said Senior Director Seth Lehman.

P3s for financing around student housing, parking and other auxiliary assets have become more commonplace in recent years, but they do come with cost risks that could prove to be more difficult to control over time. ‘Adding and upgrading amenities to keep up facility attractiveness also adds to cost risks,’ said Lehman. Completion risk also remains an important component in evaluating higher education P3s, particularly when there is no backstop support from the college or university itself.

‘Higher Education Demand-Based Project Financings’ is available at www.fitchratings.com.

Contact:

Seth Lehman
Senior Director
+1-212-908-0755
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Emily Wadhwani
Director
+1-312-368-3347

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@fitchratings.com

Additional information is available on www.fitchratings.com

Fitch Ratings: Leverage Isn't One-Size Fits All for Revenue-Supported Bonds.

Fitch Ratings-New York-11 September 2018: The stronger the business model a revenue-supported enterprise in U.S. public finance has, the more leverage it can carry without constraining its credit rating, according to Fitch Ratings in a new report.

Financial leverage for U.S. revenue supported public finance sectors varies widely and thus needs to be viewed through risks specific to each sector. Fitch’s analysis shows large scale public universities and public utilities to have the strongest business models due largely to independent pricing powers and very strong demand characteristics. Conversely, public safety net hospitals and not-for-profit charter schools tend to have the weakest profiles.

In other words, a public safety net hospital without taxing authority would need to carry substantially less debt in order to reach a rating similar to that of a first tier public university.

Despite the attention it has received over the last several months, unfunded pension liabilities are not generally a pre-eminent driver of ratings. “The municipal market has been sharply focused on pensions in state and local government ratings but pensions are also part of the risk profile of public enterprises,’ said Jessalynn Moro, Fitch’s Head of U.S. Public Finance. ‘Pensions’ impact on ratings varies with the strength of the enterprise business model.’

Further evidence of this came in Fitch’s recently completed not-for-profit healthcare ratings review following the release of its final criteria at the start of 2018. Of the 135 providers Fitch rates, only three significant rating changes were a direct result of large unfunded pension liabilities. One notable recent exception was Spartanburg Regional Health Services (SRHS) that Fitch recently downgraded to ‘BBB’ citing high overall leverage including a large unfunded pension liability reported in its most recent financial statements.

Fitch notes that the Spartanburg rating action has little relevance to ratings in the public higher education sector with its stronger business model. If SRHS had a business model like that of a public university with strong revenue defensibility and operating risk, it would have a much higher rating.

Fitch began its revenue sector criteria revisions last summer in an effort to improve the consistency and transparency of its ratings. Fitch’s next sector-specific revenue supported exposure draft will be for Higher Education next month. See ‘Higher Education Next in Revenue Sector Criteria Revisions’ for more information. Fitch is also currently soliciting market feedback for its Public Power exposure draft published in June.

‘Leverage, Ratings and the Relevance of Unfunded Pension Liability’ is available here.

Contact:

Jessalynn K. Moro
Managing Director, Head of U.S. Public Finance
+1-212-908-0608
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Tom McCormick
Analytical Consultant
+1-212-908-0235

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@fitchratings.com

Additional information is available on www.fitchratings.com

Fitch U.S. Not-for-Profit Hospitals and Health Systems Rating Criteria Update: Implementation Complete.

Fitch Ratings completed the initial implementation of its U.S. Not-for-Profit Hospitals and Health Systems Rating Criteria as of July 9, 2018. We reviewed 125 existing issuers, or just under one-half of our total acute portfolio.

Read Full Report.

S&P Looking Forward: The Application Of The Discount Rate In Funding U.S. Government Pensions.

Public pension system costs can have a significant impact on U.S. governments' credit quality. However, the magnitude of these costs can be quantified in different ways.

Continue Reading

Sep. 13, 2018

Muni Bond Issuers Reach Out to Individual Investors (and Their Advisors).

With year-end tax planning and rebalancing in mind, financial advisors are well-advised to keep an eye out for large new-issue offerings.

On the heels of tax reform, the elimination of advance refundings, and record new-issuance municipal volume at the end of 2017, the municipal market was expecting new issuance to contract in 2018.

In spite of predictions, new-issuance volume in 2018 is just slightly behind 2017's pace. And as we look toward the end of the year, we may see more state and local government issuers coming to market to finance expanding infrastructure needs as well as refund outstanding high coupon debt — so long as long-term interest rates don't spike.

The chance of a spike, however, appears remote, as the municipal yield curve has been toying with inversion — where short-term rates are higher than long-term rates — since May 2018.

With new-issuance volume remaining robust, state and local government issuers are looking for more active participation by individual investors. And this spells opportunity for the fee-based advisor to take a more active role in new-issue underwritings for investor clients.

Practically all municipal market participants see the benefit of individual investors. State and local governments want individual investors because they tend to buy and hold their investments, supporting an issuer's long-term goals for raising capital. Likewise, these issuers see value in having local investors have a stake in local projects. Institutional investors see the benefit to individual investors as a ready market for secondary market support and liquidity.

As tax reform has placed limits on an individual filer's tax-saving deductions, municipal bonds have become one of the few reliable investments for reducing income taxes. While individual investors have yet to prepare tax returns for 2018 and realize the full consequences of tax reform, the municipal market has seen yields on issues from states with high income taxes like New York, New Jersey, California, Oregon, Minnesota and Vermont compress. Compression is a consequence of investor demand resulting from the implementation of the tax overhaul.

States, local governments and schools are expanding their outreach to individuals with the intent of

stimulating investor demand. Dedicated bond-buying websites, online “road shows,” conference calls with governors and state treasurers, and internet and radio advertising are all promotional means used by municipal bond issuers to attract individual investors and the fee-based advisors who serve them.

Some issuers have even attempted to reduce the minimum investment in a municipal bond to attract more individual investors. However, this notion hasn’t received much traction, as such “mini-bonds” offer limited liquidity and inefficient recordkeeping. Municipal bonds are typically sold in $5,000 denominations, but the average trade in July 2018 was approximately $300,000. The $5,000 minimum generally steers away small investors who may not be able to reap the full benefit of the preferential tax exemption, keeping the market efficient.

The large volume of new issuance combined with the issuers’ express interest in having individual investors engaged have created an opportunity for fee-based advisors to both put in orders at the point of new issuance and receive confirmations of allocations.

For some of the largest and most liquid issues on the Street, issuers are giving priority to individual investors and their fee-based advisors. This means advisors and their clients are receiving access to opportunities that are traditionally available only to institutional investors. Advisors now have the tables tilted in their direction for some municipal issues. Recent issues from Vermont, Massachusetts (including the recent Commonwealth Water Trust Green Bonds), California, the City of New York, NYC’s Municipal Water Finance Authority, and the NYC Transitional Finance Authority have all sold bonds this summer offering priority to advisors and their clients.

Issuers have also been binding their underwriters to rules that give preference to individual investors, meaning individual investor orders have priority above institutional orders. Most importantly, the pricing is the same for individual and institutional investors.

This encouraging trend means a fee-based advisor who has a trading account with the lead manager, co-manager or selling group member can enter orders with a much greater chance of allocation, as these issuer-imposed guardrails prevent the book-running lead manager from violating the issuer’s intent to give priority to individual investors.

With year-end tax planning and rebalancing in mind, financial advisors are well-advised to keep an eye out for large new-issue offerings designed to give preferential outreach to individual investors. New issues favoring individual investors are likely to be plentiful through December, presenting abundant opportunities for tax-efficient investments.

Tom Lockard, managing director and head of investment banking at 280 CapMarkets, joined as a co-founder knowing the power of a broker-dealer combined with distribution reach for public finance opportunities. Prior to 280 CapMarkets, he worked at Fundrise, a pioneering fintech company specializing in commercial real estate.

Previously, Tom was a managing director at Stone & Youngberg and a member of the company’s executive committee and board of directors. Over his 30-year career there, he structured more than 500 municipal bond issues representing more than $6 billion.

Lockard earned degrees from the University of Pennsylvania, Wharton School, Claremont Graduate University and Stanford University.

ThinkAdvisor

By Tom Lockard | September 12, 2018 at 03:35 PM

Innovative Financing for a 21st Century Infrastructure.

BDA Hosted Roundtable Early 2019

As the 116th Congress kicks off in early 2019, attention will turn to major policy initiatives that were unfinished in the previous session and at the top of this priority list will be infrastructure.

The BDA is in the process of planning a D.C. infrastructure event in early 2019 to further its position as a thought leader on infrastructure finance – from a Main Street perspective. As key details emerge such as date and location in Washington, D.C. and featured speakers, the BDA will provide updates.

Background

The House Transportation and Infrastructure Committee released a discussion draft this summer, outlining at a very high-level, priorities for a future package. A focus of the draft was innovative financing mechanisms, including public-private-partnerships. The BDA views this as an opportunity to advance member priorities: PAB's, AR and continued protection of tax-exempt municipal bonds.

This event will not only help drive the narrative for the need of a sweeping infrastructure overhaul, but allow the BDA to position itself as a policy expert for this discussion.

Continue reading.

Bond Dealers of America

September 10, 2018

1.1 Trillion Reasons to Remember State and Local Bond Obligations.

We can all agree that we want our states and cities to avoid the painful lessons collectively learned from the recent bankruptcies in places like Detroit, Puerto Rico and the California cities of Stockton and San Bernardino.

While unfunded pension liabilities in those locations received a lion's share of the news coverage, one topic that has unfortunately flown under the radar is the $1.1 trillion in bonded obligations issued across the 50 states and within their component units of government.

Our new study, State Bonded Obligations 2018, provides a new look on the way states have accumulated bonded debt and other bonded obligations. As usual, the 50 laboratories of democracy provide us with a wide range of policy approaches — and the best and worst outcomes are listed in the table below.

The good news from our report is that Nebraska, Indiana and Wyoming all carry far less than $1,000 in bonded obligations per resident, and fiscally responsible states like Florida and Tennessee place just behind.

Today, 11 states prohibit or place significant barriers to the issuance of general obligation bonds, which are supported with the general taxing power of the state and secured with the full faith and

credit of the state.

On the other hand, states like Alaska and Connecticut have more than $10,000 of bonded obligations for every man, woman and child in their states. Rhode Island, Massachusetts and Hawaii, no strangers to state and municipal financial challenges, round out the bottom of the list.

While those levels of bonded obligations should be concerning, states structure their obligations in very different ways. For instance, Connecticut issued 62 percent of their total bonds as general obligation bonds. Alaska, on the other hand, issued 69 percent of their total bonds as component bonds.

This means that a greater portion of Alaska's bond obligations can likely be restructured without encumbering taxpayers. Additionally, Alaska also does a far better job of maintaining a substantial budget stabilization of $4.7 billion, and their Permanent Fund, about $88,000 per capita ($65 billion), safeguards the state from a potential fiscal crisis from its large total of bonded obligations.

Several key lessons emerge from our research. First and foremost, it really brings us back again to finance or accounting 101, as it is essential to balance assets with liabilities. State budget stabilization funds are an important tool and can be improved by matching them to the state's revenue volatility to prepare for the next economic downturn.

Furthermore, states should attempt to pay down debt during good economic times to maintain future flexibility when economic conditions worsen. This has the added benefit of creating the flexibility to issue bonds during periods of very low interest rates, such as recessions.

Lastly, states should utilize revenue bonds that are funded with user fees. States that pursued these strategies tended to have less damaging bonded obligations, particularly relative to their assets. To see how your state ranks, check the State Profiles section of State Bonded Obligations, 2018.

There are countless aspects of the American experiment worth celebrating, but few have been so beneficial as the decentralized structure of our federalist system. States can indeed learn from mistakes in highly publicized bankruptcies.

While most of the national media attention has been devoted to unfunded state pensions, where the magnitude of liabilities is staggering, we have $1.1 trillion reasons to remember the massive bonded obligations that are carried on the books state and local governments across America.

THE HILL

BY JONATHAN WILLIAMS AND THURSTON POWERS, OPINION CONTRIBUTORS

09/15/18

Jonathan Williams is chief economist at the American Legislative Exchange Council (ALEC), an organization of state legislators and private sector representatives who draft and share model state-level legislation for distribution among state governments. He's also vice president of its Center for State Fiscal Reform. Thurston Powers is a research manager at the ALEC Center for State Fiscal Reform.

Can Booming Green Bonds Finance Sustainable Cities?

In this three-part blog series "Making Vanilla Green or Making Green Vanilla," EDF+Business Sustainable Finance Manager Jake Hiller, and Clean Energy and Sustainable Finance Intern Gabriel Malek unpack how an environmental advocacy group like EDF could best use its resources and expertise to drive impact in the fixed income market. This research is informed by interviews conducted with Eric Glass, Senior Portfolio Manager at AllianceBernstein and founding member of the Municipal Impact Investment Policy Group; Rob Fernandez, Director of ESG Research at Breckinridge Capital; and Navjeet Bal, General Counsel of Social Finance Inc. and former Commissioner of Revenue of the Commonwealth of Massachusetts.

Over the past few years, experts in socially responsible investing have become increasingly intrigued by green bonds, financial vehicles designed to kickstart environmental projects. In 2016, both EDF and the *Stanford Social Innovation Review* examined the strengths and challenges of the growing green bond market and outlined how this novel financial tool could help channel capital to sustainable development initiatives. Since the publication of these articles, the green bond market has expanded dramatically. In the US alone, the value of green bonds between 2016 and 2017 doubled to $48 billion. What began in 2008 with an experimental, World Bank-issued "green" labelled bond has since developed into a $155 billion market that is projected to expand this year.

Given this boom, a renewed examination of the relationship between environmental advocacy organizations, investors, and the fixed income space — both green and vanilla — seems appropriate. EDF has used its clout to influence private equity strategies but has yet to similarly influence the bond world. As it works to shift financial markets, EDF and similar nonprofits must understand fixed income's environmental gaps that could hinder sustainable progress. Moreover, advocacy groups must focus on fixed income as they rely on municipalities, which depend on bonds, to catalyze investment in coastal resilience. This three-part blog series attempts to highlight some of these gaps and discuss potential actions that environmental advocacy groups could take to ameliorate current problems.

Specifically, this series asks whether helping further grow the green bond market or improving environmental reporting in the standard, vanilla bond market would more effectively drive sustainable impact. Although green bonds have taken off in the last decade, they still account for only a sliver of the total fixed income space, representing approximately 1 percent of the worldwide bond market and .06 percent of the US bond market. Could green bonds, despite being only a tiny portion of fixed income, generate substantive change? And ultimately, what should environmental nonprofits do — make green vanilla or vanilla green?

Growing the Green Bond Market

Advocacy groups could benefit from capitalizing on the current buzz surrounding the green bond market.

"We participate in a number of green bonds because they receive a lot of attention and support," said Rob Fernandez, Director of ESG Research at Breckinridge Capital. "They enhance an issuer's reputation by highlighting the issuer's sustainability. Issuing a green bond also expands an issuer's investor base; it can bring in normal fixed income investors as well as ESG investors."

Additionally, green bonds have more rigorous environmental disclosure requirements than vanilla bonds.

"We like green bonds because of the transparent use of proceeds," Fernandez explained. "Issuers

can comply with the green bond principles and release impact reports annually. These reports give us information to share with our clients to show them how their money is going towards worthwhile projects."

Still, some investors fear that these marketing advantages can result in a green-washing effect, allowing unsustainable bonds to pass as environmentally friendly.

"The problem I have is that there's no narrative behind the green bond certification," noted Eric Glass, Senior Portfolio Manager at AllianceBernstein and founding member of the Municipal Impact Investment Policy Group. "Why was bond x certified? The system is too much of a black box. I want to have the raw data in my hands and decide for myself whether or not I think a certain project is environmentally beneficial. Some investors are fine with the third party assessments and don't care who analyzes a bond so long as it's labelled green. I care. I think we need more open source data."

Others, however, are less convinced that green-washing is a problem.

"I would push back on that criticism," countered Navjeet Bal, General Counsel of Social Finance Inc. and former Commissioner of Revenue of the Commonwealth of Massachusetts. "For decades, the government has always done this stuff, whether it's supplying clean drinking water or open space preservation."

In Bal's opinion, just because green bond-backed projects are not new, does not mean they do not benefit the environment.

Whether or not green bonds offer novel advantages remains unclear. At this point, labelling bonds "green" may be more of a branding strategy than a tool to bridge the financing gap for sustainable infrastructure projects. Still, just because green bonds have not yet brought new types of environmental projects to market does not mean they lack the potential to do so. Advocacy organizations could perhaps harness green bond enthusiasm to effect more substantive, innovative change.

Lowering the Cost of Capital

Regardless of their stance on green-washing, investors across the industry agree that green bonds have yet to lower the cost of capital for bond issuers. Until labelling a bond "green" actually reduces interest rates for debt issuers, green bonds will struggle to help bring new environmental projects to market.

"Right now, it's a buyers' market, so there is no pricing benefit for issuers who produce green bonds," Glass noted.

Although the green bond market has boomed in recent years, demand might still be too limited to lower the cost of capital. Glass believes that once environmental data becomes more robust, investor demand will reach an impactful threshold.

"Oversubscription is what allows bankers to lower the yield. But if an issuer doesn't provide enough relevant information, there won't be any sort of oversubscription. There needs to be greater transparency before enough investors are interested in green bonds to lower the cost of capital."

An organization like EDF could work with bond issuers to improve environmental reporting. This strategy could increase the number of investors interested in green bonds, ultimately allowing bond issuers to release debt at a lower cost.

Others experts, however, feel that the problem surrounding cost of capital lies in US financial markets more broadly.

“The reality is that interest rates have been so low that it’s hard to really detect if there has been a change in the cost of capital,” Bal remarked.

Perhaps, then, green bonds can impact cost of capital more thoroughly than experts currently believe. Green bonds’ effects will become clearer when interest rates rise.

Takeaways

Whether or not green bonds can transform the fixed income market to compel investors to drive capital towards sustainable development remains unclear. Green bonds have struggled to diminish the cost of capital for issuers, leading some experts to believe these relatively new bonds contribute to greenwashing.

Still, despite these potential downsides, green bonds have drawn unprecedented interest in climate finance. Environmental advocacy groups may want to grow the green bond market as a stepping stone towards larger ambitions. If intrigue swells, nonprofits may be able to convince investors to reimagine more traditional aspects of the fixed income market using an environmental lens. In the next installment of this series, we will discuss potential long-term next steps EDF and its counterparts could take to influence the standard, vanilla bond space.

EDF + Business

By: Jake Hiller / Thu, Sep 13

Co-author Gabriel Malek is a junior at Yale University, where he leads the Dwight Hall Socially Responsible Investment Fund and the Yale Roosevelt Institute, the school’s only undergraduate-run public policy think tank. You can contact him at gabriel.malek@yale.edu.

New Data on City Finances Show True Realities of Nation’s Economy.

WASHINGTON — September 13, 2018 — Despite strong national economic growth and almost full employment, a new report from the National League of Cities (NLC) released today indicates that cities are still recovering from the Great Recession and shouldering the country’s residual economic burden. The 33rd annual City Fiscal Conditions report, based on a survey of 341 city finance officers, found that while city fiscal health is not yet declining, growth is slowing and echoing cautionary signals from previous economic downturns.

Numerous factors indicate a more complex economic reality in cities across America as slowing housing markets, stagnating wages and the impact of the 2017 federal tax reform legislation influence the outlook of many city finance officials. In FY 2017, 10 years after the Great Recession, local revenues grew only 1.25 percent over the previous year compared to expenditures, which grew 2.16 percent.

Continue reading.

National League of Cities

September 13, 2018

As Economy Booms, U.S. Cities Report Slowing Revenue Growth.

- **Property, sales tax revenue projected to stagnate in 2018**
- **Results echo cautionary signals from previous downturns**

U.S. cities are seeing the growth of their tax collections slow, suggesting local governments' gains from the more than nine-year economic expansion are diminishing even as they face pressure to spend more on wages, pensions and infrastructure, according to an annual survey by the National League of Cities.

City general-fund revenues are projected to stagnate in 2018 after increasing 1.25 percent in 2017, as property, sales and income tax collections slow, the group found. The share of cities reporting that they're more able to meet their financial obligations than they were a year ago rose slightly to 73 percent, after slipping to 69 percent last year, the lowest since 2012, when many were still contending with some of the fiscal aftermath of the housing crash and recession.

"Although fiscal health is not yet declining, these conditions echo several cautionary signals from previous economic downturns," according to the report, which is based on results from 341 cities.

The findings are surprising, given the strength of the U.S. economy and the housing market that provides a big share of cities' tax collections. Consumer confidence is near an 18-year high and the nation's gross domestic product expanded at its fastest clip in four years during the second quarter. On Wednesday, the Census Bureau reported median household income rose 1.8 percent in 2017, when adjusted for inflation.

The biggest drags on municipal finances stem from rising wages and the need to rehabilitate aging infrastructure: Ninety-four percent of officials reported that wages rose and 86 percent reported the cost of infrastructure increased. Spending growth continues to outpace revenue growth, according to the survey.

Thirty-five percent of respondents said Congress's narrowing of cities ability to refinance tax-exempt bonds has already had a negative impact and 61 percent expect it will harm cities' future fiscal health.

Growth in property-tax collections, typically the biggest source of municipal revenue, is anticipated to slow to less than 1 percent in 2018 from 2.6 percent the prior year. The survey projected stagnant sales-tax growth, though that may change because of the U.S. Supreme Court decision that expands states' ability to tax online retailers.

Common Action

The previous inability to collect state and local sales tax on Internet retailers that didn't have a fiscal presence in a state cost state and local governments an estimated $26 billion in foregone tax revenue in 2015, according to the National Conference of State Legislatures and the International Council of Shopping Centers.

Loath to raise property taxes or restrained by law from doing so, the most common action taken to boost city revenue is to increase fees. About two in five finance officials said their city raised fee

levels, while one in five reported increasing the number of fees that are applied to services.

“In some places, adding new fees may not be a politically feasible policy option, while in others the city may have already levied fees on all applicable services,” the report said.

The National League of Cities survey points up regional and demographic differences, affecting the fiscal health of municipalities. Finance officers in southern cities are more likely to report being able to meet fiscal needs as do larger cities, which have been experiencing faster economic growth and expanding tax bases.

Bloomberg Economics

By Martin Z Braun

September 13, 2018, 6:00 AM PDT

A Troubling Trend for Cities: Slowing Revenue But Rising Spending Growth.

The annual National League of Cities report signals potentially more challenging times ahead for many localities.

Despite a relatively strong economy, most U.S. cities aren’t enjoying robust revenue growth.

On Thursday, the National League of Cities (NLC) released its annual survey of finance officers across the country, finding city revenues grew by an inflation-adjusted average of only 1.25 percent in fiscal year 2017 and are expected to further slow over the current fiscal year. At the same time, spending pressures aren’t subsiding, climbing at a steeper 2.16 percent last fiscal year.

Historically, fluctuations in cities’ revenues have generally mirrored changes in expenditures. But the latest data from the City Fiscal Conditions report suggests spending growth is exceeding revenue growth. Annual revenue growth peaked in 2015 after declining in the aftermath of the Great Recession and has since started to decelerate, as has spending growth, but to a lesser extent.

Taken together, the findings signal potentially more challenging times ahead for many localities.

“City leaders and finance officers are being conservative and are being cautious,” says NLC’s Christiana McFarland, who co-authored the report. “They’re being a lot smarter about how they’re planning and the likelihood for uncertainty.”

A number of factors are effectively holding back cities’ revenues from keeping up with expenditures.

Property taxes, a major source of revenue for many local governments, are still climbing as property values increase. But they’ve taken a downward turn recently as the housing market has cooled down, with surveyed cities reporting growth of less than 1 percent for the current fiscal year.

Income tax revenues have similarly slowed significantly — ticking up by 1.3 percent nationally last year — as many segments of the workforce haven’t experienced wage increases. Only select cities in states like Kentucky, New York and Ohio rely on income taxes, though, while most others don’t assess any such taxes.

“When we look under the hood of what is happening in the broader economy, there is still expansion,

but there is slower growth. That's being reflected in city finances," McFarland says.

The largest major recent drop in revenue growth has come in sales tax collections. The report's year-over-year increase of 1.8 percent was the lowest recorded in the survey since 2011. The good news for city budgets is that they're expected to eventually receive a boost after the Supreme Court ruled earlier this year that governments could collect sales taxes from businesses without a physical presence in a state. The decision's exact fiscal impact on individual localities has yet to be determined, though.

Further putting pressure on local budgets, jurisdictions in many areas have incurred cuts in state aid. Nationally, localities' own-source revenues have grown much faster than intergovernmental funding over the longer term.

Cities have typically responded, McFarland says, by shifting their revenue sources. One of the more common responses in recent years has been to levy higher fees, such as those paid for trash or parks and recreation. The NLC survey found that 41 percent of cities increased existing fee prices last fiscal year, but fewer are initiating new types of fees.

Still, forecasted revenue growth remains slightly positive. The report also notes that finance officers typically take a conservative approach in forecasting revenue growth, so actual final numbers will likely be above those reported in the survey. But NLC doesn't expect budgeted fiscal 2018 revenues to exceed those recorded last fiscal year.

On the spending side, major line items most commonly requiring more city spending last year included employee wages (88 percent), infrastructure (71 percent) and public safety (78 percent).

Individually, many cities are faring better or worse than the aggregate survey results suggest. About 63 percent of cities with populations under 50,000 reported they were "better able" to meet their financial needs than the prior year. Larger cities reported more positive findings, with 84 percent of the biggest cities over 300,000 residents saying their ability to meet financial needs had improved.

GOVERNING.COM

BY MIKE MACIAG | SEPTEMBER 13, 2018

Calls Mount for Investors to Sell High-Yield Munis After Rally.

- **Oppenheimer, Ramirez advise clients to sell riskiest debt**
- **Muni junk bonds have returned twice as much as corporates**

A growing chorus of analysts is advising those who invest in high-yield municipal bonds that it may be time to take their money and run.

Analysts from Oppenheimer & Co. and Samuel A. Ramirez & Co. on Monday said it makes sense to lock in their gains by selling the riskiest municipal bonds, which rallied this year as fixed-income investors sought out bigger returns. The 4.4 percent return on high-yield state and local government debt in 2018 is about twice the gain for corporate junk bonds and stands in contrast to the loss in the broader municipal market, according to Bloomberg Barclays indexes.

Oppenheimer analyst Jeffrey Lipton said high-yield municipal bond performance has possibly peaked

after “outperforming the broader muni market with extended inflows” that have pushed down the yields relative to top-rated securities.

“We are not sure that further spread tightening is sustainable,” he wrote.

Ramirez, a New York-based brokerage, said the sector has run up too far and advised clients to look at highly-rated debt with maturities at 15 years or less, particularly those that can be called back by the issuer in five to eight years.

“It makes sense to pare back credit risk and improve credit quality into ‘AA’ or better general market names,” Ramirez wrote in its note. “We particularly like selling muni high yield into current market strength to capture gains at this time as we think bonds in this sector are vastly overbought.”

Bloomberg Markets

By William Green

September 17, 2018, 12:50 PM PDT

— With assistance by Amanda Albright

Statement by U.S. Conference of Mayors on FCC’s Order Proposing to Usurp Local Property Rights.

Washington, DC—Below is a statement by U.S. Conference of Mayors CEO and Executive Director Tom Cochran on recent FCC proposals diminishing local government ownership rights over local rights-of-way and other public property:

“The U.S. Conference of Mayors strongly opposes recent proposals by the Federal Communications Commission to grant communications service providers subsidized access to local public property and to dictate how local governments manage their own local rights-of-ways and public property. This unprecedented federal intrusion into local (and state) government property rights will have substantial adverse impacts on cities and their taxpayers, including reduced funding for essential local government services, as well as an increased risk of right-of-way and other public safety hazards.

“We believe the courts will conclude that FCC’s proposals are based on misguided interpretations of federal law. Congress previously addressed and resolved these issues resoundingly in favor of local and state governments and their property rights. The Conference and its member cities reject efforts by this unelected federal regulatory agency to improperly invade state and local government authority by compelling local elected officials to subsidize, or “gift”, local public property to a small, favored group of private businesses. According to FCC’s own estimates, just one of these actions – the proposed small cell rules – threatens future revenues to local (and state) governments by billions of dollars over the next decade.

“The Conference of Mayors strongly opposes these proposals and calls on the agency to change them; absent such changes, the Conference and its members will seek relief in federal court to overturn this unprecedented overreach by the FCC.”

As Climate Impacts Threaten Cities, Mayors Take Action.

Cities Step in to Lead and Aggressively Fill Void Left by Federal Government

Survey: Mayors Leading the Way on Climate – 2018

SAN FRANCISCO—A survey released today by the United States Conference of Mayors and the Center for Climate and Energy Solutions (C2ES) in San Francisco points to mayors as a key force behind U.S. action to reduce greenhouse gas emissions responsible for the growing effects of climate change. The Alliance for a Sustainable Future—a joint effort of the two organizations—was joined today at City Hall by San Francisco Mayor London Breed, U.S. Conference of Mayors President Columbia (SC) Mayor Steve Benjamin, dozens of U.S. mayors from across the country, and business leaders. The survey was part of a forum sanctioned by the Global Climate Action Summit meeting in San Francisco this week.

In the absence of federal action and a comprehensive climate policy, mayors have stepped up to fill the vacuum of climate leadership and counter efforts by the administration to stymie climate protection programs.

The survey found that 57% of cities responding are planning for new climate actions in the coming year.The effects on their cities, public health concerns, and cost savings are making low-carbon transitions an increasingly attractive option for cities – a bright spot for climate leadership despite the U.S. announcement of its intended withdrawal from the Paris Agreement.

The survey is a window into the actions cities are taking or considering to limit emissions as 95% report they have experienced climate impacts – from flooding, heavier snow and ice storms, and wildfires to heat waves and drought – in the last five years. The impacts are a stark reminder for why mayors are acting to improve energy efficiency, purchase renewable energy, and adopt low-emission vehicle fleets.

Cities are also reporting strong collaboration with other local governments and private sector partners to address climate change. Respondents expressed great interest in pursuing new opportunities with private sector partners to improve building efficiency and advance renewable energy usage and low-carbon transportation solutions.

Both large and small cities are tackling climate problems, with large cities leading the way to green vehicle fleets and cities under 250,000 residents increasingly switching to renewable energy for municipal purposes.

Key findings from 158 responding cities nationwide include:

• Cities are buying renewable energy: 65% of cities use renewable electricity for municipal operations. 27 cities now cover 30% or more of their operational needs with renewables – a 20% greater rate for that benchmark than a 2017 Alliance survey – and 8 cities cover 100% ofmunicipal electricity needs with renewable power.
• Green vehicle purchasing programs: Nearly 60% of cities have programs, and 80% of new municipal vehicle purchases are made by cities with green purchasing policies.
o Bike-share and scooter-share services are the most popular transportation options cities are considering, with 22% of responding cities exploring bike sharing and 21% considering scooter sharing.
• Improving building efficiency: More than 70% of cities have energy efficiency polices for new and

existing buildings. And better than half have policies or incentives in place for new commercial and residential buildings.
• Seeking business partnerships: 83% of cities are looking to the business community for support in advancing transportation, renewable energy, and energy efficiency solutions.
• Growing use of climate policies & initiatives: Over the last 12 months, 60% of cities have launched or significantly expanded a climate initiative or policy.
The survey included the responses of 158 cities from 39 states, including large and small cities ranging in size from 3,906 (Lambertville, NJ) to 8.5 million (New York City). Collectively, the cities surveyed represent more than 50 million Americans. The survey, now in its second year, is aimed at assessing the actions of cities to identify opportunities and help set priorities in their climate solutions.

“Our survey shows that cities of all sizes know that climate change is real. And, therefore, we are taking action. The U.S. Conference of Mayors is committed to lead in the development of programs to reduce carbon and make our cities healthier. Would it be easier if the Federal government and Congress were our partner? Yes. But in their absence, we will not abandon our responsibility to lead and preserve this earth for future generations,” said USCM President and Columbia (SC) Mayor Steve Benjamin.

“We know the business community wants to work with us. In Salt Lake City we have partnered with Rocky Mountain Power on a comprehensive program to reduce greenhouse gas emissions. We believe there are many utilities nationally which are willing to step up and tackle this issue. We will be reaching out to them more aggressively in the future,” said Chair of the Alliance for a Sustainable Future and Salt Lake City (UT) Mayor Jackie Buskupski.

“It is an honor to host this important forum of mayors and businesses in City Hall as part of the U.S. Conference of Mayors commitment to fight global warming. With our national leaders failing to confront climate change, the nation’s mayors are stepping up to make our cities more sustainable and protect our environment for future generations,” said San Francisco (CA) Mayor London Breed.

“The actions of this Administration seek to roll back the progress we have made on climate action. But the American people know that the weather is changing and beginning to threaten both urban and rural America, and that a major effort is needed to respond. Mayors have their ear to the ground. The need for climate protection is not going away. And neither will America’s mayors,” said USCM CEO and Executive Director Tom Cochran.

“What we’re learning is that partnerships with the business community and local utilities result in far greater returns in reducing greenhouse gas emissions than mayors can do alone,” said C2ES President Bob Perciasepe. “It speaks volumes that so many cities have a high level of interest in private sector partnerships. They want solutions for their residents, and partnerships help provide the needed expertise, funding, and services to achieve them.”

About the Alliance for a Sustainable Future: The Alliance for a Sustainable Future was formed by USCM and C2ES in 2016 with the shared goals of keeping city officials and business leaders informed and empowered to design and implement local plans for low-carbon, sustainable communities.

About The U.S. Conference of Mayors: The U.S. Conference of Mayors is the official nonpartisan organization of cities with populations of 30,000 or more. There are nearly 1,400 such cities in the country today, and each city is represented in the Conference by its chief elected official, the mayor. Learn more at www.usmayors.org.

About C2ES: The Center for Climate and Energy Solutions (C2ES) is an independent, nonpartisan, nonprofit organization working to forge practical solutions to climate change. Our mission is to advance strong policy and action to reduce greenhouse gas emissions, promote clean energy, and strengthen resilience to climate impacts. Learn more at www.c2es.org.

Catastrophe-Bond Investors Hard to Rattle as Florence Approaches.

- **Aon's Schultz sees no panicked sales in 'sophisticated' market**
- **Investors are in 'for the long term,' Fitch's Grimes says**

Catastrophe-bond investors probably stayed calm and didn't nervously sell their holdings as they watched Hurricane Florence hurtle toward the U.S. East Coast this week, market observers say.

Trading has been relatively muted ahead of the storm that's set to make landfall in the Carolinas on Friday, according to Paul Schultz, chief executive officer of the Aon Plc investment-banking group that helps companies issue cat bonds. The securities offer higher yields in exchange for the risk that the principal could be wiped out by natural disasters.

"The market is more sophisticated," Schultz said in an interview. "There's not sort of panicked selling, there's not distressed levels of just getting out of a bond if you think there's some exposure. It's more of an informed view where you're looking at the potential track of the hurricane, you're looking at the implications of your portfolio."

Investors such as pension funds have snapped up cat bonds, which can help diversify portfolios. One gauge of the market, the Swiss Re Cat Bond Price Return Index, prices weekly on Friday. Christopher Grimes, a Fitch Ratings director, said the index might move down slightly, then is likely to recover unless Florence is worse than forecast.

"We don't think that the market is maybe as opportunistic as maybe it was thought to be at one point," Grimes said. "This is fairly sticky capital, where investors are in for the long term."

Florence's leading edge had struck waterfront towns in North Carolina by Thursday afternoon, with the full impact still to come. When the hurricane is done lashing the coast, its storm surge could flood tens of thousands of structures, according to North Carolina Governor Roy Cooper.

Aon's Schultz said that bid-ask spreads this week indicate muted volatility in the cat-bond market. Prospective investors are generally asking for a larger discount, but bondholders seem to be resisting. That reflects a "mature view in the marketplace," Schultz said.

The cat-bond index plunged last year as Hurricane Irma approached Florida. It later rose slightly, but has stayed under pre-Irma levels. Florence's current path could help temper any impact on cat bonds this time around because fewer of the securities carry risk in the Carolinas, and Florida is expected to avoid a hit.

Damage estimates for Florence remain uncertain because the storm's path could shift as it moves inland. Widespread power failures and business interruptions are seen as likely, and hundreds of thousands of people have evacuated the region.

"As long as that hits in a populated area, we would expect it to have some impact to the cat-bond market," said Brett Houghton, a portfolio manager at Fermat Capital Management, which oversees

investments in insurance-linked securities.

Bloomberg Markets

By Katherine Chiglinsky and Ivan Levingston

September 13, 2018, 9:00 PM PDT

S&P Hurricane Watch: Monitoring The Financial Impact On Governments In Florence's Path

Anticipating the path of a hurricane, gathering information on the damage, and then evaluating its potential credit implications can be challenging and the effects can vary widely, even within a relatively small geographic area.

Continue reading.

Sep. 14, 2018

Hurricane Florence Barrels Toward Unfazed Municipal-Bond Market.

- **North, South Carolina munis see little trading ahead of storm**
- **Even Hurricane Katrina didn't cause municipal-bond defaults**

With more than a million residents evacuating as Hurricane Florence heads toward North Carolina, one would expect money managers to be unloading bonds sold by local governments in the path of what may be the strongest storm to pummel the region since 1954.

But they're not.

On Tuesday, there was little trading in debt issued by governments in North and South Carolina and prices of the most active securities were little changed, according to data compiled by Bloomberg. It's a bond-market response similar to those ahead of previous natural disasters, including the hurricanes that dealt devastating blows to New Orleans and Houston.

Those storms, like others, prompted an influx of aid and insurance money and ultimately posed little peril to investors. And no state or local government whose bonds were rated by Moody's Investors Service has defaulted because of a natural disaster, according to the credit-rating company.

Even Hurricane Katrina, which caused a lasting exodus from New Orleans, didn't cause it to renege on bond payments. Nor did Hurricane Harvey, which submerged Houston and caused an estimated $125 billion in damages, stop most affected Texas localities from growing: Sales-tax revenue has actually climbed in the year since that storm, partly because of the rebuilding efforts, according to Moody's.

"If you go back and look at what happened in Houston, which had devastating results from Hurricane Harvey, the economy bounced back surprisingly well," said Patrick Luby, municipal strategist at CreditSights Inc., noting local governments' ability to rebound from storm damage in

recent years. “What the market is hoping is that most of these issuers are going to have some free resources that they can redirect.”

While storm surges are threatening hundreds of thousands of homes in coastal communities, it’s so far impossible to predict what sort of specific damage could occur, much less the potential impact on creditors. Florence is projected to make landfall Sept. 13 or Sept. 14 between Charleston, South Carolina, and Norfolk, Virginia, according to the National Hurricane Center in Miami.

One of the most active North Carolina bonds, general-obligation securities due in 2029, had six trades, selling for an average of 105 cents on the dollar, down from 105.5 cents on Sept. 5, the last time they traded. The most active South Carolina state bond traded for about 109 cents, little changed from Sept. 5.

“The big thing is how much the damage is and how much it takes to come back,” said Daniel Solender, head of municipal investments at Lord Abbett & Co., which manages $20 billion of state and local debt. “A lot of times the insurance proceeds really cover a lot of the damage, or the state will cover it or the federal” government.

While states and cities typically recover, big storms can have lingering effects on small, lesser known borrowers in the municipal market. Hurricane Matthew, a Category 5 storm in 2016, caused disruptions that negatively affected Southeastern Regional Medical Center in Lumberton, North Carolina when families who lost their homes left the area, according to S&P Global Ratings. It also hurt the operating performance of the BBB rated Columbus Regional Healthcare System, which is located about 45 miles from the coastal city of Wilmington, North Carolina, according to the ratings company.

“There are some muni assets that could be adversely affected,” said Adam Buchanan, senior vice president of municipal sales and trading at Ziegler Capital Markets Group in Chicago. “We’ll have to wait and see.”

Bloomberg Markets

By Elizabeth Campbell and William Green

September 11, 2018, 10:42 AM PDT

— With assistance by Amanda Albright, and Brian K Sullivan

Transit Advocates: Is the White House Purposefully Delaying Project Funds?

Advocates say the Federal Transit Administration is sitting on nearly $1.8 billion that’s supposed to help build light rail lines, streetcars and subway improvements. Delaying these projects, they argue, could increase costs for local transit agencies.

Transit advocates are becoming increasingly alarmed that the Trump administration may be intentionally slowing down the process for local agencies to get the money they need to build new projects, like light rail, streetcars and bus rapid transit.

The U.S. Department of Transportation is sitting on nearly $1.8 billion for projects that are ready or nearly ready for final federal approval, according to Transportation for America, a group that

promotes local transportation improvement efforts. Specifically, the group is concerned that the Federal Transit Administration (FTA) is not distributing money from its New Starts, Small Starts and Core Capacity programs, which all help local transit agencies pay for big-ticket construction projects.

The delays at the FTA affect rail projects in and around Chicago, Dallas, Minneapolis and New York City. They could impact new streetcar service in Sacramento, Calif.; Tempe, Ariz.; and Orange County, Calif. And new rapid bus service in El Paso, Jacksonville, Fla., Reno, Nev., Seattle and St. Petersburg, Fla. could be delayed as well.

The backlog may actually be even bigger than that, says Beth Osborne, a former Obama administration official who now works for Transportation for America. It's hard to know exactly how much money is waiting to be distributed, she says, because the Trump administration has released fewer details than previous administrations about the status of projects. (The Obama administration's 2016 report, for example, was 189 pages long, while the Trump administration's corresponding 2018 report is just 20 pages long. The FTA says it no longer includes information on individual projects in those reports, because details are available online.)

Transit officials are reluctant to complain publicly, Osborne says, because they don't want to jeopardize funding for their projects.

Osborne worries that the Trump administration is deliberately trying to "slow walk" the grant process, because it opposes the federal government spending on money on local transit projects. "I take this administration at its word," she says. "This administration has made very clear that they don't believe that federal government should put any money to transit. They've told us that repeatedly. Then there seems to be surprise when we [connect] those beliefs to this action. But it's hard to see any other way."

But the FTA says the reason the projects haven't received funding is because they aren't yet ready. "Transportation for America fails to recognize that projects must be eligible to receive funding by meeting the established requirements and criteria. FTA cannot give out funding for proposed projects that have not met the established requirements to be eligible for consideration to receive [capital] funding," said an FTA spokesperson in a statement to Governing. "Any characterization of FTA delaying the funding of grants is inaccurate as the majority have not met eligibility requirements."

The process can be a lengthy one. Transit agencies have to round up funding for the rest of the project, get agreements with contractors and other third parties, develop cost estimates and prove that they can manage a project of its scope. Then the FTA reviews the projects and rates them. Projects must earn a "medium" rating to obtain funding.

Other hiccups can slow down the processes even further. A bus rapid transit system in Seattle, for example, has to be redesigned because the vehicles the city planned to use can't make the climb up steep hills on the route. A lawsuit is holding up one light rail project in Minneapolis, and another one is on hold because a freight railroad won't grant the transit agency right of way. A legal challenge is also threatening the funding of a riverfront streetcar in Sacramento.

Clearly, the FTA's own review processes can also be a factor. The agency, for example, has asked for more financial information about tunnel repairs on New York City's 'L' line between Manhattan and Brooklyn. And it is conducting risk assessments for platform extensions for Dallas' light rail.

One of the most common problems among the applicants, though, appears to be that they haven't

secured all of their non-federal funding. That is an issue for bus rapid transit projects in both St. Petersburg and Jacksonville in Florida, along with the Sacramento streetcar and a bus rapid transit project in El Paso.

Meanwhile, the Tempe streetcar and Minneapolis orange line are near the end of the FTA review process.

It is true, though, that the Trump administration has repeatedly tried to reduce the federal government's spending on infrastructure projects, particularly for mass transit. In explaining the president's infrastructure package in February, the White House said an "unhealthy dynamic" had developed in which local governments delayed projects to try to get more federal support for them. Then, the administration opted not to request any money from Congress to fund the transit-building programs in next year's budget. "Future investments in new transit projects would be funded by the localities that use and benefit from these localized projects," the president's budget proposal stated. Congress added funding for those programs anyway.

On the other hand, President Trump has repeatedly chafed at how long it takes for public infrastructure projects to be built. He signed an executive order to speed along federal reviews of major infrastructure projects, with the goal of giving local officials a decision within two years.

But delays with the federal funding process could wreak havoc with transit agencies' plans to upgrade or expand their systems.

Earlier this year, for example, Los Angeles-area officials broke ground on a subway route extension that will connect downtown to Beverly Hills, Century City and the neighborhood around the University of California, Los Angeles. Organizers hope the new stations will be ready by 2025, well in advance of the 2028 Summer Olympic Games that the city will be hosting.

But the Purple Line Extension could get a lot more expensive — $200 million more, according to the Los Angeles Times — and could take up to two years longer if Los Angeles Metro does not receive a federal sign-off on the final portion of the project by Oct. 3. That's the date that a bid from construction companies to dig the western portion of the tunnel expires, so going beyond that date could require the agency to put the work out to bid again. LA Metro is not explicitly looking for FTA funds at this point, but it wants the federal government's permission to spend its own money for the time being and still be eligible for reimbursement later.

LA Metro asked for the FTA to respond by Sept. 30, and the FTA is currently reviewing that request.

The administration's slow progress on transit grants has also caused problems for the FTA on Capitol Hill.

In March, the Republican-led Congress ignored the president's request to eliminate new funding for the transit projects. In fact, in its spending package, it specifically directed FTA to obligate 85 percent of the transit capital plans by Oct. 1, 2019. That's an unusual arrangement, especially for programs where there is usually more interest than money available.

The U.S. Government Accountability Office (GAO), though, later reported that the FTA did not intend to comply with that provision. The FTA "did not indicate that they have any immediate plans to address those provisions," the oversight agency wrote in a May report to Congress . "Moving forward, if FTA does not take steps to address the outstanding provisions, FTA runs the risk of violating federal law."

It's not clear, though, what would happen if the Trump administration does not meet the

congressional mandate, says Transportation for America's Osborne. Normally, unspent money goes back to the federal treasury, but that's exactly the outcome that Congress sought to avoid.

Congress could pick projects itself, but its members have been loathe to insert specific earmarks after a series of earmark-related scandals in the mid-2000s. Republicans banned earmarks when they took control of Congress in 2011.

Meanwhile, the GAO auditors also determined that the FTA had not been working on other regulations required by recent federal laws, such as issuing rules for grants that improve existing transit systems, creating a process for transit agencies to apply for grants for more than one project at the same time and creating a quicker process that would allow certain types of projects to get funding faster.

FTA officials disputed the auditors' findings that it had not addressed those needs, but they agreed to work on the issues raised by the auditors.

GOVERNING.COM

BY DANIEL C. VOCK | SEPTEMBER 11, 2018

How Munis Could Play a Role in Disaster Legislation.

WASHINGTON – Congress should consider legislation to facilitate bond funding in the wake of major disasters, such as broadening the types of private enterprises that can access tax-exempt financing and allowing certain advance refunding issuances, the National Association of Bond Lawyers urged in a paper released Wednesday.

The paper, "Disaster Recovery Bond Financing: Considerations for Congress" is the product of a working group chaired by John England of Butler Snow's Jackson, Miss. office.

Based on legislation previously adopted by Congress in response to 9/11, Hurricane Katrina, and flooding in the Midwest, the recommendations lay out what NABL suggests are the most important components of comprehensive, permanent disaster recovery legislation.

"Despite containing a useful guide for designating disaster areas, the federal aid which follows such a designation, provided under the Robert T. Stafford Disaster Relief and Emergency Assistance Act and other sources, may not be immediately be available for local governments to use to address emergency issues," NABL said in the paper.

This isn't the first push to tap the muni market for more sustainable disaster-relief funding. Last year, for example, the Council of Development Finance Agencies threw its support behind a proposal to permanently authorize as much as $20 billion of federally tax-exempt bonds for disaster rebuilding.

NABL also made recommendations for legislative and regulatory changes in September 2005 after states and localities were devastated by Hurricane Katrina.

"This paper is intended to provide Congress with a blueprint for permanent disaster relief financing mechanisms that our experience shows would benefit state and local governments in the aftermath of a major disaster," said NABL President Sandy MacLennan, a partner at Squire Patton Boggs in

Tampa, Fla. “The concept of a permanent structure for these provisions will expedite the recovery process.”

New legislation should revise the tax law to allow local governments to establish and maintain a disaster recovery working capital reserve in excess of 5% of the previous year’s working capital expenditures without resulting in tax-exempt bond proceeds being deemed not to have been spent, NABL said. A new law should also permit Treasury to draft regulations allowing tax-exempt financing to provide for costs incurred in connection with direct losses resulting from a disaster, NABL suggested, such as overtime pay and expenses to relocate staff and equipment.

Legislation should “expressly recognize that proceeds of tax-exempt bonds are spent once allocated to a recovery-related project,” NABL said, “and permit reimbursements of recovery-related costs paid with proceeds of tax-exempt bonds to be reallocated to other expenditures related to the post-disaster recovery, regardless of the initial allocation of disaster bond proceeds.”

The group recommended putting the tool of advance refundings back into the hands of disaster-affected issuers, regardless of whether such bonds were previously advance refunded prior to the passage of the 2017 tax reform legislation that ended advance refundings.

Other suggestions include easing private activity bond restrictions and granting additional low-income housing tax credit authority to each state and allowing states to convert unused carryforward of their volume cap from previous years to additional low-income housing tax credit authority.

NABL’s paper also makes suggestions on how new legislation could support the credit of disaster-stricken issuers. For example, Congress could raise the bank-qualified bond cap to $30 million from $10 million for disaster-affected issuers for some amount of time, it recommended. Congress could also permit local governments to specifically pledge Federal Emergency Management Administration (FEMA) reimbursement funds as security for the payment of bonds, and authorize states to issue tax credit bonds and lend the proceeds to disaster-affected localities.

The paper concludes its recommendations with suggestions on how legislation could create jobs to promote a sustainable recovery from a disaster. This could be accomplished through broadening the types of entities that could benefit from tax-exempt financing, including hotels, office buildings, retail stores, medical clinics and other healthcare facilities, public utility property, warehouses, and manufacturing plant buildings, NABL said.

Congress could also ease public-private partnership restrictions, and use a formula to provide a maximum private activity bond volume cap with no restrictions on years of carryforward, NABL said.

NABL said it would be happy to assist Congress, Treasury, and the Internal Revenue Service in considering specific legislative proposals.

By Kyle Glazier

BY SOURCEMEDIA | MUNICIPAL | 09/05/18 07:04 PM EDT

More U.S. Cities Brace for ‘Inevitable’ Hackers.

Majority of top 25 U.S. cities have, or are looking to buy, cybersecurity insurance

Hackers are constantly probing for “the one flaw overlooked” in Houston’s computer networks, the official responsible for safeguarding the fourth-largest U.S. city’s system said.

“Compromise is inevitable,” said Christopher Mitchell, chief information security official, at a Houston City Council hearing last month. His presentation helped persuade local lawmakers they needed a $30 million cybersecurity insurance plan with a $471,400 premium, an example of a burgeoning trend across the country. Policies vary, but insurance can cover hackers’ extortion demands, legal liabilities, computer-forensics expertise and costs for problems like having government services knocked off line.

A majority of the 25 most-populous U.S. cities now have cyber insurance or are looking into buying it, according to a Wall Street Journal survey. A ransomware attack on Atlanta earlier this year—one of the biggest reported breaches of a city’s network—served as a warning to officials everywhere of the constant barrage from hackers. Cities and even library systems are being hacked more often than people realize, but many heard about Atlanta.

“It got a lot of people nervous and got a lot of people coming to the market and saying, ‘Hey, I’m really interested in buying this,’ ” said Brad Gow, global cyber product leader at insurer Sompo International Holdings Ltd.

Cities including Boston, Nashville, Tenn., Washington, D.C., and San Jose, Calif., are actively researching cyber insurance. Dallas, San Diego, Denver and Detroit are among those that already have cyberpolicies; none have filed claims.

“I wanted A to Z to have it covered,” said Mark Barta, risk management director in Fort Worth, Texas, which got a $5 million cyberpolicy with a $99,570 premium last year. “I didn’t want to be in a situation on a Monday morning hearing this happened, and saying, ‘What do I do next?’ ”

Some cities—including New York, Chicago and Philadelphia—declined to say whether they have cyber insurance. Some, like San Antonio, have cyber coverage through an existing property policy. Others say they are self-insured, which can entail creating a special fund to cover losses.

Seattle is self-insured and doesn’t have additional cyber insurance, but reviews its need for coverage every year and is currently soliciting quotes, a spokeswoman said.

“There has been an increase in cyberattacks facing state and local governments this year,” Andrew Whitaker, Seattle’s chief information security officer, said in a statement.

Insurers writing cybersecurity policies for cities include Sompo, American International Group Inc., Lloyd’s of London and Axis Capital Holdings Ltd.

Atlanta has a cyber-insurance policy that took effect Jan. 1, less than three months before hackers managed to freeze city computer systems. The city refused to pay a $51,000 ransom, but hacks can entail many other costs, from the emergency response to building stronger defenses. Mayor Keisha Lance Bottoms has estimated that Atlanta was facing more than $20 million in costs following the attack.

An Atlanta spokesman said officials have begun submitting claims but didn’t respond to questions about the monetary value of those claims or whether the carrier, AIG, has issued any payments.

Cyber insurance has recently been a fast-growing market for U.S. corporations worried about attacks. Mr. Gow said his business—which insures Fort Worth, Charlotte, N.C., and soon, Houston, according to the cities—is also seeing strong public-sector growth. Overall, Sompo’s cyber business

has grown 30% a year since 2014, he said.

Cities are generally a “tough class” for underwriters, Mr. Gow said. One challenge municipalities face is hiring and retaining top IT staff. “There are not enough of these men and women around for the Fortune 500, much less for all the towns and cities and states that need these talents,” he said.

Houston’s cyber insurance—three $10 million policies from different insurers—is intended to cover many potential problems, including costs due to an interruption of city services and the expense to restore, re-create or re-collect lost or damaged data, officials say.

It would also cover costs tied to ransomware attacks like the one that struck Atlanta. Mr. Gow said it often makes sense to give in to lower-cost extortion demands.

“As a rule, if it’s manageable—under $5,000 or $10,000 or $20,000—it’s better for everyone, as distasteful as it is, to pay the ransoms,” he said.

Though the Houston City Council unanimously approved the plan, one member had questions about the nearly $500,000 premium. Council member Jack Christie embraced the insurance plan. “We’ve been attacked, and the defense system so far has worked,” he said. “Because the intensity has picked up, we need this insurance against that.”

Los Angeles doesn’t carry a policy, an official said. The city has, however, spent the last several years on an “aggressive strategy to improve protection,” said Reuben Wilson, general counsel for public safety in the mayor’s office, at a June meeting of the U.S. Conference of Mayors in Boston. This includes creating an operations center to monitor for threats citywide, he said.

On an average day, Los Angeles sees 45 million unauthorized access attempts that are blocked automatically by firewalls, Mr. Wilson said. But firewalls and antivirus software don’t catch all of the latest attacks, he said, and the city’s cybersecurity analysts neutralize about 2,000 intrusions each week before any harm is done.

Many cyber incidents happen when an employee opens an attachment or clicks on a link that inadvertently gives hackers access to the network.

“Humans fall for stuff, humans make mistakes,” said Austin Morris Jr., chief executive of an insurance brokerage in Huntingdon Valley, Pa. He said such scenarios generally don’t allow an insurer to deny coverage.

The risk hit home in San Francisco two years ago when hackers infiltrated systems at the city’s transportation agency, causing it to turn off ticket vending machines as a precaution. While San Francisco has a $50 million cyberpolicy for its public-health department, the city wants to cover the entire municipal government.

Risk managers are working with brokers to learn about other cities’ policies, and San Francisco has also hired a consultant to help quantify its risk so it can get sufficient coverage. The hackers are always evolving, said Michael Makstman, San Francisco’s chief information security officer.

“This is their work, day in and day out, to try to attack,” he said. “We do X, then they react with Y. We do Y, and then they react with Z.”

The Wall Street Journal

By Scott Calvert and Jon Kamp

Updated Sept. 4, 2018 5:20 p.m. ET

Smart Beta ETFs Take on the $3.8 Trillion Municipal Bond Market.

- **Columbia Threadneedle files for 'strategic beta' muni bond ETF**
- **Fund excludes California, has high exposure to revenue bonds**

First smart beta investing took stocks by storm. Then it moved to bonds. Now it's making its way to the $3.8 trillion market for U.S. municipal debt.

Columbia Threadneedle Investments, known for its municipal-bond mutual funds, has filed for an exchange-traded fund called the Columbia Multi-Sector Municipal Income ETF, which will seek to replicate the performance of a muni market index with a "rules-based" and "strategic beta" approach, according to a May filing with the U.S. Securities and Exchange Commission.

Once it starts trading, it'll be Columbia's first municipal bond ETF and likely one of the first smart beta funds in the muni market. Smart beta is a strategy that aims to give investors more targeted exposure by building indexes around themes, called factors, such as momentum or value.

ETFs haven't made deep inroads in the municipal-bond market like they have in other asset classes, with just over 40 muni funds trading. Still, Columbia found in a survey of more than 100 financial advisers that over half would consider buying a smart beta municipal-bond ETF for clients.

The results are "encouraging," Marc Zeitoun, head of strategic beta at Columbia Threadneedle, said in an interview. He estimates the shift to benchmarking and passive investing in municipals is about six years behind the equity market.

"This is a trend that will likely occur in the municipal world," Zeitoun said. "It's happening in every other asset class."

Making Munis Smart

Muni ETFs typically use traditional passive investing strategies. For example, BlackRock Inc.'s $10 billion iShares National Muni Bond ETF, known by the ticker MUB, follows the performance of a market-value weighted index, meaning it carries high exposures to the states and sectors with the largest amounts of debt outstanding, like California and New York.

The Columbia fund would take a different approach, targeting debt market factors such as yield, quality, maturity, liquidity and interest rate sensitivity, according to the filing. The ETF also would establish "rules" for what it won't buy, like California bonds, which have gotten increasingly expensive as people look to shield their income from taxes.

Similarly, while the fund will have some exposure to junk-rated munis, it's taking a careful approach to those securities. The ETF won't have tobacco bonds as part of its high-yield holdings because they risk default if Americans keep quitting smoking. And it won't buy notes sold by bankrupt Puerto Rico or other U.S. territories that are all facing high debt levels.

About 45 percent of the fund will be in "core" revenue bonds that are rated Aa3 or lower, 20 percent will be in health-care municipals rated Aa2 or lower, 15 percent will be in revenue bonds rated Aa2 or higher, 10 percent will be in general-obligation bonds rated Aa3 or higher and another 10 percent

will be in high-yield municipals, according to the filing says. Each sector carries different maturity requirements.

Indexing Catches On

Catherine Stienstra, head of municipal bond investments at Columbia, is listed as the lead portfolio manager for the Columbia Multi-Sector Municipal Income ETF.

The high exposure to revenue bonds jibes with a widespread preference among municipal-bond investors for debt backed by a revenue stream as opposed to a promise to pay, known as general-obligation bonds. This comes after Detroit's bankruptcy imposed losses on general-obligation bondholders, eroding the value of a pledge once considered sacrosanct.

Indexing has been slow to catch on in the municipal market because investors believe it's difficult to navigate and therefore are willing to pay for actively-managed portfolios, said Todd Rosenbluth, director of ETF and mutual fund research at CFRA Research. The Columbia fund could be appealing because its smart beta approach would screen for investments based on characteristics that active managers use, he said.

Evolutionary ETFs

"It's a great marriage of what's working in both the active world and in the index world," Rosenbluth said.

One concern financial advisers have surrounding smart beta fixed-income funds is the cost, Columbia found in its survey. The ETF filing does not yet disclose the fund's proposed fees. Rosenbluth said the costs will likely be cheaper than actively-managed alternatives. He expects smart beta to catch on in the municipal market — just like equities and taxable fixed-income products — especially if the Columbia fund can gather assets quickly.

"It's evolutionary that we see this happening in the muni bond ETF space," he said.

Rising Rates on Wall Street Loans Push States to End Swap Deals.

- **Tax cut triggered clauses letting banks boost rates on loans**
- **Market shift lets them come out ahead despite big bank fees**

U.S. state and local governments are paying Wall Street firms millions of dollars to terminate interest-rate swap trades, spurred by rising costs on bank loans and bond-market swings that are allowing them to save money by refinancing derivative-laden deals.

Some of the nation's biggest debt issuers, including Illinois, New Mexico, and Massachusetts, have all sold fixed-rate bonds in the last six months and used some of the proceeds to pay banks to back out of the swap agreements. The low yields on new fixed-rate bonds have allowed some of them to come out ahead despite the termination payments.

In June, the New Mexico Finance Authority issued $420 million of fixed-rate debt, spending $64 million of the proceeds to terminate five swaps on floating-rate bonds and loans. That came after its costs on about $285 million of the notes owned by Bank of America Corp. had increased by about $1 million annually after the corporate tax cut allowed the bank to raise the interest rate to make up for

its smaller profits on the tax-exempt loans.

“If you have debt out there that’s costing you over 5 percent and you can refinance it for less than 3 percent, the savings can be used to absorb the cost of the termination,” said Michael Zavelle, chief financial strategist at the New Mexico Finance Authority.

The derivative trades are the legacy of a popular financial tactic used more than a decade ago, when states and cities sought to save money by borrowing with floating-rate bonds paired with interest-rate swaps instead of selling traditional fixed-rate debt. The deals unraveled during the financial crisis when the housing bust hammered insurers that guaranteed the bonds, causing the interest rates to soar.

While many governments paid billions to back of out the deals, others opted to convert their floating-rate bonds into direct loans with banks. But many loans included clauses giving banks the right to raise the interest rate if legal changes lowered the return on their investment. The 2017 tax cut that slashed the corporate rate made the tax-exempt loans less valuable than before compared with other assets, once federal taxes are taken into account. So banks demanded more interest to make them whole.

“That changed the whole economics of this transaction,” said Zavelle. “It made sense only because costs increased because of the tax law change.”

Last month, Illinois issued $965 million of fixed-rate debt at an overall rate of 4.2 percent, using $75 million of the proceeds to terminate five swaps. A portion of the new bonds retired $600 million in floating rate-debt sold to four banks under direct purchase agreements that were set to expire in November. The borrowing costs on the new debt was about half of the old bonds, according to the state.

“Although a swap termination payment was due in order to fix out the bonds, the savings associated with the new lower interest cost fixed-rate refunding bonds far exceeded those costs,” Elizabeth Tomev, a spokeswoman for Governor Bruce Rauner, said in an email.

Swap terminations have also been driven by the drop in short-term municipal bond yields compared with those in the swaps market. That has made it more advantageous for governments to issue debt to unwind swap agreements that are set to expire within the next ten years, according to Nat Singer, senior managing director at Swap Financial Group, an interest-rate swap adviser to states, hospitals and universities.

In February, the Palm Beach County school district in Florida issued $339.5 million of bonds to refinance three series of floating-rate notes, using $50.4 million of the proceeds to end related swap trades. The rates on the new fixed-rate debt of 4.6 percent to 5.3 percent was about the same as the combined rate on the old debt and swaps, according to an April presentation to the school board.

“We actually had permission from our school board to terminate them for a couple of years now, we were just waiting for the right market conditions,” said Leanne Evans, the school district’s treasurer.

Bloomberg Markets

By Martin Z Braun

September 6, 2018, 10:30 AM PDT

— With assistance by Elizabeth Campbell

Oops! Some U.S. States Forget to Save Despite Growing Economy.

- **State fund balances can cover a median of 31 days: Pew Study**
- **Metric shows whether states are prepared for next recession**

Consumers are taught to save money during good times to prepare for the worst. Lawmakers who run U.S. states apparently haven't learned that lesson.

An analysis by Pew Charitable Trusts found that the financial cushion states have for recessions is wearing thin — despite the U.S. economy enjoying the second-longest expansion on record. States' total balances — including rainy-day fund reserves and general fund money left over at the end of the year — cover a median of 31 days of general fund expenditures as of fiscal 2018 estimates, 10 days less than right before the recession, the report found.

The situation is worse in states like Kentucky, where the rainy-day fund and leftover cash covers only about a third of a day of general fund expenditures, according to an analysis of fiscal 2018 estimates. The data are based on estimates from states before the close of the fiscal year and could change, Barb Rosewicz, project director at Pew, said in an email.

Continue reading.

Bloomberg Business

By Amanda Albright

September 4, 2018, 10:31 AM PDT

Racial Bias in Muni Market Costs Black Colleges, Research Shows.

- **HBCUs pay more than other schools with similar credit profile**
- **Difference more pronounced in Louisiana, Mississippi, Alabama**

Before Dillard University can start building a new dorm for its 1,291 students, the historically black college in New Orleans needs to raise money. To do that, it will have to contend with what researchers say is racial discrimination in the muni-bond market.

Historically black colleges and universities in the U.S. pay more to issue municipal bonds than non-traditionally black schools, according to recent research. After controlling for credit quality, issue type and other relevant factors, HBCUs pay on average 14 percent more in underwriting fees compared with historically white institutions.

Banks have to work harder to sell HBCU bonds, said Pengjie Gao, professor of finance at the Mendoza College of Business at Notre Dame and one of the authors of the report entitled "What's in a (school) name? Racial discrimination in higher education bond markets." Because of that effort, the school gets charged a higher fee.

For non-HBCUs, an average 81 cents out of every $100 raised flows to underwriters. HBCUs pay 11 basis points more, at 92 cents per $100 dollars raised. "Somehow the investor taste does matter for their decisions," Gao said.

In states like Louisiana, Mississippi and Alabama, the spread jumps to 30 basis points. The report, written by professors from Duke University, Drexel University, University of Southern California and Notre Dame, attributes the upcharge to racial bias among local investors, who are most likely to buy muni bonds for the state tax break.

'Racial Animus'

"Because HBCUs are located in states with high levels of anti-black racial animus, underwriters face steep frictions when trying to find willing buyers," the report read.

These higher spreads come at a significant price. Gao put the cost at $35,000 per issue on the low end. America's 100-plus HBCUs could find better things to do with that money, said Dillard President Walter Kimbrough. More than 75 percent of students at historically black institutions rely on Pell Grants to cover tuition and expenses, according to the Thurgood Marshall College Fund. At Dillard, for example, $35,000 would cover two full scholarships.

Bias in the bond market is another version of discrimination black Americans and institutions have faced in the financial sector, academics noted. In recent years, large financial institutions have defended themselves against charges of racial discrimination against employees and customers.

"There's already inequity, so I'm not surprised to see this ongoing inequity in the bond market," said Joni E. Finney, director of the Institute for Research on Higher Education at the University of Pennsylvania. "I think somebody should call them out on it and say, 'We expect this to change.'"

Expanding Pool

Some lawmakers have tried. After a preliminary version of the academic study was released in 2016, Minnesota Congressman Keith Ellison introduced the HBCU Investment Expansion Act, an action that would grant triple tax-exempt status to bonds sold by the schools. That would allow out-of-state buyers to purchase the bonds tax-free. In theory, expanding the pool of possible investors outside of the state they were sold would make it easier for underwriters to place the bonds — and less costly for the historically black colleges.

"This legislation will level the playing field and help HBCUs get the funds they need to build new dorms, labs or classrooms without additional costs or fees," Ellison said at the time.

The bill stalled in both the Ways and Means and Finance committees where it has remained ever since. Ellison is now running for Minnesota Attorney General.

As Dillard prepares for its first muni-bond offering since 2002, Kimbrough said he hopes the findings from the report will help him negotiate a fair deal with the underwriter they choose. He also said he knows what he's up against.

"We are under-resourced institutions that serve an under-resourced community," Kimbrough said. "Because of how everything else operates in the nation, those with the least resources end up paying more."

Bloomberg Markets

Danielle Moran and Jordyn Holman

September 4, 2018, 5:47 AM PDT

On Water Problems, Governments Actually Work Together.

When it comes to dirty lakes and rivers, governments have learned how to cooperate.

The greatest lubricant for intergovernmental harmony may well be water. I know that sounds odd, but the nation's largest bays and lakes offer compelling examples of how multiple states can work with each other — and also with towns and cities, federal agencies, universities, nonprofits, and foreign governments — to combat water pollution.

There is a lot of work to do. Ambitious surveys of more than 2,000 locations carried out in five-year cycles by the states and the Environmental Protection Agency show that a little more than half of the nation's rivers and streams are significantly polluted. That dirty water, in turn, flows downstream into the nation's bays, lakes and coastal areas. The chief contaminants are nitrogen and phosphorus, which contribute to the formation of algae blooms that lower oxygen levels needed to support aquatic life. A lot of the phosphorus comes from fertilizer, so the problem is particularly acute near farmland, though urban areas contribute as well. Once the chemical is introduced, it poses a permanent problem for the water, much like the carbon dioxide being released into the atmosphere.

A good example of this phenomenon is Lake Champlain in New England — one of the most beautiful inland lakes in the country, but also one of those most threatened by what is known as "legacy phosphorus." A recent study by the University of Vermont estimated that almost 240,000 tons of pollution had accumulated in the watershed in the past 90 years.

The Lake Champlain Basin Program was created 23 years ago and has the support of Vermont, New York and the Canadian province of Quebec, plus a wide array of local governments and private organizations. The regional administrator of the EPA has been a consistent player, as has the Quebec premier. The most recent report of the program concluded that the deterioration in the lake's water quality had subsided somewhat, but that the long-term problem of phosphorus buildups in parts of the lake continues.

The Lake Champlain Basin Program was marked for elimination this year by the Trump administration's proposed budget, but Democratic Sen. Patrick Leahy of Vermont, the vice chair of the Senate Appropriations Committee, had a blunt response: "That's not going to happen." He instead succeeded in getting the program a $4 million increase in funds this year. But the EPA did make it clear that the governments in the program must develop a new funding source of their own so the work can continue "regardless of fluctuations in federal spending."

Compared to Lake Champlain, the Chesapeake Bay is vast, with a watershed covering more than 64,000 square miles, including parts of Delaware, Maryland, New York, Pennsylvania, Virginia and West Virginia, as well as Washington, D.C. But there are similarities: The campaign to save the bay is well coordinated, largely by the EPA's Chesapeake Bay Program, created in 1983 and headquartered in Annapolis, Md. Here, too, the Trump administration attempted to zero out the $73 million in federal money allotted to the program, but Congress refused to go along.

Four years ago, when he was running for governor of Maryland, Republican Larry Hogan vehemently criticized a stormwater remediation fee, enacted in 2012 and designed to reduce the amount of runoff pollution headed into sewer systems and eventually the Chesapeake Bay. Hogan derisively called it a "rain tax." But as studies began to show stormwater remediation promoting underwater grasses that help clean up the bay, Hogan changed his tune and came to support the program. The "rain tax," coupled with other measures designed to eliminate runoff, has had a

positive effect both environmentally and politically.

Finally, there are the five Great Lakes. Taken together, they form the largest surface freshwater system on the planet, hosting more than a fifth of the earth's freshwater supply. Their combined watershed includes significant areas of Canada and eight U.S. states, plus more than half a dozen major metropolitan areas and about 40 tribal nations.

The watershed is vitally important in both the U.S. and Canada as a center for manufacturing and agriculture, as well as shipping. The structure for cooperation to protect it was established early on, in 1972, when President Richard Nixon and Canadian Prime Minister Pierre Trudeau signed a Great Lakes Water Quality Agreement defining specific areas that were threatened by pollution. In the ensuing years the agreement has been amended many times, most recently six years ago to address the frightening algae blooms in Lake Erie.

If you have ever flown over the southwestern tip of Lake Erie in summer, you will understand the concern: The entire lake surface is a mass of green algae. The most serious infestation came in 2011. Not long after that, the 1972 agreement was amended to deal with the algae problem.

The water pollution challenge to governments at all levels is daunting because it mixes intricate science with complicated politics. But the intergovernmental outcome generally has been positive. There is occasional friction, as when Michigan complains that Illinois isn't doing enough to keep the invasive and dangerous Asian carp from entering its waters via the Chicago River. But the EPA regional offices have continued to be a positive force. That is vital. In the age of Trump, it also is highly uncertain.

Governing.com

By Peter Harkness | Founder, Publisher Emeritus

SEPTEMBER 2018

What To Expect From S&P Global Ratings' U.S. Public Finance Rating Process.

Our ratings, research, and insights support transparency in the capital markets and help market participants and investors make educated, confident decisions.

Continue Reading

Sep. 5, 2017

S&P: Pension Costs Will Remain High For Largest U.S. Cities, As Revised Liability Measures Place Upward Pressure On Contributions.

U.S. cities have varying legal, governance, and benefit structures and operate in different legal and economic environments, so there's no one-size-fits-all measure for assessing their pension and other postemployment benefit (OPEB) risk.

Continue Reading

Sep. 5, 2018

Doing More With Less: The Case for Investing in Multi-Use Infrastructure

In our current climate environment, critical infrastructure is under intense strain and not keeping pace with the changes and challenges of the 21st century — from the pot-holed roads we drive on every day to our outdated storm drainage systems. According to The Union of Concerned Scientists, more than 300,000 homes in U.S. coastal areas could be underwater within the next 30 years. It's clear that we need to rethink our traditional approach to infrastructure, and we should do so now to capitalize on the growing commitment to renewable energy and efficiency goals, and the new interest in green infrastructure projects.

At Neighborly, we want to help communities pursue a transformative approach to creating vibrant, sustainable and resilient infrastructure, and we believe modern municipal finance is is at the heart of delivering on this social contract. So it's concerning that California's infrastructure investment and resiliency challenges will adversely impact people and places, and as a result also their ability to access the capital markets to finance the very infrastructure they need to protect themselves.

In short, we need to do more with fewer public dollars by building multi-use, multi-benefit infrastructure.

Continue reading.

Neighborly

Posted 08/29/2018 by Kiran Jain

Advisers' Top Concern About Muni Bonds Is Yield.

> "As passive investing continues to grow, rather than simply accept an imperfect benchmark portfolio, municipal bond investors with a preference for passive solutions should think about adopting a smart beta approach," suggests Catherine Stienstra, head of municipal investments at Columbia Threadneedle.

When establishing municipal bond exposure for clients, advisers are most concerned about yield and market complexity, according to a Columbia Threadneedle Investments survey.

Forty-three percent say their biggest concern with the asset class is finding the right amount of yield to align with their clients' goals and preferences. The next most highly cited concern (14%) was complexity in the muni market post-2008, followed by unintended consequences of benchmark investing (12%) and an inability to conveniently access all sectors of the muni market (12%).

Eighty-five percent said their muni investment decisions are at least moderately affected by credit and interest rate environments.

“Financial advisers are concerned about yield and market complexity when it comes to allocating client dollars to the muni space,” says Catherine Stienstra, head of municipal investments at Columbia Threadneedle. “Traditional benchmark indices exclude viable investment options, are debt-weighted and can be over-concentrated in less attractive sectors. This puts advisers in a tough position when they try to balance cost-efficiency with investment opportunity. As passive investing continues to grow, rather than simply accept an imperfect benchmark portfolio, municipal bond investors with a preference for passive solutions should think about adopting a smart beta approach.”

Fifty-five percent of advisers said they would consider investing or are already invested in a muni bond strategic exchange-traded fund (ETF). Fifty-four percent favor actively managed investments. Thirty-nine percent are concerned about cost.

“Financial advisers are being pulled in multiple directions as they remain committed to doing what’s best for their clients,” says Marc Zeitoun, head of strategic beta at Columbia Threadneedle. “The competing priorities of price and preference for active management are a good example of the balancing act they face. Strategic beta ETFs present a great middle ground between ‘best thinking active investment insight’ and passive implementation. It’s no wonder that track record and a firm’s expertise as an active fixed income manager remain the most important factors when considering strategic beta ETFs.”

Columbia Threadneedle’s findings are based on a survey of 111 financial advisers.

By Lee Barney

Pensions in Dispute - August 2018

Welcome to our quarterly pensions litigation briefing, designed to help pensions managers identify key risks in scheme administration, and trustees update their knowledge and understanding. This briefing highlights recent Pensions Ombudsman determinations that have practical implications for schemes generally.

Please see full publication for more information.

Allen & Overy LLP

September 4, 2018

Municipal Bonds vs. Corporate Bonds: The Better Investment Vehicle

Everything from corporate debt to municipal debt instruments, the sheer size of U.S. capital markets can certainly be puzzling for an investor seeking to strike the right balance between risk tolerance, time horizon and desired yield to enhance their potential returns.

In the global debt universe, government bonds make up the largest piece of the pie followed by the corporate debt instruments. Where both, corporate and municipal debt, are quite similar in their formation and structure, their returns and tax treatments can be significantly different for investors.

In this article, we will take a closer look at both forms of debt, their main characteristics and how each one can fit into an investor's portfolio.

Continue reading.

municipalbonds.com

by Jayden Sangha

Sep 05, 2018

Water Shutoffs in Detroit Schools are Symptoms of a Bigger Infrastructure Challenge.

The start of the school year usually marks a hopeful beginning for many communities, but reports of contaminated water in Detroit schools are just the opposite. After testing for elevated levels of lead and copper in drinking water, sixteen schools exceeded safety guidelines, which resulted in shutoffs across the entire district. And just this week, more reports have surfaced on several other districts across the country with similar water quality challenges. Over the coming months, students, teachers, and their families must contend with bottled water, dry water fountains, and lingering health concerns.

These school districts are just another example of where inadequate testing and decades of underinvestment have resulted in water infrastructure that is aging or susceptible to widespread failure (or both). By now, stories of cities like Flint and New Orleans are etched in our national consciousness, as pipes and other facilities struggle to provide safe, affordable, and reliable service, let alone be prepared to stand up to a mounting number of climate pressures.

Continue reading.

The Brookings Institute

by Joseph Kane

September 6, 2018

Six Steps for Metro Areas to Prioritize Global Markets.

In an increasingly economically integrated world, local leaders are recognizing that regional economic development strategies must create environments in which firms and industries can compete internationally to generate sustained growth and quality jobs. Since 2012, the Global Cities Initiative (GCI), a joint project of Brookings and JPMorgan Chase, has helped metropolitan areas strengthen their international competitiveness and connections through research, problem-solving, and exchange, including development of trade and investment strategies with more than 30 regions around the world.

About 40 percent of global economic activity now comes from cross-border trade and capital investment, containing tremendous potential to generate wealth locally.[1] Increasingly, economic

development leaders are looking to realign traditional economic strategies with global opportunities by helping local companies export to global markets, promoting their metro areas as sites for foreign investment, and cultivating exchanges of innovation and talent. This global economic engagement takes various tactical forms, including:

- Conducting trade missions abroad and hosting foreign delegations;
- Launching export grant competitions;
- Facilitating supply chain mentorships;
- Establishing "soft landing" accelerators to minimize investment risk;
- Providing global fluency training; and
- Forming long-term economic partnerships with international counterparts.

Continue reading.

The Brookings Institute

by Max Bouchet, Marek Gootman, and Joseph Parilla

September 5, 2018

Emerging Plan Would Rework Payments for Forest Counties.

Two senators are working on a proposal meant to get local governments in logging country off a funding "rollercoaster."

WASHINGTON — U.S. Sen. Ron Wyden told county officials here on Thursday that he's working on a plan to remake a program that provides payments to counties that have seen their finances weakened by diminished logging on federal forestlands.

The Oregon Democrat said he's developing the proposal with U.S. Sen. Mike Crapo, an Idaho Republican. Wyden says they're aiming to find a way to free local governments that depend on payouts from what's known as the Secure Rural Schools program from the unpredictability in both timber markets and the congressional appropriations process.

"I want to get these rural communities off the rollercoaster," he told reporters.

Secure Rural Schools provides an important funding source for some rural counties, particularly those in the west. Despite the name of the program, local governments can use money from it not only for schools, but also for costs like public safety and road upkeep.

For instance, Joel Bousman, a commissioner in Sublette County, Wyoming, said Thursday that his county uses much of the roughly $700,000 it receives to support a contract helicopter service for search and rescue activities in wilderness areas.

"Without SRS, my county would face budgetary issues," he said.

Secure Rural Schools dates back to 2000 and Wyden was one of the co-authors of the original law that created it.

The program was designed to aid local governments that were seeing their budgets take a hit because logging had declined on nearby federal lands and the federal government was sharing less

timber harvest revenue with them as a result.

Logging proponents often point to federal protections for the northern spotted owl and the old growth forests that provide its habitat as a key reason for declines in logging in the Pacific Northwest.

A spending package lawmakers approved earlier this year authorized two years of Secure Rural Schools payments to be applied for fiscal years 2017 and 2018. The fiscal 2017 payments provided $256 million to over 700 rural counties, parishes and boroughs across the nation, according to the National Association of Counties.

But in recent years, funding for the program has been unstable.

Local governments did not receive Secure Rural Schools payments for about two years leading up to the passage of the recent spending measure, and congressional lawmakers have resorted to budget gimmicks like tapping the nation's helium and petroleum reserves to cover the program's cost.

Wyden and Crapo have not publicly released a draft bill text or a detailed outline of their plan.

But Wyden said at the heart of the proposal would be a new permanent endowment, with an initial investment made by the federal government. The principal would be invested, and the interest would be used to make payments to counties. Payments would be set so they do not drop below first-year levels.

Route Fifty

By Bill Lucia,
Senior Reporter

SEPTEMBER 6, 2018

This Data Shows Who Grabs the Mic at Public Planning Meetings.

Andrew DeFranza has seen it countless times: An affordable housing project proposed in a mostly white, well-off community goes before the zoning board or the planning commission. A vocal minority of homeowners, themselves mostly white and well off, show up to oppose it. The project is killed, shrunk or delayed by litigation for years.

"We hear a lot of, 'I'm in support of affordable housing, just not here,'" says DeFranza, who's the executive director of Harborlight Community Partners, a community development corporation in southern Essex County in Greater Boston.

He wasn't surprised to hear the findings in "Racial Disparities in Housing Politics: Evidence from Administrative Data," a new paper by Boston University researchers. As the Boston Globe reported last week, the study of public meetings in nearly 100 Greater Boston cities showed that white people accounted for 95 percent of participants. In the same area, white people make up 80 percent of the population. Using an analysis of last names and geographic data from public meetings, the researchers concluded that "whites overwhelmingly dominate zoning and planning board meetings." (Details on how the BU researchers determined the race of participants are in the "Estimating Race" section of the paper.)

Continue reading.

NEXT CITY

BY JARED BREY | SEPTEMBER 6, 2018

NIMBYs Dominate Local Zoning Meetings.

A study of the Boston area shows that those who participate in planning and zoning board meetings are older, wealthier, and much more NIMBYish.

The late Jane Jacobs never much liked forums for community participation in zoning and housing issues. She thought they were usually a sham to harness community sentiment in ways that benefitted powerful government and development interests. She personally told me the story of how Robert Moses dismissed her and her colleagues at one critical meeting as "nobody but a bunch of mothers!"

But the reality today is that community participation is effective—as a mechanism for creating and reinforcing NIMBYism and the accompanying restrictive zoning and land use policies.

That's according to a new study by Katherine Einstein, Maxwell Palmer, and David Glick, political scientists associated with Boston University's Initiative on Cities. People who oppose creating more multifamily housing development tend to speak at public meetings much more often than those who support it.

Continue reading.

NEXT CITY

RICHARD FLORIDA SEP 6, 2018

Houston Eyes Designer Bonds to Pay for $15 Billion Ike Dike.

- **Twist on catastrophe insurance partners with private industry**
- **'Resilience bonds' would help fund 60-mile levee system**

A massive dike to hold back storm-driven floods surging in from the Gulf of Mexico was first proposed after Hurricane Ike devastated the Houston-area coast a decade ago.

Last year's Hurricane Harvey disaster brought fresh enthusiasm for the languishing project – along with a wave of investor interest.

Now city and state officials in Texas are studying a possible partnership with private industry to create a new kind of bond to help pay for a $15 billion system of seawalls and floodgates, as a warming climate piles more storm risk on the nation's fourth-largest city. They're examining the market for catastrophe bonds, in which investors assume the risk for calamities like hurricanes in exchange for above-market returns and portfolio diversification.

“This is why we have financial markets, to come up with this type of solution,’’ said Flavio Cunha, an economics professor at Rice University. “People love when markets can come and help construct some of these projects.’’

At stake: the welfare of $500 billion in industry, including the nation’s largest concentration of oil refineries and chemical plants. The dike could prevent countless homes and lives from being swept away in the 20-foot storm surge that would accompany a direct hit from a major hurricane –- a potentially worse cataclysm than Harvey.

Harvey flooded hundreds of thousands of homes and businesses, wreaking $125 billion in damages, a reminder of how vulnerable one of the nation’s most important economic centers remains. After a decade of indecision, officials have rallied around a plan for a seawall almost 60 miles long fitted with massive floodgates at the center to protect Galveston Bay and the industry lining the Houston Ship Channel.

The Dutch proved long ago that it can be done; Much of the Netherlands would be swamped if not for its network of levees and floodgates holding back the sea. Houston’s plan is modeled after those engineering marvels.

The Coastal Spine, also known as the Ike Dike, is the largest civil works project under consideration in the U.S., according to the Texas General Land Office. It would be a landmark deal for financial markets, too. If Houston can bring together the public and private sector, the new financing model could be replicated to reinforce communities from Florida to California against Mother Nature’s wrath.

Catastrophe Bonds

The U.S. Army Corps of Engineers in July committed $1.9 million for a study, and the state is seeking federal funding for construction. But under Corps rules for such projects, local governments would still need to shoulder 35 percent of the cost –- perhaps $5 billion — plus ongoing maintenance and repairs.

To raise the money, project backers are studying catastrophe bonds, which trade on public markets and have been adopted by companies and cities as a more cost-effective way to supplement or replace conventional insurance.

“Infrastructure finance related to resilience or risk reduction, that is probably the most dynamic area where we are seeing innovation at the moment,’’ said Daniel Stander, managing director at Risk Management Solutions, a consultant.

Following Hurricane Sandy in 2012, Amtrak obtained $275 million of natural-disaster protection for its railway from fixed-income investors, and New York’s MTA tapped the market twice for a total $325 million for its subway system.

Texas would put its own twist on the concept, pioneering a new instrument called “resilience bonds” that would both insure against flood damage and help fund construction of the Ike Dike, said Marvin Odum, Houston’s chief recovery officer and a retired president at Shell Oil Co., a unit of Royal Dutch Shell Plc.

How It Works

Here’s how money for the Ike Dike could be raised from the financial markets: Oil companies, chemical makers, railroads and others with assets exposed to flood risk would collectively issue

resilience bonds to replace their traditional insurance.

When the storm barrier is complete after perhaps three years, payments to the bond investors would drop to reflect the lower risk of flooding. The companies would continue paying the higher, pre-dike rate, and the difference would go toward paying off the project.

Odum has pegged the value of industry along the Texas coast at $500 billion, giving companies plenty of incentive to help fund the Ike Dike campaign. The cost of paying investors interest on the bonds shouldn't be any greater than the cost of insurance, said Shalini Vajjhala, chief executive officer of re:focus partners, a firm that brokers public-private partnerships for sustainable infrastructure.

A Houston nonprofit has organized a panel to discuss the project on Sept. 12.

Texas Twist

So-called resilience bonds were conceived in 2015 by re:focus in collaboration with Goldman Sachs, Risk Management Solutions, and Swiss Re, but Texas's Ike Dike project would be the first to use them.

The concept relies on local governments collaborating with business and industry, and could be replicated across the country in areas at high risk from natural disaster. Miami could sell resilience bonds to help finance seawalls to protect hotels, condominiums and other pricey real estate lining its coast, Vajjhala said.

"The market is overcapitalized at the moment so there is lots of hungry capital looking for a home,'' RMS's Stander said. "This is a good time to be thinking about innovative risk finance and project finance."

Even so, Houston would be betting big on an untested model, and many obstacles remain before a deal is done, including getting industry on board.

Evolving Project

Companies generally support the idea of a coastal barrier. But even DowDuPont Inc., which operates the largest chemical complex in the western hemisphere on the coast south of Houston, remains noncommittal about pitching in on the financing: "We look forward to actively engaging in discussions about the project as they evolve," said Rachelle Schikorra, a company spokeswoman.

Other experimental financing models could still emerge. One possibility: a hybrid that blends catastrophe and municipal bonds to help finance infrastructure like the Ike Dike while eliminating the city's obligation in the event of a major hurricane, said Rowan Douglas at Willis Towers Watson Plc, a risk management consultant.

"It's a concept that is gaining quite a bit of traction," he said. "There is almost certainly going to be a movement in this direction relatively soon."

The Ike Dike has already spent almost a decade on ice, and even if financing is arranged, an army of environmentalists and Nimbys are likely to line up against the project. Houston is determined to press ahead. Harvey's floods only confirmed that governments need to start preventing disasters instead of just cleaning up after them, said Bob Mitchell, president of the Bay Area Houston Economic Partnership.

Meanwhile, Houston voters on Aug. 24 approved issuing $2.5 billion in debt to pay for hundreds of small flood-control projects, from property buyouts to storm water control. Odum, the Houston recovery chief, said the region may need to spend as much as $30 billion for flood mitigation in the coming decades.

Despite the daunting costs and technical challenges, the coastal spine "is not fiction," Houston Mayor Sylvester Turner said in an interview. "It's a project that should take place."

Bloomberg Economics

By Jack Kaskey

August 30, 2018

— With assistance by Joe Carroll, and Katherine Chiglinsky

The Week in Public Finance: Tax Hike for Teachers Kicked Off Arizona Ballot.

In an unexpected decision, the Arizona Supreme Court ruled that the ballot measure's wording was misleading to voters.

In a surprise ruling in Arizona, a proposed income tax hike to restore education funding has been knocked off the November ballot. Had the measure gone before voters and passed, it would have nearly doubled the state's income tax rates on the wealthy and made Arizona the first red state to pass a millionaire's tax.

Instead, the Arizona Supreme Court ruled this week that the wording in the petition to get the measure on the ballot was misleading because it termed the tax increase as a 3.4 percent and 4.4 percent hike. A more accurate portrayal would have been to say the tax rate would be raised by those amounts in percentage points. "When you go from 4.5 percent to 9 percent, that's a 98 percent increase," says Garrick Taylor of the Arizona Chamber of Commerce. "Had that been disclosed to voters, I'm not so sure it would have [as much] support."

Backers of the measure, which largely includes teachers and administrators, called the decision an "utter outrage." In a statement issued hours after the ruling, the Invest in Education Committee, which collected signatures for the measure, characterized it as a politically motivated move to protect the elite. "Any politician who has been part of this effort to stifle the will of the voters will be held accountable and pay the consequences in November," said committee co-chair, Joshua Buckley. "Our school children deserve better and our fight will continue."

Continue reading.

GOVERNING.COM

BY LIZ FARMER | AUGUST 31, 2018

The Risks and Rewards of High-Yield Municipal Bonds.

Amid low interest rates, clients looking for a tax break and more income may be tempted to consider high-yield municipal bonds.

The yield for a 10-year muni bond rated BAA was 3.27% as of Aug. 10, and yields for 10-year-plus BBB-rated munis were well past 4%. The bonds are exempt from federal, local and state taxes, pushing the effective yield higher for investors in upper tax brackets.

Although high-yield munis may be the right move for some clients, advisors should help them carefully weigh the benefits and risks before taking the plunge.

“High-yield munis can play a role in a diversified portfolio for those investors who are in higher tax brackets,” says Chris Zaccarelli, chief investment officer at Independent Advisor Alliance in Charlotte, North Carolina.

Gregory Hahn, CIO and president at Winthrop Capital Management in Indianapolis, agrees, but cautions that advisory clients look before they leap.

“Municipal bonds are one of the safest fixed-income investments you can make, but when a bond trades cheap, it trades cheap for a reason,” he says. “So, it’s important to understand what that reason is.”

Advisory clients should know where the revenue from a high-yield muni bond is coming from, bond experts say.

“Is the tax revenue going to be enough to support the project?” Hahn asks.

Bonds backed by a dedicated revenue stream, such as bridge tolls, parking authorities, sewers or water are often viewed more favorably than general obligation bonds coming from municipalities relying on anticipated revenue from budgets, he says.

“Tax revenue from multiple sources is a red flag,” Hahn says.

What’s more, municipalities may not get the revenue they intended, and budgets may not get approved or renewed annually, bond experts say.

Advisors should also make sure that clients considering high-yield munis carefully research bonds backed by projects such as hotels, nursing homes or sports stadiums.

Factors to consider include demand for the service, local demographics, management’s track record and whether the project is part of a national chain or a local one-off, bond experts say.

Another caveat: high-yield muni bonds are unlikely to be insured. And even if they are, the underlying risk is not completely mitigated, Hahn says.

Zaccarelli cautions advisors to be wary of private-activity bonds, which are subject to the alternative minimum tax.

“These bonds may be federal- and state tax-free, assuming you are taxed in the state that issued the bonds, but they are still counted as taxable income for AMT purposes,” he says. “While this only applies to those taxpayers in higher tax brackets who are subject to the AMT, they are the ones most often looking for municipal-bond income.”

The high-yield muni market was jolted by the Puerto Rico debt crisis this year, when ripple effects

from the biggest muni bankruptcy in U. S. history shook investor confidence in lower-rated bonds.

Especially upsetting was a judicial ruling that issuers of several Puerto Rican special revenue bonds under Chapter 9 bankruptcy protection were not required to continue paying bond holders.

In a report issued by Franklin Templeton Investments, "Fundamental Changes That No Muni Investor Should Ignore," the company said that as a result of Puerto Rico's default, it would not purchase "general fund appropriation debt from cities, counties or states that in our view are facing unsustainable structural budget situations."

Specifically, Franklin Templeton said that it divested its holdings in bonds from Chicago public schools, the city of Chicago and the state of Illinois.

The market has since recovered, but a number of investors, including Zaccarelli, remain wary of Puerto Rican bonds.

"Personally, I would avoid Puerto Rico, as that is more of a distressed situation and not just a notch or two below investment-grade," he says. "However, other high-yield municipal bond opportunities, such as those from Illinois or Connecticut, are likely to work out better."

Hahn is bullish on a taxable high-yield bond issued by the Casino Reinvestment Development District of Atlantic City (New Jersey), backed by the Hard Rock Casino. Rated BB by Standard & Poor's, the bond yields 5.46% and is due in 2025.

"Because of the downturn in Atlantic City gaming over the past 10 years, revenue, including sales tax, liquor and gaming are down sharply, and the city was close to bankruptcy," Hahn says.

"The Hard Rock Casino just opened in the old Taj Mahal, and Atlantic City is going through a resurgence," he says. "This issue is backed by parking revenue and trades around par, offering a good relative value for investors."

Financial Planning

By Charles Paikert

August 31, 2018

The Muni-Bond Market Loves You When Google Is Your Top Taxpayer.

- **Mountain View district sells some bonds for below AAA yields**
- **Sale illustrates the strong demand for scarce California debt**

You can get a good deal in the municipal-bond market when Google is your biggest taxpayer.

The Mountain View-Los Altos Union High School District, which operates schools for more than 4,400 students in Silicon Valley, sold $100 million in AAA rated bonds backed by property taxes in the wealthy enclave. But some of the securities sold for higher prices than even its gilt-edged rating suggests: Those due in 2022, for example, were priced for a yield of 1.5 percent, 37 basis points less than the rate charged the most credit worthy municipal borrowers, according to data compiled by Bloomberg.

Investors have gobbled up tax-exempt bonds issued by governments in California to drive down their tax liability, either because of their sizable fortunes or to offset the effect that the limit on state and federal tax deductions will have on their federal returns. At the same time, the securities have been hard to come by, with debt sales by issuers in the state dropping by 30 percent this year.

In the case of Mountain View, the headquarters of Google parent Alphabet Inc., the school district may have benefited from the massive wealth in its own backyard.

The median home value in Mountain View has risen by about 22 percent over the past year to $1.9 million, according to Zillow Inc. The assessed valuation of property in the district rose 9 percent to $48.4 billion in fiscal 2018, almost double what it was a decade ago, according to bond offering documents.

The bonds will be used to help teach future coders and software engineers by modernizing science and technology classrooms for "21st-century learning" and to accommodate growing enrollment at the district. It's the first installment of a $295 million sale approved by voters in June.

Bloomberg Business

By Amanda Albright

August 30, 2018, 9:19 AM PDT

It's Trump, Not Just the Fed, Driving the Short-Term Muni Frenzy.

- **One trader says investments timed for 2020 presidential vote**
- **Democrat victory could trigger rollback to Trump's tax changes**

It's not just rising rates. It's Trump, too.

That's what Jason Ware, head of trading at 280 CapMarkets in San Francisco, offers as an explanation of short-term municipal bond yields, some of which are holding near a four-year low relative to Treasuries.

The high demand for debt maturing within three years is typical at a time when the Federal Reserve is raising interest rates and investors are seeking a refuge from price declines.

But many buyers are timing their investments to what they expect to be the end of Trump's presidency after the 2020 election, Ware said in an interview. They think that Trump's policies affecting municipal bonds, such as the limit on state and local tax deductions and the ban on a type of refinancing, would be vulnerable to rollbacks. The short maturities mean they will get their cash back to invest elsewhere.

"If Trump is out of office and a Democrat is elected, some of this will be reversed," he said, adding that he doesn't necessarily share that view. "There is a thought out there that will take place."

Bloomberg Markets

By Romy Varghese

August 31, 2018, 6:27 AM PDT

— With assistance by Amanda Albright

Amazon HQ2: How Did We Get Here? What Comes Next?

Sometime in the coming weeks Amazon will announce a short list of U.S. cities in which it will consider placing its new $5 billion, 50,000-person second headquarters. It is likely that these finalist cities will be large, prosperous, and located in the eastern part of the country.

Even in cities of a significant size and wealth, the arrival of what Amazon calls HQ2 will be transformative, even explosive. One only needs to look at the impact of HQ1 on Seattle to see why. Commentators in Seattle have taken to calling Amazon's expansion the "prosperity bomb," reflecting both the massive impact of the company's growth and the heat of the ensuing fights about how that growth should be managed and distributed across the city.

With the prospect of a second "prosperity bomb" being dropped in a major American city, it's not surprising that Amazon debates are raging. In fact, the Amazon HQ2 competition has focused the attention of a uniquely broad and diverse cadre of leaders across media, politics, business, and advocacy. Nationally, it has become a signpost for public policy issues ranging from antitrust to tax incentives to the need for policies that better support struggling communities. Locally, in each bidding city the response to HQ2 has simultaneously united a broad array of institutions around a shared economic development prize, and at the same time exposed fissures between elite-driven organizations and grassroots advocates about how bids should be executed, if at all.

Continue reading.

The Brookings Institute

by Joseph Parilla
Metropolitan Policy Program Fellow

August 28, 2018

The World Bank Just Issued a Bond That Relies On Blockchain Technology From Start to Finish.

The World Bank has launched a blockchain-only bond. The so-called bond-i—for "blockchain operated new debt instrument" and perhaps also for Sydney's famous Bondi Beach—is a two-year bond that was arranged by Commonwealth Bank of Australia and raised 110 million Australian dollars ($80 million.)

Investors included several Australian banks and state treasuries. Arunma Oteh, the World Bank treasurer, mentioned in a statement the additional help of King & Wood Mallesons, Mark-it, Microsoft and Toronto Dominion Securities.

The World Bank said the bond was the first in the world to be "created, allocated, transferred and managed through its life cycle using distributed ledger technology." However, that may not be quite accurate.

Continue reading.

FORTUNE

By LUCAS LAURSEN

August 24, 2018

Muni Market Recap: Hope for the New York MTA

The New York Metropolitan Transit Authority, NY MTA, has had a busy summer raising capital through the municipal bond market to improve a massive system that has suffered from underinvestment for many years. The NY MTA operates New York City's subways and buses, the Long Island and Metro-North commuter railroads, and several bridges and tunnels, and is one of the largest issuers in the muni market with approximately $39 billion in debt, according to the Bond Buyer.

Growing up as a New Yorker, the subway was an important infrastructure asset that gave me access to all New York City has to offer. My father-in-law drove a NYC Bus for 25 years and many other family members of mine worked or still work for the MTA. New Yorkers take the subway to work, to school, to the beach, to the airport, to the park, to visit the Bronx Zoo and so many other places. We have an amazing subway system that spans many neighborhoods and runs all night long.

When I lived in West London I remember the first time I missed the last tube back to West Ealing and had to ride around on the late bus which was less than ideal. It reinvigorated my appreciation for the New York City subway system. But over the past 10 years the subway has become more and more crowded, with greater and greater delays. On a recent morning, it was 90 degrees on a very crowded platform and I started thinking more deeply about investment in the system.

Continue reading.

Neighborly Insights

Posted 08/31/2018 by Homero Radway

A Blueprint for Financing Green Stormwater Infrastructure.

This is Part 1 of a two-article series. The second article will be published in September.

In a few Rust Belt cities that are seeking economic and social benefits, Greenprint Partners – formerly known as Fresh Coast Capital – is breaking new ground by financing fresh solutions for green stormwater infrastructure. It is using a combination of municipal, private and government resources. Its goals are to create a replicable model and expand the market.

According to a case study from The Kresge Foundation, "While science supports the use of green stormwater infrastructure, many municipalities remain reluctant to adopt these practices due to a lack of capacity, expertise and/or capital."

In an interview, Nicole Chavas, CEO and cofounder of Greenprint Partners, described the growth her company hopes to catalyze in this emerging market. It is currently working in Peoria, Youngstown, and St. Louis. It is considering a new project in Philadelphia.

Continue reading.

Conservation Finance Network

by Kat Friedrich

August 27, 2018

Public-Private Partnerships: When Will Reality Meet the Promise?

The promise of public-private partnerships (P3s) seems irresistible. The $4.5-trillion that the American Society of Civil Engineers says the U.S. must spend on at-risk infrastructure by 2025 is a backlog beyond the collective means of local, state and federal governments to fund and deliver.

Eyeing both need and return, the private sector is fast developing the required financing and capability, with U.S. and global investment funds looking for placement in physical assets. Dedicated infrastructure funds are raising hundreds of billions of dollars, sourced from pension and sovereign wealth funds and other investors "craving stable returns," said Bloomberg in a report last month.

Such funds had assets under management that totalled $450 billion at the end of 2017, up from just $7 billion in 2000, according to data provider Preqin.

But capital invested in infrastructure has lagged this year as investment deals dropped, says Pitchbook, which tracks them.

More than halfway through 2018, there have been just 19 transactions in the sector worth about $7.6 billion compared to last year, when investors completed 94 deals totalling about $36.6 billion, Pitchbook says.

Most investment is not channeled to U.S public infrastructure most in need, says Bloomberg, contending that assets already in private hands, such as electric utilities, gas pipelines and cell towers, are the biggest beneficiaries.

While 36 states have legislation that enables P3 projects, there have only been five P3 greenfield deals in 2017, mainly in transportation. according to Inframation Group, the London-based on line infrastructure finance analysis provider.

New Jersey is set to boost the numbers with Gov. Phil Murphy signing a bipartisan bill on Aug. 15 that broadens P3 investments beyond colleges and universities to other infrastructure including some statewide road projects. But other public owners remain reticent. Baltimore officials voted Aug. 6 to add to November ballots a measure that would make the city the first in the U.S. to amend its charter to preserve public ownership and control over its water and sewer systems and the largest to ban any sale or lease.

What's stopping the world's leading economy from becoming the world's biggest P3 market?

There are many barriers, but risk, both technical and commercial, is the main one. Many funds see it

as risky to invest in greenfield projects under a complex legal and regulatory framework. Significant differences in requirements between jurisdictions result in high bid costs and high bars for market entry.

The lack of concerted federal action has not helped. While President Donald Trump's infrastructure program, once touted as a $1-trillion investment, would depend on outside private investment, the effort that might have included partial matching funds as state and local project incentives, has fallen to back-burner status until well into next year.

DJ Gribbin, the former Trump Administration infrastructure advisor who recently joined private equity firm Stonepeak Partners LP as a partner, said governments need to find ways to make it easier for the private sector to invest.

Public sector owners need to provide globally reasonable terms and streamline both regulations and the bidding process to attract private sector participants. Like their counterparts in Australia, they should be open to unsolicited proposals from private sector investors.

If the private entities will own or operate the asset for the long term, they should have incentive to create designs and outcomes that go beyond the brief and create additional benefits for the bidder—and for the wider community. Even under more traditional bidding arrangements, participants should be encouraged to move beyond conforming to a reference design by seeking added value through innovation.

The concept of 'asset recycling' offers another way to reduce risk and free up capital for governments to invest in a greenfield development. Using this approach, a government entity develops a project using design and build input from the private sector. When the asset is completed and/or operating, it is leased to the private sector over a longer tax-effective term.

Proceeds from the lease (perhaps 50 to 100 years paid in one installment) then fund the next wave of infrastructure projects. If the re-investment is close to the recycled asset, it can reduce taxpayer concern over the loss of public asset ownership.

Clear communication is key to success. Long-term leases of ports in New South Wales, Australia, have enabled the state government to invest in significant road and rail transportation projects near those ports.

But asset recycling needs a very critical element. By developing the project, the government assumes risk in the construction phase and some of the early stage demand. Past toll road projects in Australia placed this risk onto the private sector, which relied on self-developed traffic forecasts, with the wider road network economics outside proponents' control.

In a number of cases, this approach overestimated user demand for the new infrastructure and generated major pressure on the financiers, not to mention headline-grabbing lawsuits. Since P3 projects require the goodwill of private entities, risk allocation must be equitable and provide incentives for all parties to meet their obligations.

Maintaining transparency and simplicity is essential—not only for ethical reasons, but also to change assumptions and reallocate risk before the project fails. Project complexity could further shrink by separating contracts into specific delivery packages.

On a passenger rail project, hard-build infrastructure such as track foundations and stations can be split from signal technology systems and from customer service and maintenance operations to enable different companies to focus on what they do best.

While the private sector tends to provide greater service efficiency, communities have higher expectations for P3 projects and are likely to pounce on profit-making entities for any shortcomings or disruption in delivery. So it is important to acknowledge that infrastructure projects are not just financial instruments, but a way to support social and economic activities.

The business case for the project and the community engagement process should take into account those outcomes across the long-term.

Singapore relies on P3 to deliver water treatment and desalination infrastructure, growing the local industry into a global supplier of water technologies, with exports contributing more than $1 billion annually to the country's GDP. If each of the 50 states develops one P3 project annually, what industries would spring up as a result?

Municipalities and states understand the stresses their infrastructure is under, and should be given a guiding hand in matching local needs with global investors' demand for infrastructure assets.

If communities understood how they could have new hospitals, schools, bridges or water treatment plants with better service and without additional taxes or user charges that also could boost employment, what would they choose?

Engineering News-Record

by Richard Fechner, GHD

August 30, 2018

Richard Fechner, global leader of infrastructure investment & economics at GHD Advisory, part of consulting firm GHD, has led and supported asset transactions valued at more than $80 billion. He can be reached at Richard.Fechner@ghd.com

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Municipalities May Regulate the Local Impacts of Pipelines Without Violating the Commerce Clause: Foley Hoag

Foley Hoag Secures Victory for City of South Portland in Lawsuit Challenging its Clear Skies Ordinance

Federal Court Rules Statute Banning the Bulk Loading of Crude Oil Is Constitutional

Foley Hoag LLP successfully represented the City of South Portland, Maine in a federal lawsuit aiming to overturn the City's Clear Skies Zoning Ordinance. The U.S. District Court for the District of Maine issued its decision on Friday, August 24, 2018, finding that the local zoning ordinance, which prohibits the bulk loading of crude oil onto ships in South Portland's harbor, does not violate the Commerce Clause of the U.S. Constitution. The victory comes after three years of litigation.

In its decision, the Court concluded that "the City Council enacted an ordinance that would block a tar sands project like the one PPLC proposed because it had concerns about the air quality, water quality, aesthetics, and redevelopment risks of crude oil loading in general, and the transporting and coastal loading of crude oil derived from tar sands in particular." This is one of the first times that a federal court has ruled that cities and towns can prohibit crude oil pipeline and loading facilities through local zoning without being preempted by any federal statute or violating federalism

principles in the Constitution.

South Portland prohibited the loading of bulk crude oil into ships on its waterfront in 2014, as domestic demand for imported oil was declining and production in the oil sands of western Canada was increasing. In December 2017, the Court ruled in the City's favor on eight of nine counts – that the ordinance was not preempted by the federal Pipeline Safety Act, the federal Ports and Waterways Safety Act, or the Maine Oil Discharge Prevention Law; it was not preempted by federal powers over foreign affairs or maritime commerce; it did not violate Portland Pipe Line's due process or equal protection rights; and it was not inconsistent with the City's Comprehensive Plan – but found that a trial was needed on the Commerce Clause claim. After five days of testimony, the Court has now ruled in the City's favor on the final claim, finding that that the ordinance "does not discriminate against interstate or foreign commerce on its face, in effect, or in purpose."

"Faced with the prospect of hundreds of thousands of barrels of crude oil being loaded onto marine vessels in the City and threatening the health of the residents and preventing redevelopment of the waterfront, the City Council prohibited this new activity. We are pleased that the Court upheld the ordinance," said Linda Cohen, Mayor of South Portland.

"The District Court conducted a painstakingly thorough review of the evidence, including hearing live testimony over five days, and concluded that the Clear Skies Ordinance was constitutional and not preempted by either federal or state law," said Jonathan Ettinger, a partner at Foley Hoag. "The Court appropriately recognized that this case was about protecting the health, safety and welfare of the residents of South Portland under its broad zoning powers and not about whether the oil came from Alberta or Augusta."

Foley Hoag is a Boston-based law firm with a leading environmental law practice. The team representing the City of South Portland was led by Ettinger and comprised of partner Euripides Dalmanieras and associate Jesse Alderman. Sally Daggett and Mark Bower of Jensen, Baird, Gardner & Henry in Portland served as co-counsel.

About Foley Hoag LLP
Foley Hoag provides innovative, strategic legal services to public, private and government clients across the globe. We have premier capabilities in the life sciences, healthcare, technology, energy, professional services and private funds fields, and in cross-border disputes. The diverse backgrounds, perspectives and experiences of our lawyers and staff contribute to the exceptional senior level service we deliver to clients ranging from startups to multinational companies to sovereign states. For more information, visit www.foleyhoag.com or follow @FoleyHoag on Twitter.

August 27, 2018

A New Accelerator for Community-Owned Broadband Networks.

Some of the communities selected will be able to begin building within a matter of months.

A San Francisco-based online investment platform plans to launch a Community Broadband Accelerator in the coming months to help localities quickly establish community-owned networks.

In November, Neighborly will announce its first cohort of communities, which will have access to its financing at a discount.

With 19 million Americans, 6 percent of the population, lacking access to broadband at minimum speeds, networks aren't being built fast enough, Garrett Brinker, Neighborly's product manager, told Route Fifty.

"We really see community broadband networks as the 21st century's bridges that spur economic development," Brinker said.

But the conversation about financing projects often occurs too late in the process, he added.

Once a participating community decides to build a network, it can use Neighborly's mapping, demand aggregation and marketing tools to funnel in capital.

For its first cohort, the accelerator is looking for communities already seeing movement on broadband from local government or local advocacy groups. Brinker anticipates some of the communities selected will be able to begin building within a matter of months.

"That's where we see the power of a community-owned model," he said. "We believe that access to the internet should be equal by design."

By building an open-access network much like Ammon, Idaho—a city of about 15,300 people—communities will incentivize private internet service providers using it to provide faster service at low cost. That's opposed to a single private operator lacking the financial motivation to align their infrastructure anywhere other than the most affluent neighborhoods in a community.

The deadline for communities to apply to be a part of the accelerator is Sept. 28.

CBA wants to scale broadband networks across communities big and small by working with partners like Axiom, Island Institute, the Local Government Commission, and Next Century Cities.

"These networks only get built if everyone is able to come to the table," Brinker said.

Route Fifty

by Dave Nyczepir

September 2, 2018

Sneaky But Legal Use Of General Obligation Bonds.

Every time you read an article or see on television that someone was incarcerated for 20 years but later proven innocent, you've got to think, *how are they going to be repaid?* Or you read about a lawsuit against a city for police brutality, civil rights violations, or killing an innocent person—you know there's going to be huge payout.

Perhaps it's Michigan State University, or USC being sued for a faculty member's grotesque misconduct against the school's students while the university sat by doing nothing to avoid rocking their financial boat. There will be monetary damages. These atrocities, each and every one of them, have financial consequences to the cities and institutions that employed the guilty parties. Whether it's a civil ruling or a settlement, money—lots of money—goes to the victims.

Where do these enormous amounts of money come from? Therein lies the problem. The payouts are

growing fast. According to Bloomberg, states and municipalities so far in 2018 have raised $1.6 billion, up from $826 million in 2017 and just $281 million in 2016 to pay for legal judgments.

They certainly hadn't budgeted for these expenses. The cash wasn't in the city's treasury. Where did it come from? Sometimes they borrowed it from the municipal bond market. Municipal indebtedness in the form of judgment bonds is growing fast. These bond issues leave state and local governments with decades of interest payments, leading up to the maturity date when they must cough up with the principal.

I'd say these judgment bonds are appropriately named. At least they tell buyers what the bond proceeds are used for. Contrast that with police-related settlements, wrongful death judgments, or payment for dastardly deeds perpetrated by city officials that are paid for by issuing general obligation bonds. This technique is sneaky, but so far legal.

You may think only obscure issuers would deliberately hide the true use of a bond's proceeds—untrue. In August 2018 Dallas issued $58.7 million general obligation bonds (CUSIP: 235219NS7) whose sole purpose was to pay for the lawsuits associated with firefighter and police pay. The total amount needed to settle comes to $235 million so there will likely be more bonds issued. The Official Statement identifies the bonds as refunding and specifically says the debt is for legal settlements.

Wait a minute. Aren't general obligation bonds issued for infrastructure projects like roads, parks, bridges and other capital improvements that serve the municipality and enable it to thrive? Apparently, not any more.

I am appalled at the ability of an issuer to conceal judgment liabilities under their general obligation umbrella. Legal, schmegal—do-it-yourself investors who don't read their municipal bond Official Statements may never know. An investor would have to dig in and find—on page 35 of the Dallas Official Statement—where the city states the true intended use for the bond proceeds. Who's going to do that? Professionals, yes. Individual investors, probably not.

Many investors will be morally outraged if they knew what these general obligation bonds were actually being used for and how the issuer was intentionally conducting such financial slight of hand.

Here are some other judgment bond issuers: Nassau County, New York for a wrongful conviction; Milwaukee, Wisconsin; San Juan Capistrano, CA for a real estate development lawsuit. Los Angeles has been on-again off-again to pay off legal settlements and court judgments against the city.

Although issuing GOs for specific purposes—such as the payment of lawsuits—is legal, I think it is deceptive. Caveat emptor.

Forbes

by Marilyn Cohen

Aug 20, 2018

Marilyn Cohen is founder and CEO of Envision Capital Management, a Los Angeles fixed-income money manager.

S&P: For Many Muni Issuers, Technology Brings Financial Benefits, But Also Increasing Credit Risks

The foundation of U.S. public finance (USPF) and governance is built upon a relationship of transparency and trust among public entities, financial institutions, and the constituencies they serve. The public finance sector largely benefits from disruptive technological innovation and tools that transform how entities do business.

Continue Reading

Aug. 22, 2018

How Rising Interest Rates and Widening Credit Spreads Will Drive Greater Use of Bond Insurance.

The use of municipal bond insurance has diminished substantially since the financial crisis. Low interest rates and tighter credit spreads have reduced the benefits of bond insurance for municipalities.

In this article, we examine why the use of bond insurance should grow as rising interest rates drive higher borrowing costs and concerns over rising credit risk make it difficult to make a sound investment decision.

The Case for Municipal Bond Insurance

Bond insurance is used to guarantee the timely principal and interest payments of a bond issuer or obligor. The bond insurer charges a premium to the bond obligor to insure or “wrap” the bonds. Bond insurance is structured so that it benefits the bond investor, the bond obligor and the bond insurer. The bond investor benefits from the protection provided by bond insurance in the event of a default. If the bond obligor defaults, the bond insurer makes the interest or principal payment and the bond investor avoids taking losses. Assuming the bond insurer has a higher creditworthiness than the obligor, the obligor benefits from lower borrowing costs. Lastly, the bond insurer benefits when they profit from the premium charged to bond obligors who do not default.

Continue reading.

municipalbonds.com

by Joshua Hudson

Aug 22, 2018

Trump Trade War Prompts State Warnings to Bond Investors.

CHICAGO, Aug 27 (Reuters) – U.S. states worried about a negative impact on their finances from escalating trade disputes instigated by President Donald Trump are beginning to caution bond investors.

Washington and Illinois, two of last year's top five export states by dollar value, for the first time warned about potential trade-related consequences in documents for recent bond sales.

Issuers in the $3.8 trillion U.S. municipal bond market have previously disclosed possible financial risks due to other Trump administration policies. Last year, the president's move to repeal the U.S. Affordable Care Act and monetarily punish so-called sanctuary cities for their protection of undocumented immigrants popped up in bond documents from New York City, Oregon and others. here

Now an expanding tariff war with China and Trump's threat to withdraw from the 24-year-old North American Free Trade Agreement between the United States, Mexico and Canada are leading some of the biggest states for exports to issue new alerts to investors.

Washington state cited "international trade policy uncertainty" in a disclosure document for its $502 million general obligation bond sale this week.

"The federal administration and Congressional leaders have attempted, proposed or made major changes to the trade policy, in addition to other actions, which could potentially have detrimental effects on the state's budget," the bond issue's preliminary official statement (POS) said.

The document also noted that Washington is one of the "most trade-intensive" states with $90.4 billion in exports in 2016, largely going to Canada, China and Japan.

"At this point in time, we don't have a lot of concrete information, but we thought it was appropriate to acknowledge it's a concern," Jason Richter, the state's deputy treasurer, said in an interview.

Ahead of a $966 million GO refunding bond sale last week, Illinois also cited for the first time escalating trade wars that could negatively impact the state's agricultural and manufacturing industries and possibly the state's already shaky financial condition.

"Higher tariffs on imports will likely lead to retaliation by trading partners, which could reduce exports," the POS for Illinois' deal said.

While California had previously listed U.S. trade policy changes as being potentially detrimental to its budget, the POS for the state's Sept. 6 sale of $989 million of GO bonds cited changes to international trade relations due to federal policies as a potential recession trigger.

Texas, the top state for exports in 2017 according to the Census Bureau, is monitoring trade discussions and "should the outcomes have a material impact on our state economy, we'd provide appropriate disclosure," Kevin Lyons, spokesman for the state's Comptroller of Public Accounts, said in an email.

The disclosures follow increased vigilance by credit rating agencies.

Iowa, Kansas, Nebraska and North Dakota were cited by Moody's Investors Service earlier this month as the states most vulnerable to the nation's trade dispute with China due to their high dependence on agriculture. However, none of those states are big bond issuers.

S&P Global Ratings last month singled out West Coast states like Washington as at risk due to a big export-related labor force and noted that Texas and Louisiana "are particularly exposed as their economic industries are strongly intertwined with global supply chains and ancillary services which support local economies."

Reporting by Karen Pierog in Chicago Editing by Matthew Lewis

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How Bill Would Help Muni Bond Financing of Water, Sewer Projects.

WASHINGTON – Private activity bonds issued to finance water and sewer infrastructure projects would be exempted from state PAB volume caps under a bipartisan bill introduced this week by two Senators.

The "Sustainable Water Infrastructure Investment Act" (S. 3358) was introduced on Tuesday by Sens. Bob Menendez, D-N.J. and Mike Crapo, R-Idaho. They have introduced similar bills in past years.

The legislation has been referred to the Senate Finance Committee, on which both senators are members.

The bill is similar to one introduced in the House last year by Reps. John Duncan, R-Tenn., and Bill Pascrell, D-N.J. The two congressmen offered that bill, also called The Sustainable Water Infrastructure Investment Act (H.R. 3009), on June 22 of last year.

The bill in the House has seven other cosponsors and has been referred to the House Ways and Means Committee, on which Pascrell is a member.

The National Association of Water Companies applauded the bills in a release about the one offered by Menendez and Crapo.

"There's widespread consensus that our nation's water infrastructure needs an investment boost. And there's no doubt that investment is also good for our economy," said NAWC President and Chief Executive Officer Robert Powelson. "If enacted into law, this legislation could bring billions in new water infrastructure investment and help create and support more than 1.4 million jobs."

"Eliminating the volume cap on water infrastructure will lead to new drinking water and wastewater infrastructure investment, while allowing the issuance of exempt facility bonds to provide municipalities with a lower cost financing option," Powelson said, adding, "All of this adds up to a major win for our water systems, communities and each and every American."

The NAWC estimated that eliminating the PAB volume cap on water infrastructure and other regulatory changes could lead to an additional $43 billion in incremental private water infrastructure investment and $15 billion to $25 billion in incremental private wastewater infrastructure investment. It also could generate a potential $20 billion from public-private partnerships, the group said.

NAWC represents regulated water and wastewater companies, as well those engaging in partnerships with municipal utilities. NAWC members provide 73 million Americans with water service every day. Its six largest members collectively invest $2.7 billion each year in their water and wastewater systems, the group said.

PABS are typically issued by state, local, and territorial governments that want to partner with, and/or loan the proceeds to, private parties in conduit transactions to finance public needs.

Bonds are PABs most often if more than 10% of the proceeds are used by private parties and more

than 10% of the debt service is paid or secured by private parties. PABS are tax-exempt only if the projects they finance fall within certain categories such as multi-family housing or so-called exempt facilities that include water and sewer projects.

PABs are issued under state volume caps, which are based on population figures from the U.S. Census Bureau and an Internal Revenue Service formula. In 2018, state and territorial volume caps will be $105.00 per capita or $311. 375 million, whichever is greater.

By Lynn Hume

BY SOURCEMEDIA | MUNICIPAL | 08/23/18 07:06 PM EDT

Commentary: The Role of U.S. Municipal Debt in Institutional Portfolios

The municipal bond market historically has been retail-oriented, as high-net-worth individuals, particularly those in the highest tax bracket, benefit from the interest income tax-exemption. However, institutional investors, such as banks and insurance companies, have been some of the biggest buyers of municipals over the past several years and now represent approximately 30% of the market. Municipal bonds are issued as tax-exempt and taxable and, while both offer different attributes, each offers a role in institutional portfolios.

An important distinction between tax-exempt and taxable municipals is the traditional buyer base. Tax-exempt municipals traditionally are retail-led while taxable municipals offer attributes compelling to institutional buyers. In our view, recent structural changes have made taxable municipals an attractive strategic option for institutional investors while potentially offering a tactical opportunity in tax-exempt municipals.

Taxable municipals offer compelling attributes to institutional investors

The yield advantage taxable municipals offer relative to tax-exempt counterparts also extends to other fixed-income sectors (Figure 1). The municipal yield profile is attractive and comparable to investment-grade corporate bonds, however municipals maintain a higher quality standing: 92% of U.S. taxable municipals are rated A or better compared to 90% of the U.S. investment-grade corporate market, which is rated A or below (Figure 2). The sector historically exhibits a lower probability of default than U.S. corporates due to the higher quality nature of the taxable municipal market. This is of greater importance, particularly this late in the credit cycle and elevated corporate leverage metrics. Municipals are not guaranteed by the full faith and credit of the U.S. government, however, according to Moody's Investors Service, the 1970-2016 cumulative 10-year average default rate for all rated muni bonds was 0.15% compared to all rated global corporate bonds at 10.29%. Finally, municipals offer the ability to add diversity to a broader portfolio as the volatility is traditionally lower than other components of the market. The 10-year correlations of municipals to other broad U.S. fixed-income and equity sectors exemplify the substantial diversification benefit municipals offer (Figure 3).

Continue reading.

PENSIONS & INVESTMENTS

BY JULIO BONILLA · AUGUST 21, 2018 12:00 PM

Battle Of The Bonds - Municipal And Government Bond Funds.

Summary

- Closed End Funds are valuable to investors looking to diversify.
- Five municipal bond funds put to the 5Ds test.
- Always look beyond what the screener says when evaluating investments.

Bonds are an important part of any well-diversified portfolio. This article isn't going into why diversification is important or what the correct stock-bond-property-other split is (the answer, even for apparently quite similar investors is "it depends"). Unfortunately, the bond market is nowhere near as friendly to retail investors as the stock market. Bonds tend to only be available in rather large pieces and there is a lot more small print than with shares. So, most people tend to invest in a bond mutual fund or REITs (which can be great, but are fundamentally property investments rather than debt instruments).

However, there is a better way. A Closed End Fund (CEF) is like a mutual fund or ETF except all of the shares are sold when the fund launches. These funds then list on the stock-market which makes buying and selling them nice and easy.

This article will look at five CEFs that hold taxable municipal and government bonds and will rank them based on their performance in the following five categories:

Continue Reading.

Seeking Alpha

by Richard Bulkeley

Aug. 19, 2018

Fitch Ratings: Louisiana Law Does Not Enhance Recovery Prospects and Ratings

Fitch Ratings-New York-21 August 2018: The recent revision of Louisiana's public finance laws does not offer sufficient protection to bondholders to result in rating uplift, according to Fitch Ratings. Louisiana Act No. 569, which amends the Consolidated Local Government Indebtedness Act, includes language meant to grant a statutory lien on taxes or other funds pledged to bondholders.

While the legislation intends to strengthen bondholder security by consolidating and clarifying laws related to the lien and security interest granted to repayment of debt issued by governmental entities, it falls short of creating a lien that is consistent with the definition of a statutory lien in the bankruptcy code. Therefore Fitch will not give credit to the legislation in assigning ratings to Louisiana local government debt.

The bankruptcy code defines a statutory lien as a "lien arising by force of a statute on specified circumstances or conditions." If the statute declares that the lien is created upon issuance of the bonds without the issuer needing to take any further action, then the lien arises automatically from

the existence of the statute. Otherwise, bondholders do not benefit from a statutory lien.

The Louisiana legislation stipulates that the issuer has to pledge taxes or other funds to bondholders, suggesting that the lien does not arise automatically and is therefore a consensual rather than a statutory lien. The legislation differs from legislation in Rhode Island, Arizona and California, under which ad valorem taxes are automatically pledged upon issuance of general obligation bonds by a municipality. For more information see “Fitch Statutory Lien Treatment Lifts AZ, RI Local GO Ratings,” dated July 12, 2018. There is a section of the Louisiana legislation that pledges the full faith and credit of a government entity to the payment of general obligation bonds, but this provision offers no specific revenue source upon which to place a lien.

In addition, the revised legislation does not apply to bonds issued prior to July 1, 2018. Fitch believes this exclusion adds a layer of ambiguity in a bankruptcy, since the court would have to determine that holders of two otherwise parity bonds would be entitled to different levels of recovery. For this reason Fitch does not give credit to California’s statutory lien provisions.

Further clarifying the meaning of a statutory lien in bankruptcy was a ruling on Aug. 8, 2018 by the U.S. Court of Appeals for the First Circuit regarding Puerto Rico Highways and Transit Authority (HTA) bonds. The appeals court agreed with the district court’s view that the HTA bonds are not secured by a statutory lien. The authority’s enabling act permits but does not require that the authority secure the payment of bonds by making a pledge of revenues. Therefore it is consensual and not arising automatically. Fitch concurs with the district court ruling. For more information see “Fitch: Recent Puerto Rico Ruling on Statutory Lien Consistent with Fitch’s Views,” dated Sept. 19, 2017.

Contact:

Amy Laskey
Managing Director
+1-212-908-0568
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Thomas McCormick
Analytical Consultant
+1-212-908-0235

Steve Murray
Senior Director
+1-512-215-3729

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@fitchratings.com

Additional information is available on www.fitchratings.com

Risky Trash-to-Treasure Ventures Backed by Muni Bonds Hit Snags.

- **Fertilizer Plant and Desalination Project Plagued by Delays**

- **‘There are a lot of moving parts,’ one executive says**

A plant in Florida that converts excrement and food waste into fertilizer. A Washington mill that will produce pulp from straw that remains after wheat harvests. A Texas facility that takes brackish water from a desalination plant, extracts minerals and produces clean water.

These are among the businesses financed with unrated tax-exempt municipal bonds. They’re also examples of projects that have run into construction delays or environmental problems, forcing them to restructure their debt or pile on more, underscoring the risks in buying high-yield municipal securities.

On August 7, Enviro Water Minerals Company issued $6.8 million of subordinate debt with a 15 percent interest rate to finish the first-of-its kind plant to convert wastewater from El Paso’s desalination plant into fresh water and minerals for the agriculture and oil industries. The facility, initially financed with $48 million of municipal bonds in December 2015, was supposed to open last spring.

“Once you build one of these plants, you hope it’s like a refrigerator, you plug it in and its cold, you’re happy,” said Hubble Hausman, EWM’s chief executive officer. “But there are a lot of moving parts; we’ve just encountered more than our fair share of mechanical defects.”

Financing of speculative projects that aim to turn trash into treasure have flourished in the $3.8 trillion municipal securities market as yield hungry investors pour money into mutual funds that invest in riskier debt. In the last 14 months, startups that plan to produce jet fuel from wood and lumber from rice waste have issued almost $650 million of tax-exempt bonds.

Boosted Returns

The influx of cash has boosted returns on the riskiest securities. High-yield municipal bonds have returned 4.83 percent this year, compared with 0.27 percent for investment grade state and local government debt. Over the last three years, non-investment grade tax-exempt securities has returned an annualized 7 percent.

Florida-based Anuvia Plant Nutrients borrowed $64 million of tax-exempt bonds with an 8 percent coupon in 2014 to build a plant that converts human waste and food industry byproducts like peanut shells and whey into “eco-friendly” fertilizer for farmers, golf courses and lawn-care operators. The fertilizer doesn’t leach nitrogen, reducing greenhouse gas emissions and landfill waste, said Anuvia general counsel Margaret Richardson.

“If you’re making peanut butter, you have a whole bunch of leftover stuff,” she said. “We have a way to divert tons, literally, of product out of landfills.”

The project, based about 25 miles (40 kilometers) northwest of Orlando, was hindered by construction delays, which prevented Anuvia from selling the fertilizer in the 2016 crop year. The following year, production was interrupted because of a local treatment plant’s inability to process the volume of Anuvia’s wastewater, even though officials had granted permits for that amount, according to securities filings. Anuvia changed its wastewater to meet the city’s requirements.

‘Breathing Room’

Anuvia’s bondholders, including ColumbiaThreadneedle Investments and Macquarie Investment Management, agreed to defer interest payments due in January and July and cut principal by $14 million. The agreement also extends the maturity of the debt.

“The bondholders agreed to basically give us a little bit of breathing room as we continue to ramp up capacity,” said Richardson. The plant will run at capacity in 2019, she said.

Bloomberg Valuation estimates that Anuvia’s debt is worth 63.8 cents on the dollar, down from 106 cents two years ago. Liz Kennedy, a spokeswoman for ColumbiaThreadneedle and Jessica Fitzgerald, a spokeswoman for Macquarie, declined to comment.

Enviro Water Minerals was scheduled to open its facility at El Paso Water’s Kay Bailey Hutchison Desalination Plant, the biggest inland desalination plant by volume in the U.S., in 2017. Getting the EWM facility running has taken longer than expected because valves haven’t worked properly and the manufacturer of parts used in settling tanks sent the wrong ones, causing a 6-week delay, said CEO Hausman.

“It’s nothing that’s insurmountable, nothing that says this isn’t going to work,” he said.

Nuveen owned almost all of EWM’s bonds as of July 31, according to securities filings. Hausman said the firm bought the subordinate debt. Kathleen Cardoza, a Nuveen spokeswoman, didn’t respond to a request for comment. Under a forbearance agreement, the bond trustee acting on behalf of Nuveen and the trustee’s engineers will get more access and information to the project.

EWM will “refine” waste brine from El Paso’s desalination plant, extracting lye, gypsum and hydrochloric acid for sale to farmers and the oil industry. It then will then sell back the 2 million gallons of leftover clean water it will produce each day. El Paso, a city of 600,000 on the border with Mexico gets some of its water from the Rio Grande, which is drying up. The city’s population is expected to double by 2040.

“‘This is a really exciting project for the water industry,” Hubble said.

Bloomberg Markets

By Martin Z Braun

August 23, 2018, 8:08 AM PDT

Gun Politics Pit Louisiana Against Muni-Bond Market's Behemoths.

- **State barred Bank of America, Citi from deal over policies**
- **‘Could it cost us money? Yes,’ says Louisiana Treasurer**

Louisiana’s treasurer is usually focused on how to get the best deal for taxpayers when the state turns to Wall Street to float bonds for roads, bridges and other public works.

But last week, John Schroder, an Army veteran and one-time narcotics detective, used his office to stand up for gun rights by persuading a state commission to banish Bank of America Corp. and Citigroup Inc. from a $100 million debt sale — a punishment for their stances on firearms. He said he shouldn’t have any trouble finding banks willing to step in for the two biggest underwriters, who between them handle more than one-fourth of all state and local government bond offerings.

“The market’s gonna set the rate,” Schroder, a Republican, said in an interview. “Could it cost us more money? Yes. Could it not cost us more money? Yes.”

The dustup is the latest between public officials in the Second Amendment friendly South and corporations that have been drawn into the polarizing debate over guns. This year, lawmakers in Georgia sought to eliminate a tax-break for Delta Air Lines Inc., a major employer, when the company ended a discount program for National Rifle Association members after a deadly school shooting in Florida. Some lawmakers in Florida sought to sanction Enterprise Rent-A-Car for doing the same.

Louisiana's decision came four months after Bank of America said it would stop making new loans to companies that produce military-style rifles for civilian use. Citigroup in March announced plans to prohibit retailers that are customers of the bank from offering bump stocks — like those used in the Las Vegas shooting that left 58 dead — or selling guns to people who haven't passed a background check or are younger than 21 without restrictions. That applies to companies that rely on the bank for store credit cards, lending and other services.

"Citi adopted this policy because we believe it is a positive and balanced step to promote gun safety without undermining free markets or Second Amendment rights," spokesman Scott Helfman said in an emailed statement. "It is disappointing that the taxpayers of Louisiana will be deprived from competitive bidding for necessary public works because the process has been politicized."

Bill Halldin, a spokesman for Bank of America, previously declined to comment.

Louisiana's pushback may discourage other banks from delving into gun policies, given that they need to do business with both Democrats and Republicans, Capital Alpha analyst Ian Katz wrote in a report this week. "Companies don't last generations by alienating large groups of customers," he said. "Citigroup and Bank of America have stuck their necks out on this one, and we suspect most others won't follow."

So far, no other state has shown signs of following Louisiana's lead, and the state's decision applies only to the upcoming sales of debt backed by federal transportation funds — a negligible amount of work for banks that underwrote about $110 billion of municipal debt last year. But the State Financial Officers Foundation, a group for conservative state treasurers and controllers, plans to discuss the ban at its meeting next month, Derek Kreifels, its president, said in an email.

In Louisiana, political support for gun rights runs deep. For years, the state held a sales-tax holiday for firearm sales, though it will be called off this year to help the state close its budget deficit. Even Governor John Bel Edwards, a Democrat, calls himself a "staunch defender" of the Second Amendment.

Last week's decision was prompted by U.S. Senator John Kennedy, the former Louisiana treasurer, who wrote letters to Bank of America CEO Brian Moynihan and Citigroup CEO Michael Corbat criticizing their policies. He also asked the Louisiana bond commission, which Schroder chairs, to look into any business it has with the banks. The decision to exclude the banks from the upcoming sale narrowly passed by a vote of 7 to 6.

Matthew Block, Edwards' executive counsel, was among those opposed. So was Jay Luneau, a Democratic state senator who said he was concerned that it could be costly to sever ties with the two biggest underwriters.

"It doesn't have to do with whether or not you support the Second Amendment," said Luneau, who said he was a gun collector himself. "I clearly do — not just in words, but in action. This was about political grandstanding, nothing more."

Bloomberg Business

By Amanda Albright

August 22, 2018, 8:32 AM PDT

— With assistance by Felice Maranz

Yield Curve Distorted by Fear in Tax-Free Muni Bonds.

Not all fixed-income investors are getting that flattening feeling.

By now, anyone who pays attention to financial markets has been inundated with reports about the flattening Treasury yield curve. The historical predictor of U.S. recessions is starting to flash signals that the economic recovery is getting long in the tooth.

But it seems as if the $3.8 trillion market for U.S. municipal bonds, a close cousin to Treasuries, missed the memo.

In fact, the difference in the slope of the two markets' yield curves is almost as large as it has ever been. In munis, 10-year AAA bonds yield about 85 basis points more than two-year obligations. For Treasuries, that gap is 25 basis points. Aside from a fleeting moment after the financial crisis, that spread is the widest since the U.S. yield curve was inverted in early 2006.

This oddity would seem to suggest that either the Treasury curve is too flat, munis are too steep, or that something is different this time that justifies the divergence. I tend to think it's the latter, with the culprits being the different buyer bases for the two fixed-income assets and years of ultra-loose monetary policy that distorted global debt markets.

There are a lot of sophisticated investors in the $15 trillion market for U.S. Treasuries. They include China, which oversees $3.1 trillion in foreign-currency reserves; Japan's Government Pension Investment Fund, the world's biggest retirement fund at $1.43 trillion; and any number of hedge funds and investment managers in the United States. Speculators can easily bet on a market sell-off by shorting futures contracts, and they've done so more than ever.

To put it bluntly, that just doesn't exist in the municipal market. There are no muni futures contracts. Many investors buy the bonds and hold until maturity, using the tax-free interest as a bedrock of their overall portfolio. Overseas investors don't benefit from the tax exemption, so the lower absolute yields are generally not enticing relative to sovereign debt or corporate securities.

This dynamic allows for a fear factor to creep in, helping explain the diverging yield curves. With the Federal Reserve raising interest rates six times in the past 20 months, it's only natural for "mom and pop" investors to wonder whether they're going to suffer losses on their fixed-income funds or individual holdings. It doesn't help that some market commentators have made headlines by warning of an impending "bond bear market."

As muni investors learned all too well during the "taper tantrum" in 2013 and after Meredith Whitney's incorrect forecast of "hundreds of billions of dollars" of defaults in the coming year in December 2010, those types of ominous outlooks can rattle the denizens of the tax-exempt market. Sure, funds aren't experiencing outflows as they did during those periods. But the refusal of long-

term yields to come down speaks to the angst over extending portfolio durations, Barclays Plc strategists said last month. It's no wonder that Morningstar Inc. recently found that individual investors were more skittish in munis than any of the eight asset classes they examined.

It's not as if Wall Street is oblivious to this yield-curve decoupling. Barclays says 10-year munis have more value than shorter-dated debt. So does Tom Kennedy, head of fixed-income strategy at J.P. Morgan Private Bank. Here's what he said in a Bloomberg Radio interview last week.

"The municipal market is actually looking quite attractive. In the front end, we don't see it in your favor, but further out in the municipal curve, there's actually a steepness in that curve. The muni yield curve is actually quite steep. So if you move further out to 10-year muni bonds, you can actually pick up 100 basis points."

It's worth noting that the tax-exempt yield curve never inverted before the previous recession, with the spread between two- and 10-year debt falling only to as low as 15 basis points in February 2007. Again, that speaks to the more buy-and-hold mentality. Conceptually, it's hard for investors to wrap their minds around getting paid less to sock money away for 10 or 30 years than for two or three.

By contrast, inversion is seen as practically inevitable for Treasuries. That's because corporate pension funds seeking to match their liabilities are snapping up long bonds in any sell-off, keeping the 30-year yield stuck below its year-to-date high. It also helps that yields in Europe and Japan remain suppressed by their central banks. Meanwhile, with traders fully on board with the Fed's rate-hike plans, shorter-term yields keep climbing. And because futures give speculators the ability to bet that yields rise further (and prices sink), there's no support for that segment of the market.

It's gotten to the point that two-year munis were about the most expensive relative to Treasuries in recent history last month. The two-year tax-exempt yield on July 26 was 1.62 percent, while the two-year Treasury note yielded 2.68 percent. The ratio of the two fell to 60 percent, a steep departure from the 115 percent average since the start of 2009.

All signs suggest municipal-bond buyers should purchase longer-dated securities if they're in the market for new investments. But no one has ever experienced a true Fed tightening cycle after years of keeping short-term rates near zero and multiple rounds of quantitative easing. It's entirely possible that what appears to be a distortion is actually the natural response to the central bank's actions. And munis lack easy ways to arbitrage away the difference.

That leaves it up to mom and pop to confront their fears and go long. Even though the "bond bear market" has hardly been devastating this year, those skittish tendencies may be too much to overcome.

Bloomberg Opinion

By Brian Chappatta

August 20, 2018, 4:00 AM PDT

Brian Chappatta is a Bloomberg Opinion columnist covering debt markets. He previously covered bonds for Bloomberg News. He is also a CFA charterholder.

Berkeley's Bold Bet on Bitcoin.

The California city, known for its out-there policies, will be the nation's first to issue municipal bonds using cryptocurrency.

Berkeley, Calif., has always had an independent streak. It was named after Irish philosopher George Berkeley, who advanced the theory of immaterialism or the belief that material things have no objective existence. Located across the bay from San Francisco, Berkeley has long attracted people and ideas outside of the mainstream. In the 1960s, it was the birthplace of the free speech movement and hippie counterculture. In the 1990s, an advocacy group tried to bring back the bartering system in protest of economic globalization. And in the 2000s, voters overwhelmingly approved the nation's first-ever soda tax to counteract the damage done by high-sugar drinks.

But now this city known for its out-there policies is taking perhaps its biggest risk yet: Later this year, it plans on becoming the first municipality in the country to issue municipal bonds using the blockchain technology that underpins cryptocurrency. The project is the brainchild of Mayor Jesse Arreguín and Vice Mayor Ben Bartlett and is being billed as a way to make investing in municipal bonds more accessible than ever. That's because, unlike the minimum $5,000 bond denomination common today, "cryptobonds" can be issued in denominations as low as $5 or $10. The bonds also have the potential to open up a whole new way for the city to raise money for housing. This is an acute issue since the Trump administration has slashed the budget for the U.S. Department of Housing and Urban Development, cut funding for Section 8 housing credits and targeted sanctuary cities such as Berkeley for federal funding cuts.

In the crypto world, issuing a digital currency to raise capital is what's called an ICO, or initial coin offering. The most well-known digital currency is bitcoin, but new ones are issued all the time. Digital currencies are based on what's called digital ledger technology, which is often referred to as blockchain and cuts out the need for banks by allowing users to record data and transactions instantaneously in a way that is essentially unhackable. But the independence from a central bank also means the currency isn't regulated, making its value more volatile than paper money.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | AUGUST 2018

NAWC Applauds Introduction of "Sustainable Water Infrastructure Investment Act"

WASHINGTON–(BUSINESS WIRE)–The National Association of Water Companies (NAWC) applauds the reintroduction of the "Sustainable Water Infrastructure Investment Act" (S. 3358) by Senators Bob Menendez (D-NJ) and Mike Crapo (R-ID). The "Sustainable Water Infrastructure Investment Act" would stimulate private investment in drinking water and wastewater systems by modifying the tax code to remove state volume caps on the issuances of government private activity bonds. This is the same tax treatment other types of public infrastructure already receive, including airports, high-speed rail, and the solid waste disposal industry.

"There's widespread consensus that our nation's water infrastructure needs an investment boost.

And there's no doubt that investment is also good for our economy. If enacted into law, this legislation could bring billions in new water infrastructure investment and help create and support more than 1.4 million jobs"

Private Activity Bonds (PAB) are a form of tax-exempt financing for state and municipal governments that want to partner with a private entity to meet a public need. Exempt facility bonds utilize private capital instead of public debt and shift the risk and long-term debt from the municipality to the private partner. The tax-exempt bonds provide lower cost financing, which, in turn, provides lower costs for customers. In addition, eliminating the volume cap on water infrastructure along with other regulatory changes could lead to an additional $43 billion in incremental private water infrastructure investment; $15-25 billion in incremental private wastewater infrastructure investment; and generate a potential $20 billion from public-private partnerships.

The "Sustainable Water Infrastructure Investment Act" (H.R. 3009) was introduced in the House by Congressmen John Duncan (R-TN) and Bill Pascrell (D-NJ). NAWC urges swift passage of the "Sustainable Water Infrastructure Investment Act" in order to facilitate and expedite investment in America's water infrastructure.

August 22, 2018

S&P Back-To-School Spotlight: S&P Global Ratings Examines Financing Trends Shaping Education

NEW YORK (S&P Global Ratings) Aug. 21, 2018–In a series of articles on higher education, S&P Global Ratings analysts provide their opinion on the financing conditions and trends that could influence the sector's credit quality going forward.

Continue Reading

Aug. 21, 2018

Short Supply Supports Muni Bonds This Year.

The Bloomberg Barclays Investment Grade Municipal Bond Index has returned 0.49% and the corresponding high yield municipal index has returned 1.07%, quarter-to-date.2 We believe this strong muni performance was due in part to investor risk aversion that has benefitted both municipal bonds and Treasuries as well as a reduction in muni supply following the 2017 tax reform.

Tax reform created a rush to market in late 2017

The Tax Cuts and Jobs Act (TCJA) introduced in November 2017 created new concerns for municipal bond issuers. Uncertainty about the implementation of new policies resulted in a surge of new issuance at the end of 2017 that was originally scheduled for early 2018.

Among the concerns ahead of the TCJA's final passage was it would eliminate private activity bonds (PABs), which help private companies, non-profit organizations and public authorities fund projects using tax-exempt municipal bonds. While this was not part of the final bill, uncertainty persisted

until mid-December.

The law did, however, eliminate tax-exempt advance refunding bonds. These had allowed government issuers and non-profits to restructure eligible tax-exempt debt by refinancing at a lower rate or for a longer term. The uncertainty around PABs and the elimination of advance refunding bonds resulted in a spike of new issuance during December 2017 — $62.5 billion was issued that month alone. As a result, muni supply during the fourth quarter of 2017 was the highest it has been in the 32 years that the data have been recorded.3

Continue reading.

etfdailynews.com

August 25, 2018

S&P: The Credit Impact Of State-Funded Free Community College Is Still Uncertain

Tuition-free admission to community college has gathered momentum among U.S. states in recent years. These programs are primarily designed by state governments to make college more affordable and accessible for students and their families.

Continue Reading

Aug. 20, 2018

Keeping The School Bells Ringing: Considering The Financial Operating Frameworks Supporting 50 Million U.S. School Kids

Nearly 51 million students will head back to public elementary schools across the U.S. this fall. To keep these schools open and functioning, school districts must look beyond the three Rs to manage the financial aspects of educating these children. How that happens varies across states.

Continue Reading

Aug. 21, 2018

Ratings Agency Finds Evidence Wildfires Aren't Devastating Local Government Finances.

Tax bases and unemployment figures appear to be holding strong against the blazes.

The financial health of localities affected by wildfires have shown signs of strength despite the difficulties and destruction the blazes have caused, according to a credit ratings agency.

S&P Global Ratings found that assessed property values and unemployment rates have for the most part improved in certain jurisdictions affected by fires during the past year.

The ratings agency also says this year's fires have not led to any credit downgrades for local governments.

"We find that federal and state programs and fiscal backstops have helped with both immediate fiscal needs and the longer-term path to recovery in the wake of fires," an S&P report notes.

Continue reading.

ROUTE FIFTY

by BILL LUCIA

AUGUST 23, 2018

Cities Release Their Own Broadband Model Code.

While a federal committee struggles to reach consensus on a state broadband framework, the National League of Cities created its own stressing local needs.

The National League of Cities has released a model code that municipal leaders can consult when deploying small cell wireless infrastructure, emphasizing local needs over federal and industry interests.

Small cells form the backbone of fifth-generation wireless, or 5G, broadband service that internet providers have promised to begin rolling out in 2018.

NLC's model acknowledges "there is no single model code that will work for every jurisdiction" and attempts to balance providers' desire to densify their networks with city efforts to maintain uncluttered streets and sidewalks ahead of 5G.

Continue reading.

ROUTE FIFTY

By Dave Nyczepir

AUGUST 27, 2018

Underlying Government Units Report.

Truth in Accounting has released a new analysis of the biggest underlying government units in the 10 most populous U.S. cities, including some of the nation's largest counties and public school districts.

With the exception of New York City, most municipalities do not include in their annual financial

report the finances of these large, local government units that city taxpayers are also responsible for, such as schools districts, transit and housing authorities.

This report takes into account these underlying government entities and provides residents and taxpayers in these cities with a more accurate and holistic view of their respective city's finances. When the unfunded debt of these local government units is combined with both the municipal and state debt, city taxpayers are the hook for much more than they think.

Continue reading.

Truth in Accounting

July 17, 2018

Some States Sitting on Piles of Cash, and Cities Want a Cut.

States like Ohio are placing their surpluses in rainy-day funds, but cities that have suffered because of cuts since the recession say it is time to loosen up.

LORAIN, Ohio — Welcome to Lorain, where the mayor, Chase Ritenauer, would like to show you around.

The police car over there? It broke down during a pursuit not long ago, leaving the officer to continue the chase on foot. The new high school? It is part of a school system so badly underfunded that it is now overseen by the state. Traffic signals are kept operating with parts recycled from discarded traffic lights.

This city of 63,000 is in such dire financial straits that it has ceded part of an administrative building to raccoons; repeatedly calling the exterminator was too costly.

Continue reading.

THE NEW YORK TIMES

By Timothy Williams

Aug. 17, 2018

Environmental Impact Bonds Can Help Make Coastal Communities Safer, Sooner. Here's How.

Last year's hurricane season was the most destructive disaster season in U.S. history, causing $265 billion in damage and forcing more than one million Americans from their homes.

As climate change causes weather to get more extreme, coastal communities across the country are struggling to find cost-effective solutions to enhance their resiliency to storms and develop new ways to finance that work.

How can we help make coastal communities more resilient more quickly? How can we engage the private sector in coastal resiliency efforts and generate a financial return for investors?

Together with my EDF colleagues and partners, I set out to explore how one innovative financing mechanism – environmental impact bonds – might help.

Continue reading.

The Environmental Defense Fund

By Shannon Cunniff

August 14, 2018

Louisiana Beefs Up Statutory Lien in Rewrite of Local Bond Financing Law.

In a revamp of Louisiana's public financing laws, state legislators strengthened the statutory lien on local governmental bonds, a move prompted by high-profile municipal bankruptcies such as Detroit's.

Clarifying the lien wasn't the Legislature's primary goal in revising the state's bond laws, which was the result of a comprehensive effort to modernize and consolidate financing regulations, according to those who spearheaded it.

"The reorganization and new laws put into place will provide additional confidence to investors," said Sen. Eric LaFleur, D-Ville Platte. "It may mean savings to issuers in the form of lower rates."

LaFleur sponsored Senate Bill 426 – the Consolidated Local Government Public Finance Act – which lawmakers approved unanimously earlier this year and was signed into law by Gov. John Bel Edwards.

The new law was the result of a two-year project led by LaFleur, who consulted with a group of about 20 volunteer public finance officials across the state – bond attorneys, financial advisors and underwriters – who agreed to participate in a process LaFleur said was necessary to eliminate old rules and modernize the bond statute.

Among the many changes, the act clarifies that the statutory lien on bonds issued by local governments "shall be secured debt entitled to the highest possible protection and priority afforded by the bankruptcy laws of the United States and this state."

The old law said nothing about protection of the lien in bankruptcy.

"It wasn't clear how strong the lien was on the revenue stream that secured the debt," said LaFleur, a bond attorney and partner at Mahtook & LaFleur in Lafayette. "So we went in and clarified that."

LaFleur, 54, is also chairman of the Senate Finance Committee and a member of the State Bond Commission, which by law approves bonds issued by the state and local agencies. LaFleur says he recuses himself from voting when his clients appear before the commission.

Many of Louisiana's local municipal finance laws had been on the books since the early 1980s and needed to be updated or rewritten, according to LaFleur.

Some regulations were placed into various statutes in a piecemeal fashion, he said, while others required more clarification to provide uniformity in nomenclature and some needed to be deleted.

SB 426 became Act 569 in state law. It clarifies things such as when issuers can use bond resolutions or ordinances, deletes the requirement that issuers register sales tax bonds with the secretary of state, and provides for less ambiguity, LaFleur said.

The law also clarifies that school districts can issue all kinds of revenue bonds. The previous law was more narrowly interpreted.

The new law also clarifies the definitions of general obligation bonds, limited tax bonds, sales tax revenue bonds, and more.

“Deals are cleaner, and [easier] to understand,” LaFleur said.

This is not the first time LaFleur has tackled Louisiana municipal bond issues.

In 2014, he got SB 384 passed requiring that municipal securities issuers in Louisiana comply with the Securities and Exchange Commission’s Rule 15c2-12, as well as maintain a list of securities, continuing disclosure agreements, and current ratings.

SB 384 also requires that auditors make sure issuers are fulfilling recordkeeping duties, and that they review a sample of filings on the Municipal Securities Rulemaking Board’s EMMA filing system to determine if they comply with disclosure agreements.

If issuers don’t comply with the state’s disclosure requirements, they are “flagged” but not penalized.

The disclosure law is working, LaFleur said in an interview Tuesday. “Now [issuers] are regularly updating disclosures, at least that’s what I’m finding,” he said.

This year’s new bond law applies to traditional local governmental bonds.

It doesn’t apply to New Orleans because it operates under a charter, and it doesn’t apply to conduit issuers, 501(c)(3) tax-exempt nonprofit organizations, or exempt activity and multifamily bonds.

The new law says bondholders “have a statutory lien on and a security interest in such taxes, income, revenues, net revenues, monies, payments, receipts, agreements, contract rights, funds, or accounts as are pledged to the payment of such bonds,” and any pledge or grant of a lien or security interest shall be valid, binding, and perfected from the time when the pledge or grant of lien or security interest is made.

The lien will have first priority and will be binding as against all parties having claims of any kind in “tort, contract, bankruptcy, or otherwise against the governmental entity,” the law says.

Extreme diligence is warranted when investors consider whether a statutory lien exists, Municipal Market Analytics Managing Director Lisa Washburn wrote Monday in a comment about the financial struggles of Puerto Rico.

“There should be no optionality or action required for the lien to attach within the statute that is the basis for determining the existence of a statutory lien,” Washburn wrote in MMA’s Weekly Outlook. “If the language is unclear or leaves doubts, consultation with an experienced attorney may be needed.”

LaFleur said Louisiana's original law on statutory liens was not clear or uniform, and that the law was rewritten in part because of Detroit's Chapter 9 bankruptcy case.

Detroit exited bankruptcy in December 2014, shedding $7 billion of its $18 billion in debts, which included losses for holders of the city's unlimited tax general obligation bonds.

Presiding U.S. Bankruptcy Judge Steven Rhodes questioned whether Michigan's law created a statutory lien on Detroit's ad valorem taxes because the statute didn't include the word "lien," according to a 2015 report by Breckinridge Capital Advisors on "The Changing Status of Statutory Liens."

Detroit defaulted on all its bond debt, highlighting the need for there to be precise statutory language regarding liens in order to benefit bondholders, the Breckinridge report said.

In Louisiana, the state's statutory lien law is now "more explicit than it was before" Act 569 was passed, said David M. Wolf, a bond attorney who worked with LaFleur on changes to the local public finance law.

Wolf said the old state law language on the lien was enacted in the early 1980s.

"I thought it would be better to write something that was written specifically with a bankruptcy case and a bankruptcy judge in mind," said Wolf, who is special counsel for Adams and Reese LLP based in the firm's New Orleans office. "There were uncertainties about the nature of bondholders' rights," he said.

"We were in a position of redrafting the law and one thing we wanted to do is think about changes in case law and practices," he said. "We also made sure that same kind of language would apply to all municipal bonds."

In Louisiana, cities and parishes can file for bankruptcy with the approval of the State Bond Commission and the governor.

Wolf said he was not aware of any municipal bankruptcies in Louisiana since he began practicing 36 years ago, but before that there may have been Depression-era Chapter 9 cases and some water district defaults on USDA loans.

The precise wording in Act 569 came about because of difficulties lawyers faced in places such as Michigan, he said.

"You never know when a bankruptcy is going to come about," Wolf said.

"Because in Louisiana almost all debt is secured by a specific stream of revenue, we now have a uniform place to go once it's decided what the source of security will be," he said. "You come to this statute."

One new feature of the financing law, he said, is the authorization that a limited revenue bond can be secured by parcel fees or service charges. Fire departments, for example, can leverage a fee charged for fire services.

"We just tried to make [the new law] consistent with the way the markets and regulations have evolved the last 30-40 years," he said. "We consolidated, modernized and streamlined. I hope it's an approach other states adopt."

LaFleur said the state has been proactive about updating bond laws, and he expects some tweaks to Act 569 to be made during next year's legislative session.

The new public financing act will make it easier for bondholders to understand Louisiana's laws, said LaFleur, who believes the State Bond Commission will consider approving local bond issues under the law as early as the panel's meeting on Thursday.

"I'm hoping someone out there will say Louisiana is trying to be progressive," he said.

The Bond Buyer

By Shelly Sigo

Published August 15 2018

Preston Hollow Capital Brings Private Debt to Municipal Market.

- **Dallas firm has raised more than $1 billion from investors**
- **New Orleans convention center hotel would be biggest deal yet**

The agency that runs New Orleans' convention center may build a 1,200-room Omni Hotel attached to the exhibition hall, a project that local tourism officials say is needed to boost business in the Big Easy.

If the project is given the go ahead, the $516.5 million needed to finance it won't come from selling tax-exempt bonds to mutual-fund managers and individual investors in a public offering, as is typically done. It will come from a loan from Preston Hollow Capital, a little known company that's looking to shake up the $3.8 trillion state and local government bond market with a direct-lending model that's ballooned in corporate America.

Since its founding four years ago, Preston Hollow has extended $2 billion of loans. It has financed a hotel in a Dallas suburb, hospitals in California and New York, student housing in Pennsylvania, and roads, sewers and other infrastructure for economic redevelopment projects in the suburbs of New York City, Cleveland and Atlanta.

In New Orleans, it's pitching its biggest deal yet, a little more than month after closing an equity commitment of more than $225 million from investors, including funds managed by HarbourVest Partners, Stone Point Capital LLC and Pathway Capital Management, bringing its permanent equity capital to more than $1.3 billion.

Preston Hollow occupies a niche between banks that lend to municipalities with strong credit ratings — a market that exploded after the financial crisis — and individuals and mutual funds that buy traditional bonds. Preston Hollow lends over the long-term, as much as 40 years, to projects that banks won't finance because they're too risky, require more time to repay — or both. It stands to get an 8.2 percent interest rate on the New Orleans loan if it goes through, more than twice the yield on benchmark 30-year municipal bonds.

"There was this wide gap between the bank market and the capital markets marketplace for a committed buyer," said Ramiro Albarran, managing director at Preston Hollow.

Banks Retreat

Outside of the municipal market, lending by private equity funds and asset management firms to companies has ballooned to more than $600 billion as stiffer regulations led banks to pull back, according to researcher Preqin Ltd. The corporate-tax cut law has also made state and local government debt less lucrative to banks, leading them to cut their holdings during the first three months of the year for the first time since 2009, according to the Federal Reserve.

Loans are attractive to investors because they're immune from the price swings of publicly traded assets, said Albarran, while borrowers can cut out the fees for lawyers and credit rating companies associated with bond offerings.

"Often there's a lack of risk appetite from the borrower's standpoint to go through all the steps necessary for doing a capital markets transaction and hoping the buyer will be there at the end of the day," said Albarran.

Preston Hollow Capital was founded by Jim Thompson, who worked at Orix USA, a subsidiary of Japan's Orix Corp., for 22 years, including 10 years as chief executive officer. He invested $100 million of his own money in Preston Hollow Capital, named after the wealthy Dallas neighborhood where he lives.

Thompson, an avid pilot who owned a Czech-made military training jet and flew his Cessna Citation CJ3 to Europe, built Orix USA from a company that securitized mortgage-backed securities into a 1,400-employee firm with $5 billion in assets.

'Wasn't Ready'

Orix invested in energy, real estate, and municipal projects and acquired Mariner Investment Management and mergers adviser Houlihan Lokey.

"I wasn't ready to stop working," Thompson said in an email.

Thompson's departure from Orix wasn't amicable. Orix sued Thompson, accusing him of planning the new firm while still at there and poaching its employees. Thompson, who said his compensation included a five percent share of Orix's value, sued after the company denied the options existed and didn't pay him, according to the lawsuits. The cases were settled and terms are confidential.

Thompson brought along 10 of his Orix colleagues to his new firm. Now, Preston Hollow and its 32 employees focus on sourcing deals — "where public policy and private capital intersect — rather than purchasing companies," Thompson said in an email.

And while Preston Hollow started with a focus on financing infrastructure for economic development projects, it's diversified into higher education and healthcare investments.

In April, Preston Hollow closed a $125 million loan with El Centro Regional Medical Center in California's Imperial Valley near the Mexican border to bring the city-owned hospital into compliance with seismic safety standards and refinance existing debt. About a quarter of El Centro's residents live in poverty and suffer from high rates of diabetes and cancer.

Preston Hollow bought the hospital's tax-exempt bonds yielding 5 percent to 6.38 percent. "They gave us terms better than what we would have had seeking the markets," said hospital Chief Executive Officer Dr. Adolphe Edward.

The New Orleans hotel deal has attracted scrutiny from a non-partisan research group, which estimates the development team is seeking cash and subsidies with a present value of $330 million.

These include tax rebates of 10 percent of room revenue, 4 percent of food and beverage revenue, and a property tax exemption until the debt is repaid in 40 years.

On August 9, New Orleans Mayor LaToya Cantrell, wrote a letter to the chair of the the Ernest N. Morial New Orleans Exhibition Hall Authority opposing the proposed deal and saying she had "grave concerns" about the size of the public subsidy, future implications of the project on tax revenue and the plan's scant details.

The mayor also said she was concerned about the interest rate on the tax-exempt bonds Preston Hollow would purchase. Thompson declined to comment.

Bloomberg Markets

By Martin Z Braun

August 17, 2018, 7:50 AM PDT

— With assistance by Alan Levin

Louisiana Bans Bank of America, Citi from Bond Sale Over Gun Policies.

- **Commission votes to exclude top U.S. underwriters from deal**
- **Bank policies seen 'infringement on the rights' of residents**

Louisiana is using the bond market to stick up for the Second Amendment.

The state's bond commission voted 7 to 6 Thursday to ban Bank of America Corp. and Citigroup Inc. from working on its upcoming debt sale because of the banks' "restrictive gun policies," the state treasury said in a statement. Bank of America and Citigroup are the two top-ranked underwriters of long-term municipal debt, according to data compiled by Bloomberg.

"I personally believe the policies of these banks are an infringement on the rights of Louisiana citizens," Treasurer John Schroder said in a statement. "As a veteran and former member of law enforcement, I take the Second Amendment very seriously."

The ban is the latest example of how corporate America has been drawn into the nation's polarizing debate over gun control. Earlier this year, Chicago Mayor Rahm Emanuel proposed using the city's business to push for stricter gun controls by limiting work with Wall Street firms that didn't cut ties with companies that sold firearms to people under the age of 21 or dealt in high-capacity magazines.

The decision by Louisiana comes after Bank of America in April said it would stop making new loans to companies that make military-style rifles for civilian use. At the time, the bank said at least 150 of its employees had been affected by gun violence over the years. Bill Halldin, a spokesman for Bank of America, declined to comment.

Citigroup was the first major banking institution to set restrictions on the firearm industry in March, when it announced plans to prohibit retailers that are customers of the bank from offering bump stocks or selling guns to people who haven't passed a background check or are younger than 21. The restrictions applied to companies that rely on the bank for store credit cards, lending and other services.

“Citi adopted this policy because we believe it is a positive and balanced step to promote gun safety without undermining free markets or Second Amendment rights,” spokesman Scott Helfman said in an emailed statement. “It is disappointing that the taxpayers of Louisiana will be deprived from competitive bidding for necessary public works because the process has been politicized.”

Second Amendment

During 90 minutes of deliberations during a state bond commission meeting on Thursday, Louisiana legislators discussed the merits of the ban. The state said it received solicitations from 19 banks interested in underwriting the $600 million sale of so-called Garvee bonds, which would finance interstate improvements and tunnel replacements.

The exclusion won’t be a major hit to Bank of America or Citigroup, which together underwrote about $110 billion of municipal bonds last year, about 27 percent of those that were issued, according to data compiled by Bloomberg.

Louisiana state senator Jay Luneau voiced concern that the state would no longer get the best rate on the bond sale if it were to exclude the biggest underwriters. Luneau also asked the commission whether the state would also prohibit the bank awarded the bond deal from re-selling some of the debt to Bank of America and Citigroup on the secondary market.

“What I’m trying to point out is they could still be involved — even if we did this — in the secondary market,” said Luneau, a Democrat. “Some of our intent is to do business with who is best for the state of Louisiana from a financial perspective with these bonds because we’re talking about a lot of money here.”

Other state officials took Bank of America and Citigroup to task on Thursday over the gun policies, delivering a simple message: Stick to banking.

“Do you realize how important the second amendment is to the people of Louisiana?” Blake Miguez, a Republican member of Louisiana’s House of Representatives, asked Citigroup’s Brandee McHale, the company’s head of corporate citizenship.

Bloomberg Markets

By Amanda Albright and Jennifer Surane

August 17, 2018

S&P Extra Credit: U.S. Not-For-Profit Health Care, Medians And Trends And Disruption. Oh My!

In this Extra Credit Lisa Schroeer talks with S&P Global Ratings’ not-for-profit health care industry experts Martin Arrick and Cynthia Keller about the sector’s median performance, overall trends, and potential disruptors.

Listen to Audio

Aug. 13, 2018

Muni Market Recap: Slow & Steady Wins the Race.

Municipal bond markets have been slowly and steadily grinding to lower yields and lower ratios over the summer. As a reminder, when yields are lower prices are higher due to the inverse relationship between yields and prices. Ratios represent the yield of the U.S. Government bond divided by the yield of the Municipal bond. Municipal front end yields, observed by bonds maturing in 2020, have declined from 1.65% to 1.62%, and 10 year yields have declined from 2.50% to 2.43% (based on MSRB trade data). Ratios in the front end of the yield curve (2 year) declined, 65% to 63%, and 10 year ratios have been steady at 85% (based on MSRB trade data). The long end of the muni curve has remained around 3.00% at 99% ratio to US Government 30 year debt (based on MSRB trade data).

The steady market has benefited large issuers trying to bring bonds to market. The demand has been relatively steady and has, at times, allowed large issuers to price deals in excess of $1 billion with no new issue discount. New issue discount is usually a function of a sudden increase in supply for a given issuer results in a widening of spreads or higher yields to compensate for the increased supply. The most recent example is the Denver Airport transaction that was brought to market this week: Denver Airport planned to raise $2.3bn and the deal had enough demand to issue $5 billion in bonds. The airport has a $3.5 billion capital program to expand the capacity of travellers coming into Denver. Miami Dade Aviation also sold $790 million of bonds this week to refund a past deal.

In a year with lower overall municipal bond issuance, down 11% relative to 2017, airports issuance is up 49 percent (source: Bloomberg) so far in 2018 with over $11 billion of bonds coming to market.

Posted 08/17/2018 by Homero Radway

Neighborly Insights

The Fast Lane – Demography, Regional Competitiveness, City Finances.

Demography is destiny, goes the old saying. In the United States, a changing and growing population may help spare our society from the workforce shortfalls afflicting many other industrialized countries. Yet the transition to a more diverse America, including the first recorded decline in the country's white population, is causing palpable anxiety in our politics and reigniting core tensions around race. In the San Francisco Chronicle, Bill Frey explains why America's growing minority youth population is good news for the nation's future, building on the second edition of his book, Diversity Explosion.

At the same time, it's clear that demographic margins alone won't automatically translate into broadly shared opportunity. Writing in The New York Times from his fast-changing majority-black hometown near Pittsburgh, Andre Perry urges investors and technology companies to bridge the gaps that too often separate diverse communities from the urban tech boom.

Continue reading.

The Brookings Institute

by David Lanham and Rachel Barker

August 14, 2018

The Dos and Don’ts of Leasing Property Owned by a Municipality.

Most municipalities own at least some real property and often such property is underutilized. An effective way for a municipality to monetize that asset, and raise extra revenue, is to lease the property to a tenant. However, the successful completion of a municipal lease—like any commercial lease—requires that municipalities think carefully, and negotiate thoroughly, regarding a number of legal issues.

1. Written Lease Agreement

“Get it in writing.” You’ve undoubtedly heard this advice countless times, and for good reason—it is critical to spell out with specificity the rights and obligations of each party in a written lease agreement. While a lease agreement does not necessarily need to be in writing to be enforceable by a court, having a well-defined lease in place with your tenant is a good way to avoid having to go to court in the first place. As with any business relationship, things will go wrong, mistakes will be made, and misunderstandings will happen in the course of a landlord/tenant relationship. Having a comprehensive lease in place, which covers issues such as how much rent is due and when, who is responsible for damages and repairs, and how long a lease term lasts, along with a host of other issues, can help municipalities ensure beneficial and amicable relationships with tenants.

2. Term

Every lease agreement should clearly define the length of the lease, as well as specific start and end dates. Depending on the terms of a lease deal struck by a municipality and tenant, a lease agreement may have several start dates, including when a tenant can enter the premises to set up, when rent is due, when the tenant must secure insurance, and when business may commence. In addition, the lease agreement should identify under what conditions the parties may terminate the lease, and the parties’ respective rights and obligations upon lease termination. Events of default, triggering the rights of a party to terminate the lease, as well as any opportunities to cure defaults, should also be spelled out in the lease.

3. Insurance

To the extent a municipality becomes a landlord, it should ensure, and require documentation in the lease agreement, that its tenant has sufficient insurance for its business. Once a municipality allows another party to operate on its property, it must concern itself with the types of activities that the tenant is engaging in, and whether such activities put the property or people at risk. As discussed below, in a typical lease scenario, risks are divided between landlord and tenant for repairs, maintenance, and damages to the property. If a municipal landlord doesn’t require coverage, it may have to bear the full cost of repairs. Further, requiring insurance is simply good business. If a tenant doesn’t have sufficient insurance for its business, it may choose to use its next rent payment for an expense, such as damage or an accident that would otherwise have been covered by insurance.

4. Use Clause

To the extent that a municipality is concerned about how a tenant may use its leased property, it should include a “use clause” that limits and defines permitted activities in the space. The limitations can be broad or narrow, and should be tailored based on concerns related to risks of

liability related to certain kinds of businesses, and/or if the municipality has an aversion to certain kinds of business activities.

5. Taxes

While property owned by a municipality for a "public purpose" may be exempt from taxes, if such property is leased to a for-profit business for a non-public purpose, such exemption does not apply. Specifically, MCL 211.181(1) provides:

Except as provided in this section, if real property exempt for any reason from ad valorem property taxation is leased, loaned, or otherwise made available to and used by a private individual, association, or corporation in connection with a business conducted for profit, the lessee or user of the real property is subject to taxation in the same amount and to the same extent as though the lessee or user owned the real property.

Accordingly, a lease agreement should make clear that a tenant is responsible for all taxes and should be listed on the tax rolls as the taxpayer.

6. Repairs, Maintenance, and Improvements

A lease agreement should identify whether the municipal landlord or tenant is responsible for major and minor repairs and maintenance for the leased building or space within a building. Typically, tenants are also responsible for paying a proportionate share of common area maintenance within a building. In addition, a lease should address the parties' agreement about any improvements that the tenant intends to make to the space, including who is responsible for the work, when it must get done, and who must pay for it.

7. Miscellaneous Expenses and Obligations

Many other issues can and should be addressed in a lease agreement between a municipality and a tenant. For example, the agreement should document who is responsible for procuring and paying for janitorial services, how utilities should be apportioned in a multi-tenant building, who is responsible for exterior maintenance such as landscaping and snow plowing, and what dedicated parking, if any, is available to the tenant.

These issues must also be considered when a municipality leases space from a private landlord or a municipal landlord.

In sum, municipalities that intend to lease space to tenants should not simply rely on a "boilerplate" lease agreement when negotiating and memorializing terms with a tenant. Each term of the lease must be carefully considered and reduced to a written agreement. By working with experienced legal counsel to craft an agreement, municipalities can avoid hidden, onerous traps that can result in expensive and time-consuming litigation.

Foster Swift Collins & Smith PC

by Scott H. Hogan

August 15, 2018

Climate Change AG Investigations and Municipal Litigation.

Increasing Challenges for Energy Producers

Several state attorneys general ("state AGs") recently have undertaken high-profile investigations into energy producers' research and public statements about the potential effects of climate change. Thus far, energy companies like ExxonMobil ("Exxon") have encountered limited success challenging these investigations. In addition, a number of cities and municipalities have filed lawsuits against major energy producers, alleging that these companies knowingly contributed to the harmful effects of climate change.

This article surveys recent developments in these state AG investigations and municipal lawsuits against energy companies. Although these investigative and litigation trends remain in their early stages, it appears that energy producers may continue to face increasing climate-change government investigations and related litigation.

Continue reading.

King & Spalding

by John C. Richter, Brandt Leibe, William S. McClintock

August 15, 2018

The Public Finance Opportunity.

If you're a certain age, it's likely that you've never given a second thought to buying a municipal bond or the process of bond buying, even if you've intuited, rightly, that's it's an intentionally opaque business.

Yet there could be a big opportunity for startups, and for people looking for places to invest, and for cities with crumbling infrastructures, in disrupting the status quo.

First, there's a strong case for buying bonds. Late last year, the Trump administration capped at $10,000 the amount that taxpayers can deduct in property tax and local and state income tax. Most people with hefty tax bills are benefiting in other ways from that same new tax bill, but this aspect of it isn't so great for them, and municipal bonds can help. The reason: interest income paid on muni bonds is exempt from federal tax. (Bonds issued within one's state can also be free of state tax.)

Continue reading.

Tech Crunch

by Connie Loizo

A Huge Win for Keeping Water Systems under Public Control.

Baltimore is poised to become the first major U.S. city to prohibit privatization of its water system

and the first to do so by amending its city charter.

“Water privatization is simply unethical, immoral, and dangerous,” said Rianna Eckel, Maryland organizer with Food and Water Watch and convener of the Right to Water Coalition Eckel, at a press conference at City Hall on August 6, 2018. Behind her stood Baltimore Mayor Catherine Pugh, City Council President Jack Young, and dozens of members of the Right to Water Coalition.

An hour later, Baltimore City Council overwhelmingly voted to approve the measure. Council President Young, who introduced the amendment, fast-tracked the bill through the legislature. Mayor Catherine Pugh signed it earlier this week. It will now go before voters on the November ballot, where it is expected to pass.

Continue reading.

NEXT CITY

BY DHARNA NOOR | AUGUST 17, 2018

Proposed Infrastructure Plan Would Increase WIFIA Appropriations.

As part of a draft infrastructure bill released last week by House Transportation and Infrastructure Committee Chairman Bill Shuster (R-Pa.), the U.S. Environmental Protection Agency’s (EPA) Water Infrastructure Finance and Innovation Act (WIFIA) program would be reauthorized at $250 million over five years.

According to the Association of Metropolitan Water Agencies (AMWA), Shuster’s bill is not expected to advance through Congress in its entirety this year. However, the WIFIA component and other water-related provisions could lay a marker ahead of the House’s anticipated negotiations with the Senate later this year over another water resources bill that includes a controversial SRF WIN provision that proposes to create a new version of WIFIA exclusively for state infrastructure finance agencies.

According to AMWA, Shuster’s draft legislation features a number of water, transportation and infrastructure policies “intended to further the national conversation about the current state of America’s infrastructure” and set a course for effective reforms.

In addition to authorizing Congress to appropriate up to $50 million for WIFIA in each of the next five years, the bill would make a number of relatively modest changes to improve operation of the program. These include allowing EPA to aid the U.S. Army Corps of Engineers in standing up its own version of WIFIA (a concept featured in legislation earlier endorsed by AMWA); increasing from 49 percent to 80 percent the maximum amount of a project’s cost that may be financed through a WIFIA loan; and requiring applicants to produce a final credit rating opinion letter from only one rating agency, rather than two.

According to AMWA, absent from Shuster’s bill are major provisions that resemble components of the controversial SRF WIN Act, legislation incorporated into a Senate water resource bill that would establish a separate version of WIFIA – with preferred loan terms – exclusively for state infrastructure financing authorities.

AMWA has strongly opposed the SRF WIN Act due to its potential to undercut the leveraging ability

of the current WIFIA program and its unequal interest rate treatment of different states. The lack of SRF WIN language in Shuster's proposal indicates that House Republican leaders share these concerns. Shuster's draft bill does include some streamlining for WIFIA applications compiled by states – such as helping them avoid duplicative environmental reviews, allowing EPA to offset some processing fees and establishing an expedited application review timeline – but these fall well short of the numerous preferences given to state-compiled projects under the SRF WIN proposal.

RELATED: Senate hearing avoids SRF WIN details, AMWA says

Other parts of Shuster's bill would reauthorize the Clean Water State Revolving Fund (SRF) at $15 billion over five years and create a new EPA technical assistance program for small and rural treatment works. The bill does not contain any policy reforms or reauthorizations related to the Drinking Water SRF, as that program falls outside the authority of Shuster's committee.

Although Shuster's bill is not expected to receive a vote in the House before the end of the year, Congressional staff have indicated that its water infrastructure provisions may serve as the House's starting point when the time comes for the House and Senate to negotiate SRF WIN and a number of other changes to EPA programs proposed by a Water Resources Development Act (WRDA) reauthorization bill pending in the Senate.

Separate WRDA legislation approved by the House in May left EPA programs untouched, so Shuster's draft bill may be viewed as his initial counteroffer to changes proposed in the Senate's WRDA bill.

JULY 30, 2018

BY WFM STAFF

Department of Agriculture Funds Wastewater Infrastructure For Rural Communities.

Federal funding of rural wastewater infrastructure projects is often assumed to predominantly flow through the Environmental Protection Agency (U. S. EPA)'s Clean Water State Revolving Fund created in 1987 under the Clean Water Act. However, in an interesting development, Anne Hazlett, Assistant to the Secretary for Rural Development at the U.S. Department of Agriculture (USDA), recently announced that the USDA would make a historic commitment to upgrade and rebuild rural wastewater infrastructure.

USDA is providing the funding through its Water and Waste Disposal Loan and Grant Program. It can be used to finance drinking water, stormwater, and wastewater systems for rural communities with 10,000 or fewer residents. The commitment follows the findings of President Trump's Interagency Task Force on Agriculture and Rural Prosperity which recommended investing in rural infrastructure as a means to support and sustain rural communities.

"USDA is committed to being a strong partner to rural communities in building their futures," Hazlett said. "All people — regardless of their zip code — need modern, reliable infrastructure to thrive, and we have found that when we address this need, many other challenges in rural places become much more manageable."

According to the Rural Community Assistance Program (RCAP), 51,356 water systems in the U.S.

serve less than 3,500 customers (83 percent of all systems) and of that number, 65 percent serve less than 500. In FY 2018, Congress provided a historic level of funding for water and wastewater infrastructure through the USDA with the 2018 Omnibus spending bill including $5.2 billion for USDA loans and grants, up from $1.2 billion in FY 2017. The bill directs Agriculture Secretary Sonny Perdue to make investments in rural communities with the greatest infrastructure needs.

As many of the water and wastewater treatment industry are aware, EPA officials have been working with the States to shed or share responsibilities, under the pressure of proposed cuts to its budget. However, this move suggests that offsetting funding for wastewater infrastructure may flow through the USDA. Ironically, it's the non-point source runoff from agriculture that wastewater industry professionals often point to as the main source of nutrients causing harmful algal blooms (HABs) in the Country's lakes, oceans and gulfs. The investment in wastewater infrastructure for rural communities can only help the agricultural community to focus in on efforts to reduce non-point source nutrient pollution.

wateronline.com

The $1.4 Billion Transit Fund the U.S. Government Won't Release.

From El Paso to Minneapolis, local rail and bus projects are waiting on federal money that should have arrived by now.

Remember the $1 trillion federal infrastructure bill? Heavily touted by President Donald Trump on the campaign trail and in his first year of office as a plan to "build gleaming new roads, bridges, highways, railways, and waterways all across our land," the idea is all but dead in Congress 18 months into his administration.

Like a nasty pothole, Trump's unkept promises on road-and-rail dollars have given transportation fans a mild case of whiplash. But there may be worse harm in another infrastructure lapse on the part of this administration, this one more basic: $1.4 billion promised to transit projects across the U.S., still unallocated by the Federal Transit Administration for no clear reason.

From New York to Los Angeles, El Paso to Minneapolis, 17 rail and rapid bus projects are awaiting grants promised by the federal appropriations bill signed into law by Trump in March 2018. But the funds have still not been delivered nearly five months later. Make that 144 days, 20 hours, and 15 minutes later, as of this writing, according to a splashy countdown clock built by Transportation For America, a progressive transportation policy organization.

Here's the full list of projects counting down the minutes, from TFA:

- Albuquerque, NM Central Avenue BRT
- Dallas, TX DART Red & Blue Line Platform Extensions
- El Paso, TX BRT Extension
- Jacksonville, FL Southwest BRT
- Los Angeles, CA Purple Line Extension (LRT), Section 3
- Minneapolis, MN Blue Line (LRT) Extension
- Minneapolis, MN Green Line (LRT) Extension
- Minneapolis, MN Orange Line BRT
- New York City, NY Canarsie (L) Line Improvements
- Orange County, CA Streetcar

- Reno, NV Virginia Street BRT
- Sacramento, CA Riverfront Streetcar
- Seattle, WA Lynnwood LRT extension
- Seattle, WA Madison Street BRT
- South Shore (IN/IL) Commuter Rail Double Tracking
- St. Petersburg, FL Central Avenue BRT
- Tempe, AZ StreetcarContinue reading.

NEXT CITY

LAURA BLISS AUG 15, 2018

The Rust Belt Needs Capital to Turn Talent and Innovation Into Jobs.

Since Rust Belt voters tipped the results of the 2016 election, interest in effective strategies for supporting new business and job growth in this important region has intensified.

Such interest recognizes that the states of the upper Midwest share more than their swing state status. A unique economic and social development storyline unites the industrial heartland, extending across all or part of 12 states from Minnesota and Missouri in the West, through the Great Lakes and up the Ohio River Valley to Western New York, and to Pennsylvania and West Virginia in the East. The region has many economic challenges, but also boasts important economic strengths, perhaps none as important as the tremendous innovation and talent emerging from its companies and universities.

Yet a lack of risk capital in the Rust Belt has held back the region's capacity to translate its formidable innovation and talent assets into new businesses and jobs. That's beginning to change, but public policies could do much more to accelerate the development of a robust innovation infrastructure equal to the Midwest's potential.

Continue reading.

The Brookings Institute

by John C. Austin

August 14, 2018

Digital Innovation in Public Finance.

By Mark Howard, Global Administration Segment Lead, Public Service, Accenture

If you attended recent NASACT or NASC events, you may have heard my colleague, Bill Kilmartin, or me discussing digital innovation in finance. We highlighted the potential of digital technologies and shared insights gained through Accenture's experience with commercial organizations. I've also written extensively about the opportunity to use digital technologies to transform the government back office into a Center of Innovation. That includes realigning the finance function around its true mission: creating a performance-focused organization that is financially sustainable.

We're eager to continue the conversation at next month's NASACT Annual Conference, where instead of *telling* you about digital innovation—we'll be ***showing*** how it's already underway within state governments. One state is testing a chatbot to guide users through its procurement process. Another is applying automation tools to perform massive reconciliation on 100% of records rather than sampling at a fraction of the time previously required, freeing substantial 'human' time to focus on resolving issues rather than compiling data.

These are no longer futuristic concepts. Today digital innovations are within reach for state agencies—and these examples are only the beginning of what's possible.

How can your agency tap into here-and-now digital innovation? Consider a recent Accenture study of government innovation. Spanning nearly 600 government executives in 10 countries, the survey set out to understand what it takes to be innovative—in other words, what an agency must do culturally and operationally to transform itself into a Center of Innovation.

Using the five pillars of the Accenture Innovation Framework—Strategy, Ideation, Execution, Impact & Benefits, and Absorption—we asked about the "what" and "how" of innovation within respondents' government agencies. While our analysis revealed that just 8 percent of agencies can be considered government innovation leaders, it also pointed to some practices and habits that set these leaders apart from the crowd. That includes insights about execution—the important work of turning creative ideas into real-world results.

At the core, executing government innovation requires a sound process and the right skills for evaluating ideas, using a Proof of Concept (POC) to test the highest-potential ideas, rigorously assessing the results of the POC, and, finally, scaling the innovation and continually evaluating performance.

Our study found that for about three-quarters (77 percent) of agencies, moving from pilot to broad implementation at scale remains a significant challenge. Why? The most-cited barriers were budgetary constraints and lack of technological capabilities (cited by 82 percent and 83 percent, respectively). About three-quarters of respondents also pointed to a risk-averse culture (77 percent) and a lack of support from leadership and key decision-makers (73 percent) as barriers to executing innovation at scale. In addition, respondents identified lack of skills as a key obstacle. Sixty-two percent reported that they need more access to user experience (UX) design skills, design thinking skills and research skills—competencies that have become essential to serving digital citizens.

The good news: These obstacles can be overcome. Based on our findings about government innovation leaders and what we've seen in the real world—including the innovative work we'll be highlighting at the NASACT Annual Conference—Accenture has identified four steps to better execution:

- **Go talk with citizens (your "customers").** Set up a structured mechanism for uncovering customers' needs. Be disciplined and consistent in asking customers what's working—and what's not—with your existing services.
- **Put a process in place.** Be rigorous in managing execution, with a strong tie to the impact and benefits of government innovation. Establish a strong practice for each step of execution—evaluating ideas, executing POCs, assessing POC results, scaling quickly to production and evaluating results once in production.
- **Think like entrepreneurs.** Embrace iterative, agile methods, including willingness to rapidly change course. Build the discipline to end at any point in the cycle based on how well or poorly benefits are realized.
- **Assess skills (technical and "soft").** Perform an objective evaluation of your skills gap. Where

gaps exist, determine if you truly need those skills. Where you need skills but have gaps, fill them through partners.

We look forward to expanding on our frontline experience and research findings next month at the NASACT Annual Conference. We hope to inform, inspire and learn from you as we all work to turn digital innovation ideas into actions that make a real impact for agencies and the people they serve.

To learn more about how to bring the back office to the forefront of government innovation visit us here.

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MARK HOWARD is the global lead for Accenture's public administration/regulatory industry group. His team focuses on helping clients implement leading practices, systems and organizational designs in government administrative and regulatory agencies. He spent four years as Accenture's global program director for government finance and performance management. His clients in the U.S. include cities, counties, states, special districts, universities and federal agencies. Overseas, he has worked with the French Ministry of Finance and several United Nations agencies. He helped develop and lead with Bill Kilmartin Accenture's participation in the performance benchmarking program of NASACT. Prior to joining Accenture, Mark spent 10 years in city management in various roles with cities in Texas, Colorado and Wisconsin. He has a master's in public affairs from the LBJ School of Public Affairs at the University of Texas-Austin and a bachelor of arts in history from Northwestern University.

Airports Find a New Source of Revenue: Attaching Hotels to Terminals.

- Recently, Twin Cities officially cut the ribbon on a new four-star hotel at the Minneapolis-St. Paul International Airport (MSP).
- A growing number of travel hubs gives flyers new accommodations that let them skip a hectic commute to a hotel, and go straight to a comfortable room with all the perks.

Recently, Twin Cities officially cut the ribbon on a new four-star hotel at the Minneapolis-St. Paul International Airport (MSP). It gives travelers new accommodations that let them skip a hectic commute to a hotel, and go straight to a comfortable bed with all the perks.

Designed with the corporate traveler in mind, the 12-story, 300 room InterContinental Minneapolis-St. Paul Airport Hotel is connected to Terminal 1 via a sky bridge and has a spa, conference center and its own security checkpoint, offering quick access to the gates for those flying with just hand baggage.

"At-the-airport hotels are particularly convenient to the business traveler who stays only a few days – a demographic in abundance at MSP," said airport spokeswoman Melissa Scovronski.

Continue reading.

CNBC

Harriet Baskas | @hbaskas

Published 9:01 AM ET Sun, 5 Aug 2018

Evaluating Municipal Debt Instruments Using Muni Bond Indices.

Like other capital markets, municipal debt markets are made up of a wide array of debt instruments and serve investors from all walks of life. Whether you are a conservative investor looking for principal protection while earning enough to keep up with inflation or a moderate risk taker who might be looking for high returns on your municipal debt portfolio, you'll find many debt instruments to fit your profile.

Similarly, these various debt issues are unique in their own way with differing characteristics like the risk profiles associated with their credit quality and the duration of their potential returns. To help investors compare and evaluate their potential investments, these characteristics are summed up into benchmarks and market indices.

These benchmarks are quite helpful for issuers and investors in evaluating a debt instrument's yield and comparing that to a particular sector or the municipal debt markets as a whole.

In this article, we will take a closer look at a bond index, its composition, its uses and how it can provide a competitive edge to an informed investor.

Continue reading.

municipalbonds.com

by Jayden Sangha

Aug 08, 2018

Fitch: Rating Normalcy Awaits U.S. NFP Hospitals After Rating Criteria Rollout.

Link to Fitch Ratings' Report(s): U.S. Not-for-Profit Hospitals and Health Systems Rating Criteria Update: Implementation Complete

Fitch Ratings-Austin-07 August 2018: The 'Rating Watch' is officially over for Fitch-rated U.S. not-for-hospitals and health systems with most systems performing as expected and upgrades outpacing downgrades, as detailed by Fitch Ratings in a new report.

Fitch completed its hospitals and health systems criteria rollout mid-July. Of the 16 issuers placed on Rating Watch Negative at the start of its rating review, Fitch affirmed six and downgraded 10. Conversely, Fitch affirmed five and upgraded nine issuers of the 14 it placed on Rating Watch Positive. That said, the overarching theme of the rating review is the majority of hospitals are performing up to par as Fitch had initially projected (52% ratings affirmed, another 28% upgraded). Still, that upgrades occurred more frequently than downgrades was somewhat of a surprise according to Senior Director Kevin Holloran.

"Upgrades generally came from long-time consistent performers that benefited from a 'new look'

through the lens of our updated criteria,' said Holloran. 'Conversely, downgrades were more varied with balance sheet strength an overarching need over size or market share, asserting our view that balance sheet strength translates into more predictable credit stability."

While more than 93% of Fitch's rating changes were subtle in scope (one to two notches), there were two extreme outliers. The first was a provider, Lexington Medical Center, which Fitch downgraded six notches due to a GASB 68 pension liability factored into its analysis. On the opposite end of the rating spectrum was a seven-notch upgrade Fitch took on Presence Health Network, due to an MTI substitution.

So the logical question now is 'What does the future rating trajectory look like for NFP hospitals going forward?' With Fitch's criteria implementation resulting in what it called a 'normalized distribution curve', the short answer appears to be 'normalcy'. 'The short term volatility that criteria change often brings, will result in longer term rating stability,' said Holloran. The sector, however, is dealing with various operational challenges so far this year, some of which could persist into 2019. As a result, Holloran concluded that 'numerous external factors could dictate how frequently Fitch takes future rating actions on select hospitals and health systems.'

Fitch's 'U.S. Not-for-Profit Hospitals and Health Systems Rating Criteria Update' is available at 'www.fitchratings.com' or by clicking on the above link.

Contact:

Kevin Holloran
Senior Director
+1-512-813-5700
Fitch Ratings, Inc.
111 Congress Avenue
Austin, TX 78701

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@fitchratings.com

Additional information is available on www.fitchratings.com

Fitch Ratings: Demographic Volatility A Risk for Some States in Downturn

Fitch Ratings-New York-06 August 2018: US states with the strongest and most stable demographic and economic factors are generally expected to be less impacted by a cyclical downturn than those with strong but more volatile underlying trends, Fitch Ratings says.

We recently reviewed eight factors to assess demographic and economic trends at the US state level. The trends and absolute levels for these factors, and others, can provide insight into states' resilience against cyclical stresses to general economic forces, or more narrow secular trends in some cases. Demographic growth has been strong for many states in the West Coast, Plains and Rocky Mountain regions whereas weakness has been evident in the Great Lakes, New England and Middle-Atlantic regions. Some states that have exhibited relative strength over the intermediate to longer-term, with regard to population trends and various economic and wealth measurements, include Texas, the State of Washington, North Dakota and Wyoming.

Continue reading.

Muni-Bond Manager Buys Treasuries as Rally Erodes the Tax Breaks.

- **AllianceBernstein sees value in Treasuries in lieu of munis**
- **“Very happy” their strategies allow this type of flexibility**

Terrance Hults, a portfolio manager at AllianceBernstein Holding LP, is paid to invest money in state and local government bonds. But lately, he’s been moving into Treasuries instead.

That’s because the clamor for munis that mature in two years or less — driven by rising interest rates — has pushed the securities to their most expensive level relative to Treasuries in nearly four years. The dwindling yield has wiped away much of the tax benefit that investors get by buying state and local debt instead of other securities.

As a result, AllianceBernstein., with $40 billion in municipal bonds under management, has shifted some of cash in mutual funds and privately run accounts into short-dated Treasuries instead of municipals.

“We’re very happy that most of our strategies tend to have flexibility to not only invest across different areas of the muni market but also, when it makes sense on an after-tax basis, to own a modest amount of taxable securities,” Hults said. “In certain short maturities, municipals in general are expensive, so we think it makes sense to take advantage of that flexibility to have a small position in Treasures in the very short end.”

Yields on two-year tax-exempt bonds have declined to about 1.6 percent, some 62 percent of what investors receive on similarly dated Treasuries. That ratio, a key measure of relative value, has dropped 15 percent since May 31 and is only up slightly from the 60 percent hit late last month — the lowest since Sept. 2014.

The difference between after-tax yields on short-term Treasuries and tax-exempt municipals is “only a couple of basis points,” Hults said. Historically, that figure has been about 30-40 basis points, he said.

“You pick up liquidity to go into a small weight — for context, about a 5% weight in a top tax-bracket account — to go into Treasuries.”

Bloomberg Business

By Danielle Moran and Amanda Albright

August 7, 2018, 10:30 AM PDT

The Week in Public Finance: Is Your City Positioned to Weather the Next Recession?

A new report identifies the different factors affecting a city’s ability to respond to a fiscal crisis — and what policymakers can do about it.

What's true for one city isn't always true for another. Demographics and state policies say a lot about a city's ability to respond to a fiscal crisis.

A new report, published by the Brookings Institution's Metropolitan Policy Program, looks at these factors, as well as how state and federal policies may influence how a city weathers a recession or other major disruption in revenue. "Part of what we're trying to understand here," says Michael Pagano, dean of the College of Urban Planning and Public Affairs at the University of Illinois at Chicago and a coauthor of the report, "is if there's a shock to the system, [how will] cities respond to those changes."

The report focuses specifically on the different limits cities have on their taxing power, such as the kinds of taxes a city is authorized by the state to levy, limits on raising the rates of those taxes and how a city's taxing structure aligns with its overall economy.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | AUGUST 10, 2018

World Bank Taps Australia's CBA for Blockchain Bond.

MELBOURNE (Reuters) – Commonwealth Bank of Australia (CBA.AX) has won a mandate from the World Bank to arrange a pioneering bond issue to be created and run using only blockchain, aiming to simplify capital raising and trading.

The World Bank and CBA said on Friday indicative interest in the blockchain operated new debt instrument, nicknamed "bond-i" after Australia's iconic beach, had been strong.

No size or date was given for the issue, a first for the World Bank using blockchain technology, but the two said it would be launched after a period of consultation with more investors.

Using distributed ledger technology, best known as the technology underpinning the bitcoin crypto-currency, would help simplify capital raising and trading and improve regulatory oversight, the World Bank and CBA, Australia's biggest bank, said.

The World Bank issues between $50 billion and $60 billion a year in bonds to back development in emerging economies.

"This pioneering bond is a milestone in our efforts to learn how we can advise our client countries on the opportunities and risk that disruptive technologies offer," World Bank chief information officer Denis Robitaille said in a statement.

CBA said it had found solutions to technical and legal issues to make the transaction work.

CBA's blockchain push come as the Australian Securities Exchange plans to switch to using the distributed ledger technology to clear and settle equities trades from 2020 to help cut costs.

Reporting by Sonali Paul; Editing by Shri Navaratnam

AUGUST 9, 2018

The World Bank is Betting Big on Blockchain-Based Bonds.

The World Bank has announced that it has hired one of Australia's biggest banks to manage what it calls the "first bond globally to be created, allocated, transferred and managed" using a blockchain—one of the clearest signs yet that the technology is going mainstream.

The "bond-i": The World Bank, which issues between $50 billion and $60 billion annually in bonds to fund sustainable development in emerging economies, believes that blockchain technology can make the process more efficient by reducing the number of necessary intermediaries. The bank did not say when the new "blockchain operated new debt instrument" (apparently named after a famous Australian beach) will launch, but investor interest "has been strong," according to a press release.

Not like Bitcoin: There aren't many details available yet on how this will actually work from a technical or logistical standpoint. But unlike Bitcoin, where anyone can engage in mining, the process of verifying new transactions, the World Bank will use a private version of Ethereum in which validators must have permission. The computing infrastructure will run on Microsoft's Azure cloud platform.

An emerging trend: The idea of using blockchains to manage bonds is gaining traction. Last year, a company in the UK issued a bond using Ethereum's public blockchain. The city government of Berkeley, California, is exploring the use of blockchain technology to issue municipal bonds. The World Bank's endorsement of the idea is the highest-profile one to date.

MIT Technology Review

August 10, 2018

World Bank Mandates Commonwealth Bank of Australia for World's First Blockchain Bond.

WASHINGTON/SYDNEY, August 9/10, 2018—The World Bank (International Bank for Reconstruction and Development, IBRD rated Aaa/AAA) has mandated the Commonwealth Bank of Australia (CBA) as the sole arranger of the first bond globally to be created, allocated, transferred and managed through its life cycle using distributed ledger technology.

Indicative investor interest in bond-i (blockchain operated new debt instrument) has been strong. The World Bank and CBA expect to launch the transaction following a period of consultation with a broader set of investors.

Blockchain has the potential to streamline processes among numerous debt capital market intermediaries and agents. This can help simplify raising capital and trading securities; improve operational efficiencies; and enhance regulatory oversight.

The World Bank issues between US$50-US$60 billion annually in bonds for sustainable development. It has a 70-year track record of innovation in the capital markets. Among its pioneering issuances are the first bond in global format—a globally traded and settled bond issued in September 1989; and the first e-bond, a fully integrated electronic bond issued in January 2000. As a frequent issuer in the Australian dollar market, it has since 1986 raised nearly A$60 billion from

investors globally.

Arunma Oteh, World Bank Treasurer, said: "Since our first bond transaction in 1947, innovation and investor satisfaction have been important hallmarks of our success with leveraging capital markets for development. Today, we believe that emerging technologies, equally offer transformative, yet prudent possibilities for us to continue to innovate, respond to investor needs and strengthen markets. We are therefore delighted that after working with our information technology colleagues and the Commonwealth Bank of Australia over several months, that we are now in a position to launch our first blockchain bond transaction. CBA's commitment and Microsoft's wealth of experience have been instrumental to achieving this historic milestone.

Our sincere appreciation to our pioneer blockchain bond investors, who are partnering with us on this transaction because of our common desire to champion greater efficiency, and transparency as well as more robust issuance processes.

Our goal is to continue to harness innovation for the benefit of markets and our mission of ending poverty and boosting shared prosperity."

Denis Robitaille, World Bank Group Chief Information Officer, said: "Helping countries transition to technology-led development is key to our goals of reducing poverty and promoting lasting development. This is at the heart of the World Bank's Innovation Lab—and this pioneering bond is a milestone in our efforts to learn how we can advise our client countries on the opportunities and risk that disruptive technologies offer as we strive to achieve the Sustainable Development Goals."

James Wall, Executive General Manager of International, CBA said: "We take a collaborative approach to innovating and have a track record of partnering with other leading financial institutions, government bodies and corporates to innovate through blockchain. We believe that this transaction will be ground breaking as a demonstration of how blockchain technology can act as a facilitating platform for different participants. We are delighted to have partnered with the World Bank and fully support its vision of making innovative use of technology such as blockchain to increase the efficiency of financing solutions to better achieve their goal to end extreme poverty."

The bond-i blockchain platform was built and developed by the CBA Blockchain Centre of Excellence. Since 2009, CBA has acted as lead manager for a number of IBRD bond issuances in the Australian and New Zealand capital markets. CBA's dedicated blockchain team has taken a lead role in applying blockchain technology to capital markets.

Sophie Gilder, Head of Blockchain, Innovation Labs, CBA said: "We know blockchain has the potential to revolutionize financial services and markets, and this transaction is a significant step towards that future state. By working collaboratively with the World Bank, we were able to find solutions to technical and legal considerations to make this ground-breaking transaction a reality. This project further solidifies CBA's position at the forefront of blockchain technology and we are excited to build on this, in partnership with our clients."

The development of this offering has been conducted with the support and input of the investor community including Northern Trust, QBE and Treasury Corporation of Victoria.

World Bank infrastructure for the bond will run in Washington, D.C. on the Microsoft Azure cloud computing platform. Microsoft validated the system's operational capabilities, security and scale.

Matt Kerner, general manager, Azure Blockchain Engineering at Microsoft, said:

“Microsoft’s mission to empower every person and organization on the planet aligns well with the noble work of World Bank.”

The law firm of King & Wood Mallesons acted as deal counsel on the bond issue and advised on the legal architecture for its implementation.

Reactivating Abandoned Buildings through Local Ownership in Smaller Cities.

The funeral home at 13-15 Chambers Street in Newburgh, N.Y., had already died by the time the Newburgh Community Land Bank formed in 2012.

Two commercial spaces on the ground floor and three apartments on the upper levels had been abandoned for long enough that the city had managed to acquire the property through tax foreclosure. Newburgh is a small city of 30,000 people, about 60 miles north of New York City on the western bank of the Hudson River. When the land bank formed, it decided to focus its energy on a portion of the downtown area — a historic district close to the hospital and the community college, walkable to transit, and packed with vacant properties that the city already owned.

“There hadn’t been much development in the neighborhood we were targeting in many, many years,” says Madeline Fletcher, executive director of the Newburgh Community Land Bank. “So we wanted to do a project that showed how these things could really get done.”

Continue reading.

NEXT CITY

BY JARED BREY | AUGUST 9, 2018

Principles for Open Access Community Broadband Networks.

Secure, stable access to information via the internet — our global brain — is the fresh water equivalent of our time. A reliable, affordable Internet connection has become an essential public good for communities fighting to keep pace with the ever-changing economic, social and environmental landscape.

Broadband networks are the 21st century bridges between our communities and economic opportunity.

Even with significant federal and state subsidy throughout the decades since the birth of the internet, incumbent Internet Service Providers (ISPs) have failed to provide equitable and affordable broadband access.

We believe communities can and should own their own broadband networks by leveraging the hidden economic engine that for centuries has defined our nation as a rich tapestry of self-reliant places: the humble municipal bond.

Where We’re At

We the people financed nearly every road in our nation's vast network of federal, state, municipal and neighborhood roadways. Now imagine if Detroit's automakers were heavily subsidized to build and operate the onramps and driveways, for which they bill on a monthly basis and sometimes maintain. That is of course insane, but that's also more or less how most internet access takes place in the United States today.

A New Way

We believe community-owned networks can help boost economic resilience and quality of life. Despite years of fear, uncertainty and doubt cast by incumbents who seek to control access to the infrastructure the public initially financed, a powerful model for building networks is beginning to take root: the Open Access Network.

An Open Access network follows the principle of common carriage: we all benefit from rules that ensure critical infrastructure is available to everyone on the same terms. In other words, it's an essential check against monopoly power.

In this model, revenue can be generated through user subscriptions to the network and "leasing" fees from ISPs who also pay for the right to use the infrastructure. In comparison to public private partnerships, this model keeps all revenue from those cash flows, and from additional investments in the network, inside the community. In addition, public ownership, and the self-determination that comes with it, ensures the best alignment of incentives between communities building networks, ISPs and investors supplying capital.

To ensure ubiquitous broadband access — the same standards we pioneered worldwide for the delivery of water — communities can turn to the same hidden economic engine that built our our waterworks. Communities can harness the power of public finance to build their own networks from the ground up.

At Neighborly, we work to make it easier and less expensive for communities to secure their own access to information by making public finance work harder for the people who need it. We believe communities can make the most of their investment by adhering to the following principles meant to guide the ownership, construction and operation of open access community broadband networks.

I. We own our network.
II. ISPs compete to serve us.
III. We leave no neighbor in the dark: access is universal and affordable
IV. We don't need to raise taxes to build our network.

I. We own our network.

We don't need complicated private ownership arrangements where interests and incentives may not be aligned with those of our community. We can own our infrastructure from day one. Broadband infrastructure, like water pipes, roads and the electricity grid, leans toward natural monopoly. As a result, broadband networks should be organized to ensure universal access and the best interests of our community — along with fair, full returns to our investors — are the only incentives.

II. ISPs compete to serve us.

Infrastructure should be separate from the provision of service so we are no longer tied to a single Internet Service Provider. ISPs will compete for our business, giving us more choice and better service: the very spirit of American-style free market competition. Increased options and better service lead to more resilient and affordable access. With a separate service layer, there is also tremendous potential for a full competitive marketplace to thrive on top of our community-owned infrastructure, generating more revenue for the community. The private sector can openly and easily

deliver services, from Internet to telehealth, with lower barriers to entry and across geographic boundaries.

III. We leave no neighbor in the dark.
Our network serves all of us, and no community-member is left behind. We don't cherry-pick who has access and who doesn't. The Internet delivers unprecedented opportunities for economic development, education, public health and safety, civic engagement and greater social equality. Access is essential, so a community broadband strategy must be bigger and more ambitious than the mere provision of faster Internet. Access should be ensured in all corners of our community, and the network should not dictate or limit services offered to our users — in this case, the members of our community. In addition, with the best alignment of incentives, and the benefits of an open platform for competition, we can ensure that connectivity is affordable for every member of the community.

IV. We don't need to raise taxes to build our network.
While it's an option, we know the utility-grade revenue stream our network supplies means we have choices when it comes to financing. Revenue bonds, unlike general obligation bonds, pledge network revenues to repay debt without necessarily placing additional burden on taxpayers, or relying on elaborate private partnerships to finance and build our network.

Neighborly Issuer Brief

Posted 08/09/2018 by Jase Wilson

Learn more about building your own broadband network at neighborly.com/broadband

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Let's Restart the Hidden Economic Engine.

Why we must rewire, recast and reclaim the multi-trillion dollar market that funds bold public works.

Public finance was designed to serve community visionaries — the builders who sought better lives for themselves, their communities and future generations. Financing more than two centuries of impactful public projects — schools, parks, libraries and the roads connecting them — the humble municipal bond is the original impact investment, and it helped build our nation.

The multi-trillion dollar market touches our lives in countless ways every day: directly via the roads and bridges we use; the sewers and water pipes upon which we build our cities; the connections within and between our communities and the global economy. And in subtle, though no less direct, ways through the fabric and strength of our public institutions: the quality and quantity of public school education; the ways we generate and consume energy; the ways we create and capture value from the resources of the Commons.

Continue reading.

Neighborly

Posted 08/07/2018 by Jase Wilson

Recognizing Infrastructure's Role As a Local Economic Anchor.

In the race to grow their economies and create new jobs, localities frequently look far beyond their borders. Too often, they try to lure new firms through costly incentives and subsidies with questionable economic returns, a trend that is only gaining more national spotlight during the search for Amazon's second headquarters. But looking closer to home in support of their core industries and employment opportunities could more directly build off localities' existing economic strengths.

Investing in infrastructure is foundational to these efforts. Not only does infrastructure serve as a platform to support industries and broader regional growth, but it can also be a driver of more equitable and enduring growth for individuals.

After all, constructing and maintaining reliable roads, ports, pipes, and other systems is essential to all types of businesses and households. Whether moving passengers and goods or ensuring that water, electricity, and broadband is available to everyone, both the public and private sector have a shared responsibility to oversee these various systems. Yet even beyond this supportive role, many local leaders overlook another significant opportunity: Infrastructure can also represent a key economic anchor.

The Brookings Institute

by Joseph Kane

Friday, August 10, 2018

What Can the Local Government Do About This Land Use Ordinance Violation?

We spend a lot of time in this space talking about land use ordinances. But what about the tools deployed in the event of a violation of those ordinances? State law provides that municipal and county governments may avail of different remedies in the enforcement of local ordinances, including (and our focus) land use ordinances. NCGS 160A-365, 160A-175 (as to municipalities), NCGS 153A-123, 153A-324 (as to counties). The three main remedies we often see employed, sometimes in conjunction with each other, are injunctive relief, civil fines, and criminal proceedings. In this post, we'll discuss each in turn.

First, injunctive relief is always available to the local government for a violation of a land use ordinance, even if not expressly provided for in the local ordinance. See New Hanover County v. Pleasant, 59 N.C. App. 644 (1982). Most commonly, injunctive relief is used to prohibit the completion of work that violates an ordinance or to cease a use that violates an ordinance. It is also possible for a court order to compel an act in order to comply with a land use ordinance, the so-called affirmative injunction. Violation of an injunctive order carries contempt possibilities, whether civil or criminal. Unlike civil fines and criminal proceedings, the very nature of injunctive relief limits the local appeal remedies available to the alleged violator; accordingly, ordinance interpretation and enforcement issues are almost certain to be fought in State court.

Second, civil fines are available where the local ordinance enables the fine or penalty and only in

the amounts specified within the local ordinance; there is not a State-wide standard. The fine amount cannot exceed an amount reasonably related to the amount of harm caused by the violation and the local government's cost of remediation. Moreover, if the ordinance provides for a process before the assessment of civil fines and penalties can be assessed, then that process must be followed; an evidentiary hearing is not required unless provided for in the local ordinances. However, a civil penalty is appealable to the local board of adjustment, just as any adverse land use ordinance interpretation, which is an evidentiary proceeding. Also, an appeal will automatically stay the ordinance enforcement as a matter of State law. In the event a fine is assessed but not paid – and an appeal is not timely made or is otherwise lost – the local government may pursue civil action to collect the debt; in such a lawsuit because the board of adjustment appeal avenue has closed, there are no defenses to the fine.

Third, any "violation of a city [or county] ordinance is a misdemeanor or infraction as provided by G.S. 14-4", unless the board of county commissioners or municipal council shall otherwise provide. NCGS 153A-123 (as to counties), 160A-175 (as to municipalities). NCGS 14-4 sets the penalty for violation of a local ordinance as a Class 3 misdemeanor. Practically, local prosecutors are oftentimes too (and understandably) busy with violent offenses to press the pursuit of land use violations; this gives the alleged violator the opportunity to pursue appeals or favorable ordinance interpretations as defenses, if available.

Finally, attorney fees are generally not recoverable by a municipality or county in the enforcement of a land use ordinance. However, that is not a two-way street. If a local government is determined to have exceeded its powers or abused its discretion, in enforcing the ordinance, attorney fees may be awarded against the local government.

Funny Aside

As noted, by State law, any "violation of a city [or county] ordinance is a misdemeanor or infraction as provided by G.S. 14-4", unless the board of county commissioners or municipal council shall otherwise provide. NCGS 153A-123 (as to counties), 160A-175 (as to municipalities). Well, in June 2018, the North Carolina General Assembly adopted Session Law 2018-69, which is entitled, "An Act to Assist the Criminal Law Recodification Working Group". That law provides, in pertinent part, "Every county, city, town, or metropolitan sewerage district that has enacted an ordinance punishable pursuant to G.S. 14-4(a) shall create a list of applicable ordinances with a description of the conduct subject to criminal punishment in each ordinance … [and submit] no later than December 1, 2018." Of course, as noted in NCGS 160A-175 and NCGS 153A-123, any ordinance violation "is a misdemeanor or infraction as provided by G.S. 14-4" unless the local governing board so provides. So, basically, compliance with Session Law 2018-69 requires local government submission of "a list of" all ordinances, because all local ordinances are punishable "as provided by G.S. 14-4". That's a big paper dump for the State government, I'd think.

Womble Bond Dickinson (US) LLP

by John C. Cooke and Michael C. Thelen

August 3 2018

For Muni Bond Sales, Brand Matters

Marketing is especially important for smaller local governments, and states have a role to

play.

Earlier this year, Georgia sold $1.2 billion in new bonds. No news there. Like most big states, Georgia goes to the bond market at least once a year with a large new offering. And as in most big states, especially those with strong financial and economic fundamentals, investors snapped up those bonds at competitive prices.

But this time, Georgia's debt managers tried something different. Before they went to market, they put on a series of presentations and conference calls designed to convince investors that Georgia bonds are a great deal. In other words, they ran an investor road show. Such events are common in the corporate world, but are mostly new to states and localities.

Georgia has a strong credit rating and a stellar fiscal reputation. So why did it take the extra time and resources to burnish that reputation? There are three main reasons, and they collectively remind us of the policy challenges that surround brand recognition in the municipal bond market.

One big reason is December's federal tax overhaul, which lowered tax rates for corporations and individuals, meaning investors have less to gain from tax-exempt investments such as munis. A strong investor relations program can help governments attract new investors and encourage longtime investors to stay in the game.

Meanwhile, interest rates are normalizing. They've sat at record low levels for almost a decade, and during that run, municipal bonds offered a bit more yield than U.S. treasuries with effectively no additional risk. That stoked record investor demand for munis and gave governments easy access to cheap money. Now with rates back on the rise, muni borrowers need to offer up more yield to draw the same investor interest. Again, strong investor relations can help highlight the bargain that munis offer.

Finally, there is the lingering threat of severe fiscal stress. Detroit, Stockton, Calif., and other fiscally strapped cities have worked out their most pressing issues, but investors remain understandably weary of fiscal problems just beneath the surface. Better investor outreach can help investors draw their own conclusions about an issuer's actual strengths and weaknesses.

For these and other reasons, investor relations programs are becoming part of the government chief financial officer's toolkit. If you have a great brand to sell, and the resources to sell it, then why not sell it?

But what about the tens of thousands of smaller issuers who don't have that same brand recognition? Tax reform, normalizing interest rates and fiscal stress also present them with some unique challenges.

For instance, a recent paper from Kate Yang at George Washington University shows that in Alabama, in the aftermath of the Jefferson County bankruptcy, interest rates on bonds from smaller, lesser-known cities in the state increased. That's consistent with the "contagion" effect we'd expect after a major financial catastrophe. Investors unsure about Alabama governments saw them as a bit riskier. But at the same time, larger Alabama borrowers with better credit ratings actually experienced a "reverse contagion" effect. They saw their interest rates decline.

How could one of the biggest local fiscal catastrophes in history actually benefit nearby governments? To repurpose the old Tip O'Neill saying, "All muni markets are local." Alabama investors enjoy unique tax benefits from investing in Alabama governments. That pool of investor money is more or less locked into the state. So as money flowed away from Jefferson County, the

other Alabama bonds it flowed to saw higher prices and lower yields. Tax policy changes and normalizing interest rates can also animate this intrastate zero sum game.

All this suggests that states ought to consider how they can facilitate better muni investor relations for all the governments within their borders. Without strong state policy frameworks, and robust private-sector investor relations solutions, many small governments could be left behind in the rapidly changing municipal bond market.

governing.com

By Justin Marlowe | Columnist
Endowed Professor of Public Finance and Civic Engagement at the Daniel J. Evans School of Public Policy & Governance at the University of Washington

August 2018

S&P: Blockchain is Coming to Muniland, and the Changes Could Be Significant.

Blockchain has become a recurring theme in today's headlines. It could be easy to dismiss it as a passing, overhyped fad. However, upon closer consideration, S&P Global Ratings believes this technology could be a meaningful part of solutions to credit risks…

Continue Reading

Jul. 30, 2018

The Week in Public Finance: Affordable Housing Shortage? Massachusetts Might Tax Airbnb to Pay for It.

The state is considering a policy that goes further than most places that tax short-term rental companies.

As Airbnb and other short-term rental companies have increased their presence in cities, so too has the struggle to provide affordable rental housing.

Massachusetts, however, is on the verge of becoming the first state to dedicate revenue generated from Airbnb and other short-term rental taxes toward affordable housing. The Bay State is considering legislation that would apply its state hotel tax to short-term rentals and require at least 35 percent of separate, local hospitality taxes on those rentals to fund investments in affordable housing or infrastructure.

The new tax was passed by the House and Senate this week. But Republican Gov. Charlie Baker has added amendments that would exclude property owners who casually rent their houses or apartments (for two weeks or less per year) from the law. The bill was sent back to the legislature and a spokeswoman for Baker said he hopes to work with lawmakers to reach an accord soon.

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GOVERNING.COM

BY LIZ FARMER | AUGUST 3, 2018

PG&E Bonds Belie Fear of Imminent Bankruptcy Over Wildfires.

- **Utility could face $17.3 billion in liabilities from fires**
- **State lawmakers considering whether to modify liability rules**

Fears that the company — which provides gas and power to 16 million people — could take that step have reached the highest level of California government, with Governor Jerry Brown saying "there is concern that we could lose our utilities."

But the bond market shows the talk may be premature.

Even after a report this week that PG&E hired a debt restructuring firm, prices on some of its $17.8 billion of long-term securities don't reflect a fire sale. In fact, the company sold more corporate securities Thursday. And in the credit default swaps market, where investors bet on the survival of companies, PG&E's risk has risen, but not to levels seen for those on the brink.

"They're not priced as though the world is ending," said Nicholos Venditti, who oversees about $11 billion of local government debt at Thornburg Investment Management in Santa Fe, New Mexico, of the utility's municipal bonds. "They're priced as though this thing has some hair on it. Not Cousin Itt levels of hair — but a fair amount."

PG&E may face as much as $17.3 billion in liabilities from wildfires that swept northern California wine country last fall, JPMorgan Chase & Co. estimated. California investigators have already named PG&E equipment as the ignition source of 16 of the blazes that destroyed thousands of homes and killed 44 people. The uncertainty from the ongoing probes has wiped out more than $13 billion of the company's market value.

Law Change

Under California law, utilities can be held liable for costs if their equipment is found to have caused a fire — regardless of whether they followed safety rules — based on a legal principle known as "inverse condemnation." PG&E is pushing for relief under these rules, saying that climate change is among the factors sparking blazes. It has spent $1.7 million in lobbying over just three months ending in June, three times the amount it expended the same period last year, state filings show.

With lawmakers set to adjourn Aug. 31, PG&E may be bluffing to spur action that would saddle customers and taxpayers with higher costs, said state Senator Jerry Hill, a Democrat. "PG&E will use the threat of bankruptcy to extract the best deal they can."

Rising Risk

Wall Street is closely following the company, which besides its prodigious stock capitalization has borrowed money in the corporate bond market as well as through a state agency in the municipal bond market, typically the avenue for local governments. Fitch Ratings on Thursday said it could cut the debt ratings into junk status if it has to absorb wildfire costs quickly. In a statement, PG&E said

“due to uncertainties around policy solutions, we are experiencing higher costs of financing.”

That meant opportunity for fixed-income investors seeking higher yields. Their demand led PG&E to increase its corporate debt offering Thursday to $800 million from $600 million, as 10-year bonds yielded 1.7 percentage points more than Treasuries. That’s still cheaper than the average spread that high-yield issuers pay over Treasuries at 3.33 percentage points, according to data compiled by Bloomberg.

The company said the higher financing costs come at a “critical” time to modernize systems and meet clean energy priorities.

“To be clear, without reform, the current situation is not financially sustainable over the long term and our focus continues to be on communicating the urgent need to find policy solutions that protect victims, protect customers and protect the state’s climate and clean energy goals by keeping the state’s utilities financially viable,” it said.

Governor Brown last week proposed legislation that would require a court to consider whether a utility acted “reasonably” when deciding whether it should end up on the hook for fire damages. Chief Executive Officer Geisha Williams told investors on July 26 that Brown’s proposal was “insufficient” and is “one of many things that need to be considered in a more comprehensive set of reforms.”

Enough Cash

Reuters reported this week that the company hired Weil Gotshal & Manges LLP to explore debt restructuring options, including putting a unit into bankruptcy. The story was met with skepticism by debt research firm CreditSights Inc., which said that even if PG&E had to pay $10 billion in claims immediately, it has enough cash to absorb it. PG&E had suspended its dividend in December to preserve cash.

PG&E has warned lawmakers that a bankruptcy like the one its electric unit filed amid the energy crisis in 2001 is possible without relief from the liability laws, Bloomberg Intelligence said Wednesday.

At the time of that bankruptcy, Moody’s Investors Service ranked the company Caa2, the fourth-lowest rung in junk. That’s much lower than its current A3 investment-grade rating, which reflects that a resolution is probable, said Moody’s analyst Jeffrey Cassella. “We’re expecting some kind of constructive outcome.”

Bloomberg Business

By Romy Varghese, Mark Chediak, and Molly Smith

August 3, 2018

U.S. Bond Funds Attract 23rd Straight Week of Inflows.

NEW YORK, Aug 1 (Reuters) – U.S. fund investors showed continued demand for bond funds in the latest week, extending a streak of inflows that dates back to mid-February, Investment Company Institute data showed on Wednesday.

Investors also increased deposits in domestic equity and commodity funds, but fixed income continued to dominate in an environment of uncertainty over tensions between the U.S. and its trading partners, according to ICI data collected over the seven-day period that ended July 25.

Bond funds attracted $4.4 billion, of which $613 million went to tax-free municipal bonds.

Domestic equity exchange-traded funds attracted $3.5 billion, the third straight week of inflows, during an earnings season in which the majority of U.S. companies have beat expectations. ETF investors deposited $1.3 billion in global equity funds.

Within long-term equity mutual funds, which have seen net withdrawals since early April, investors added $681 million to domestic small-cap equities. The category, which has benefited from tax cuts and is seen as less vulnerable to tariffs, has taken in cash for nine of the past 10 weeks.

(Reporting by James Thorne; Editing by Bernadette Baum)

Leveraging Public Funding for Mass Transit With P3s.

We have previously written about Miami-Dade County's proposed SMART plan, a massive, six-corridor expansion of the existing heavy rail system, and the benefits of delivering all or portions of the project as a public-private partnership (P3). This month, the County Mayor released an updated multiyear transportation pro forma that identifies $8.457 billion in available funding to implement the SMART Plan over the next 40 years. The County has estimated that this income stream could be used to borrow $2.6 billion today, or enough to construct two of the six corridors. Although the County does not have the funding to construct the entire SMART plan using a traditional, publicly financed and operated delivery, the County can utilize a P3 to stretch its financial resources as far as possible.

A key consideration in the funding of mass transit is the cost of ongoing operations and maintenance, which generally exceeds the construction cost. Notably, fares typically do not come close to covering operations and maintenance (O&M) expenses for mass transit. The percentage of O&M expenses covered by fares (what is called the "farebox recovery ratio") is usually between 25 and 50% for U.S. mass transit systems, with Miami typically falling at the lower end of the spectrum.

Because O&M accounts for such a significant portion of the cost of a new transit corridor, total costs can be reduced by keeping O&M costs under control. A P3 utilizing the DBFOM (design-buil--finance-operate-maintain) model requires that the private partner bear the risk of any future increases in O&M costs, and because those costs are included in the bid price, the County can save total costs by selecting the private partner that can construct and operate the system at the lowest total cost to the County. P3s can also be used to encourage private innovation that increases ridership and revenues, as can be most clearly observed in Hong Kong's mass transit system, which utilizes innovations such as first-class cars with higher fares and has a farebox recovery ratio of well over 100%.

A P3 approach cannot alone bridge the gap between two new corridors and six new corridors. The County will also need to find ways to lower costs, including using different, lower-cost technologies such as bus rapid transit (Bogota, Colombia, being the best-known BRT example), and increasing revenues (such as procuring more revenue-generating private developments on County property around transit stations). The right P3 delivery approach, however, can certainly go a long way toward bridging the funding gap and developing a world-class transit system.

By Albert E. Dotson, Jr. & Eric Singer

New Miami Blog

Monday, July 30, 2018

Bilzin Sumberg

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LA County Uses P3 Lease Revenue Bonds for 21-Story, $295 million Office Tower.

Los Angeles County is using lease-revenue bonds sold through a public-private partnership to finance a 21-story office building, the first phase of a drive to bring jobs, housing, and public space to a blighted area of the second largest U.S. city.

The $295 million project will begin construction in Los Angeles' Koreatown area later this month as part of a larger development that will create new office space for county workers, additional housing and a community center that area residents say is long needed.

Los Angeles County Facilities, Inc., a private nonprofit created by the county to build the projects, is issuing $297.3 million in Series A tax-exempt lease revenue bonds and $5.1 million in Series B taxable lease revenue bonds.

The bonds priced July 26 with Barclays Capital Inc. selected as the underwriter. Orrick, Herrington and Sutcliffe is the bond counsel and Montague DeRose and Associates is the municipal advisor.

The Public Facilities Group, a Seattle-based nonprofit, is overseeing the county project and will run its facilities agency. The group previously worked with Los Angeles County to build a three-story office building for the county Community Development Commission in the nearby city of Alhambra and has worked on several public-private partnerships in Washington state and in Salinas, California and Riverside, California.

John Finke, president of the Public Facilities Group, said he's seeing more interest in California in the P3 financing model which he refers to as American Approach P3.

"This is one of the bigger ones," he said of Los Angeles County. "It's a fairly significant project."

The financing approach allows the project to be built more efficiently and at a lower cost, he said.

The county's analysis showed that the P3 financing model would save $30 million in project costs, reduce debt service payments by $66.4 million and shave 11 months off of the construction time, Finke said. "The structure is one where the development team provides a guaranteed maximum price insulating the county from cost overruns."

The agreement includes a guaranteed delivery date of October 2021 with the development team sharing in a percentage of the savings if the project comes in under-budget. And if the developers miss the deadline, they earn less in fees.

"It brings a powerful incentive to line everybody up working in the same direction," Finke said.

The bonds were rated AA by S&P Global Ratings and AA-minus by Fitch Ratings – the same rating given to the county for its own lease revenue bonds.

S&P also revised the county's outlook to positive from stable.

"The outlook revision reflects our view of the county's long-term trend of robust local economic performance from an already strong and very diverse base and an associated strengthening in revenue and tax base that have improved its capacity to meet capital and service priorities," the agency's analysts said in a July report.

The county will make lease payments to the nonprofit to pay off the bonds over a 33-year period. Once it is paid off, the county — which already owns the property — will take ownership of the building.

The rent — about $18 million a year — will cover debt service, operations and maintenance costs including taxes, utilities and capital expenditures.

County officials say the Vermont Corridor Administrative Offices Building — named for its S. Vermont Avenue location — has been long needed to reduce blight and consolidate county department employees at one location.

The building will feature an 8-story parking structure with 13 floors of office on top, providing a total of 468,000-square-feet of office space. It will also include a separate adjacent 10-story parking structure with a 9th floor sky bridge link.

The ground floor will include some retail space and a 3,597-square-foot mental health clinic.

The building, designed to house 2,167 employees, will serve as the new home for the county's mental health, workforce development, and aging and community services departments.

"This is a symbol of cutting edge and inclusive ways of delivering services in the County," said Supervisor Mark Ridley-Thomas, who represents the area and championed the project, in a statement after the project approval in May.

Ridley-Thomas said the new quarters will help in improving the delivery of mental health services. The department, which will make up the bulk of the employees at the building, has been working in dilapidated quarters for the last two decades, he said.

"We are creating jobs while positively transforming once-neglected blight into modern and robust assets," he said.

The office tower is the first of a three-phase transformation of the Vermont Corridor on three county-owned parcels.

On the second site, the existing 12-story mental health department building will be converted into market- rate housing with 172 units and a five-story parking structure. The project will be financed through private capital.

On the third site, a six-story, 72-unit senior affordable housing project with three stories of underground parking is planned. Tax credits and other financing will be used to build it.

The affordable housing site will also feature a 13,200-square-foot community center that Koreatown residents say is sorely needed. At a public hearing two years ago, many came out in support of that

element of the project, saying the area is one of the most densely-populated in the city but lacks recreational opportunities.

“The lack of public space in Koreatown has profound impacts on the health of our community as residents and especially children have nowhere to recreate, exercise or interact with their neighbors,” said Brady Collins, a policy analyst with the Koreatown Immigrant Workers Alliance at the meeting. “The county’s redevelopment of a stretch of Vermont Avenue is the opportunity that we have been waiting for.”

By Imran Ghori

BY SOURCEMEDIA | MUNICIPAL | 08/02/18 07:13 PM EDT

S&P Extra Credit: Quarterly Credit Conditions for U.S. States and Locals.

In this week’s Extra Credit hear Lisa Schroeer discuss Credit Conditions with Managing Director Gabe Petek and Senior Director Jane Ridley. Hear about the economic forecast for the U.S. and how that translates to the State and Local credit environment.

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Jul. 30, 2018

S&P U.S. State Ratings And Outlooks: Current List

View our current ratings and outlooks on U.S. States.

Jul. 25, 2018

The Pension Hole for U.S. Cities and States Is the Size of Germany’s Economy.

Many retirement funds could face insolvency unless governments increase taxes, divert funds or persuade workers to relinquish money they are owed

For the past century, a public pension was an ironclad promise. Whatever else happened, retired policemen and firefighters and teachers would be paid.

That is no longer the case.

Many cities and states can no longer afford the unsustainable retirement promises made to millions of public workers over many years. By one estimate they are short $4 trillion, an amount that is roughly equal to the output of the world’s fourth-largest economy.

Continue reading.

The Wall Street Journal

By Sarah Krouse

July 30, 2018

Statement by U.S. Conference of Mayors CEO & Executive Director Tom Cochran on FCC's Actions Against Local Governments and Their Property Rights.

Washington, DC — Below is a statement by U.S. Conference of Mayors CEO and Executive Director Tom Cochran on the FCC's actions yesterday against local governments and their property rights:

"The U.S. Conference of Mayors strongly opposes actions by the Federal Communications Commission that will subordinate local governments and their property rights to the benefit of the nation's communications providers.

With little advance notice or engagement with local and state governments, the FCC action — which effectively prohibits local and state actions or policies having the effect of barring for some duration a private telecommunications company for accessing the public's rights-of-way — immediately disrupts local management regimes for the sole purpose of granting one group special federal protections and rights.

It also upends a key provision of federal law that was enacted overwhelmingly by Congress in 1996 to protect and respect local and state government property rights and their authority to manage these public assets.

For more than a century and at great cost, local governments with states have had the day-to-day responsibility for managing all aspects of this local public property, and are charged to do so in ways that benefit all citizens and businesses, not just one class of users. The FCC lacks the technical experts to facilitate broadband deployments. It also lacks the local knowledge needed to manage city streets, sidewalks and other public property. As such, the Conference respectfully calls on the Commission to reconsider this Order and urges the agency to develop a process to fairly and fully review the enormity and complexity of these issues."

States Target Surpluses to Rainy Day Funds, Other Priorities after Fiscal 2018 Revenues Exceed Estimates.

Most states saw stronger revenue growth in fiscal 2018 led by unusually high income tax payments from non-withholding income sources along with continued growth in the national economy. Specifically, states saw a significant uptick in their personal income tax collections in the last eight months. Information from NASBO's Spring Fiscal Survey of States shows that 39 states were seeing fiscal 2018 revenues above projections at the time of data collection, with that figure expected to rise when updated data is collected in the fall. As a result of revenues coming in above forecast, many states ended fiscal 2018 with a budget surplus. NASBO's 2015 Budget Processes in the States report details states' use of general fund budget surpluses in Table 16. Common uses of general fund budget surpluses include: transfers to budget stabilization or rainy day fund (32 states),

remaining in general fund (39 states), refunded to taxpayers (7 states), earmarked (6 states), paying down outstanding debt (10 states), and one-time expenditures (14 states).

Below is a listing of state revenue totals and examples of how some states are using fiscal 2018 budget surpluses, after 46 states ended the fiscal year on June 30th:

Continue reading.

NASBO

By Brian Sigritz

Municipal Bonds Weekly Market Report: GDP Hits Four-Year High

MunicipalBonds.com provides information regarding the performance of muni bonds for the past week in comparison with Treasury yields and net fund flows, as well as the impact of monetary policies and relevant economic news.

- Treasury and municipal yields were all up big this week.
- Muni bond funds saw inflows for the third week in a row.
- Be sure to review our previous week's report to track the changing market conditions.

Continue reading.

municipalbonds.com

Brian Mathews

Jul 31, 2018

Where Bond Insurance Fits in the Push for Infrastructure.

The United States has a tremendous need for infrastructure investment, but it remains slow in adopting public-private partnerships – or P3s – compared to other countries.

President Trump's infrastructure policy plans to address these shortcomings by limiting government spending to $200 billion over the next decade, while removing red tape and making it easier for municipalities to complete P3 deals to address infrastructure underinvestment. However, there's a lot of uncertainty about Trump's ability to execute on these plans given the lack of progress in healthcare and tax reforms.

In this article, we will look at the need for infrastructure investment in the United States, as well as the role that bond insurance plays in P3 deals from the standpoint of both issuers and investors.

Continue reading.

municipalbonds.com

Justin Kuepper

Aug 02, 2018

Chapter 11 or Chapter 9: Investors Beware.

Municipalities often drive economic development through subsidiaries and affiliated entities. When these "quasi-municipalities" become distressed, however, questions arise as to whether the potential debtor qualifies as a debtor under Chapter 11 or Chapter 9. This uncertainty can lead to litigation over whether the entity may proceed as a Chapter 11 debtor or is a governmental unit that must proceed through a Chapter 9 bankruptcy filing. In states where Chapter 9 is not authorized, Chapter 11 may be the only available option for a supervised restructuring. Answering the question of "what kind of debtor" is the issuer is an important part of the due diligence process because the answer impacts whether the entity can file at all if it is a governmental entity or whether the entity can proceed in Chapter 11.

In this blog we look at two cases, one in Illinois and one in Nevada, where the primary issue was whether the debtor could proceed as a Chapter 11 debtor or was precluded from a Chapter 11 proceeding because it was a governmental unit ineligible for Chapter 11. Chapter 9 was not an option in either case because Nevada and Illinois do not authorize governmental units to seek relief under Chapter 9.

Lombard Public Facilities Corporation

The most recent case is from the United States Bankruptcy Court for the Northern District of Illinois. In *In re Lombard Public Facilities Corporation*, Lord Abbett Municipal Income Fund, Inc. – Lord Abbett High Yield Municipal Bond Fund ("Lord Abbett") and the United States Trustee (the "U.S. Trustee") separately sought to dismiss the Chapter 11 case of the Lombard Public Facilities Corporation (the "LPFC"). In support of their motions, Lord Abbett and the U.S. Trustee contended that the LPFC was not an eligible debtor under Chapter 11 of the Bankruptcy Code because it was a governmental unit.

The arguments of Lord Abbett and the U.S. Trustee centered on Bankruptcy Code section 109(d) and whether the LPFC was a "person" eligible for Chapter 11. Pursuant to Bankruptcy Code section 101(41), "[t]he term 'person' includes individual, partnership, and corporation, but does not include governmental unit." The term governmental unit includes, among other things, municipalities and the instrumentalities of municipalities. Thus, the ultimate question considered by the court was if the LPFC was an instrumentality of the municipality that incorporated it.

The LPFC was formed by the Village of Lombard, Illinois (the "Village"), for the sole purpose of acting on behalf of the Village to finance, secure a location, and construct a convention hall and hotel facility. The LPFC was incorporated by the Village as a separate public facilities corporation because it was not otherwise authorized to borrow the funds needed for the project. Under Illinois law, public facilities corporations are the business agent of the municipality, and are controlled through the municipality's ability to appoint and remove directors and by having title to the project transferred to it upon the retirement of any bonds or other debt issued in connection with the development. The ordinance authorizing the creation of the LPFC provided for each of these activities.

The hotel and convention facility project was financed with a series of tax-exempt bond issuances.

The LPFC was able to issue the bonds as tax-exempt because, as stated in the offering documents, it "constitutes an instrumentality of the Village for federal tax purposes." The LPFC took the same position in a 2003 application for exemption from the Illinois Retailers Occupation Tax Act. After the Illinois Department of Revenue denied the application, it stated in a complaint seeking to overturn the decision that (i) it was incorporated for the sole purpose of constructing the project, (ii) net income from the project would go to the Village, (iii) title to the property would vest in the Village for no consideration upon redemption or retirement of the bonds, (iv) it was the Village's alter ego, (v) it was formed to perform essential government functions, and (vi) everything it did was in furtherance of the Village's benefit.

Despite the structure of the LPFC and its statements in the earlier tax litigation, the court ultimately held that the LPFC was not a governmental unit as that term is defined in the Bankruptcy Code and, therefore, that it was eligible to be a debtor in Chapter 11. In reaching this conclusion, the court reviewed a number of precedents cited by the parties but paid special attention the analytical framework used to confront a similar question in the Las Vegas Monorail case.

Las Vegas Monorail

In *In re Las Vegas Monorail*, the Las Vegas Monorail Company (the "Monorail Company") was a nonprofit corporation formed to operate a monorail that connected certain hotels and a convention center in Las Vegas. As part of a planned expansion and the financing necessary to fund it, the Director (the "Director") of the Nevada Department of Business and Industry (the "Department") sponsored the issuance of approximately $650 million in municipal bonds. In connection with obtaining tax free status for the bonds, the Monorail Company signed a document that expressly stated it was an "instrumentality of the State of Nevada and controlled by the Governor of the State of Nevada." The Governor also exercised some level of control over the management and budgeting of the Monorail Company.

The proceeds of the bonds were lent to the Monorail Company pursuant to a financing agreement with the financing agreement as the only source of repayment (other than insurance) on the bonds. After the Monorail Company failed to make the required payments and sought protection under Chapter 11, Ambac Assurance Corp., which had insured the payment of principal and interest on the bonds, moved to dismiss the bankruptcy case asserting the Monorail Company was a governmental unit and ineligible for Chapter 11.

The *Las Vegas Monorail* court surveyed applicable case law and carefully considered whether the function performed by the Monorail Company was a core governmental function, whether the entity is sufficiently controlled by the government, and how the government classifies the entity. The court concluded that the Monorail Company was not a municipality or governmental instrumentality, and therefore eligible for Chapter 11, because (i) its monorail transportation goals did not constitute traditional government functions (i.e., it had no power to tax, exercise eminent domain, or claim sovereign immunity); (ii) the control available to the state governor over budgeting and, to some extent, its management, did not rise to the level of control necessary to be a municipality because the state bore no risk of loss; and (iii) Nevada state law did not treat the debtor as a municipality or instrumentality.

LFPC Found Not to be a Governmental Unit

As set forth above, the *Las Vegas Monorail* test suggests that a court consider (i) whether the entity in question has any traditional governmental attributes or engages in traditional government functions; (ii) the extent to which the entity in question is controlled by the government; and (iii) the government's categorization of the entity. Applying that test to the LPFC, the court in Lombard

found that the LPFC did not carry out a governmental function of the Village and noted that the LPFC was a commercial operation that competed with other hotel and convention centers. In other words, the court found that operating a hotel and convention center was not a core government function.

The court also found that, while the Village appointed the LPFC's directors and certain of its representatives engaged with the LPFC on minor matters, those actions alone did not rise to the level of control necessary to deem the LPFC a governmental unit. The LPFC was found to be responsible for its day to day management and operations and had an asset manager as well as separate hotel and restaurant managers that reported to the asset manager, not the Village. Finally, the court noted that the Illinois Department of Revenue previously concluded that the LPFC was not a tax-exempt instrumentality of the Village and agreed with that conclusion.

Importance of Investor Due Diligence

While the *Lombard* holding itself is not particularly earth shattering or surprising given the nature of the LPFC's business and the lack of a Chapter 9 option in Illinois, it does raise a number of important points for investors to consider when reviewing potential investments in quasi-municipal debt. Important takeaways include the following:

- The outcome of the investor's assessment of the issuing entity's status is critically important because it determines if the debt issuing entity is eligible for Chapter 11 or required to proceed in Chapter 9 (if available). In those states where the state has not authorized Chapter 9 bankruptcy filings, there is an increased likelihood that a bankruptcy court will work hard to find a way to allow a debtor to proceed in Chapter 11 given that there is no other bankruptcy option.
- Chapter 11 is often viewed as more desirable than a Chapter 9 proceeding because Chapter 11 proceedings are somewhat more predictable due to wide ranging precedent, greater certainty and greater creditor control. Chapter 9 has stringent eligibility requirements and leaves most, if not all, of the decision making power in the hands of the debtor. It also prevents the court from taking certain actions that are available to it in Chapter 11 (See 11 U.S.C. §904).
- Chapter 9 precedent is still in its infancy. Recent decisions out of Puerto Rico interpreting certain provisions of Chapter 9 that were long thought to compel post-petition payment of special revenue secured bonds, as well as rulings on the limits of the court's powers, exacerbate this concern.
- Statements in the offering documents that an entity is a governmental unit or instrumentality are not necessarily controlling and need to be reviewed carefully by both issuers and investors. If there is uncertainty as whether the issuer is a governmental unit or not, that uncertainty should be disclosed. There is a significant difference between operating as a Chapter 11 debtor and operating as a Chapter 9 debtor. Recent cases suggest that bondholders should not expect to recover as much in a Chapter 9 proceeding as they would expect to recover in a Chapter 11 proceeding given a municipality's obligation to provide a certain level of service and the challenges regarding restructuring of pension obligations.
- Making an independent assessment of an entity's legal status should be a priority item on all pre-investment diligence lists and for issuers in terms of making disclosures in the offering documents. This is not always an easy determination as many municipalities have subdivisions that issue debt and operate as independent subdivisions of a governmental unit in terms of governance and financing.

Litigation of the issues surrounding whether the issuer is a governmental unit or not can add uncertainty, delay and additional cost to the restructuring process. Both issuers and investors need to consider whether and what kind of bankruptcy process may be implemented in the event a restructuring is required.

by Travis A. McRoberts and Karol K. Denniston

July 31, 2018

Squire Patton Boggs

MetLife Gets More Cautious About High-Yield Credit, Muni Markets.

- **CEO Kandarian points to surge in BBB-rated corporate debt**
- **Insurer still not sounding alarm bells, investment chief says**

MetLife Inc. is becoming wary of high-yield credit and debt sold by cities and states with pension shortfalls.

“While we do not believe a downturn is imminent, we are keeping a close eye on the evolving credit market,” Chief Executive Officer Steven Kandarian said Thursday on a conference call discussing second-quarter results. “We are more cautious on general obligation bonds of states and municipalities with large unfunded pension obligations as well as certain parts of the high-yield market.”

MetLife, which oversees more than $430 billion in investments, is “neutral” on U.S. investment-grade bonds and municipal bonds with dedicated revenue streams, Kandarian said.

Investment managers have been trying to gauge where the U.S. stands in the credit cycle and some, including Guggenheim Partners’ Scott Minerd, have said the country could be heading toward a recession because of brewing trade tensions. Kandarian said that while economic growth is still “strong,” he pointed to the surge in BBB rated corporate debt and “aggressive” issuance in the syndicated-loan market. About $2.6 trillion of BBB debt is outstanding, more than triple what it was a decade ago, according to Bloomberg Barclays index data.

Kandarian, who was the insurer’s investment chief before being named CEO in 2011, also said MetLife is scrutinizing the credit cycle even more carefully as dwindling liquidity makes it tougher to find a quick exit. Investment managers have been lamenting the lack of liquidity, which can make it harder to find a buyer or seller of certain securities without drastically moving the price.

Kandarian said asset classes including private-placement credits and agricultural loans still offer opportunity, and Chief Investment Officer Steven Goulart stressed that the life insurer wasn’t “sounding any alarm bells.”

“We’re investing billions of dollars a quarter and we’re still finding sound, attractive investment alternatives,” Goulart said. “It’s just that market conditions remain tight, market structure is different than it was years ago, so we’re spending more time just thinking about what happens in the next downturn and how do we position ourselves when we think it’s coming.”

Bloomberg Markets

By Katherine Chiglinsky

August 2, 2018, 8:25 AM PDT

— With assistance by Molly Smith

Largest Muni ETF Absorbs Massive Trading Amid a Drought in New-Issuance.

- **One investor traded $135 million worth of iShares MUB fund**
- **August seen as biggest month of 2018 for muni bond investors**

The summer months are heating up trading for the largest exchange-traded fund tracking municipal bonds.

Trading volume has been soaring for the almost $10 billion iShares National Muni Bond ETF, or MUB, on Monday, with 2.7 million shares changing hands as of 3:40 p.m. That's almost 10 times its 20-day average volume for this time of day and the most since June 13. The surge seems to be fueled by one massive trade shortly before noon, when an investor moved about 1.2 million shares worth $135 million.

Investors tend to clamor for municipal bonds in the summer months, when there is a high amount of redemption activity. There have been "huge" redemptions lately, according to Patrick Luby, municipal strategist at CreditSights, and August will be the biggest month of the year. About $31 billion in bonds will mature or be called in the next 30 days, roughly $22.6 billion less than the amount of bonds scheduled to sell.

ETF trading activity also may be picking up as investors seek exposure to the $3.8 trillion muni market amid a drought in new-issuance. Sales are down about 14 percent this year, making the bonds difficult to source individually. Funds offer a convenient solution.

"Supply is down and investors who want to maintain their allocations may have a hard time finding well-structured bonds in the muni market," Luby said. "So using the most liquid muni ETFs can be a good placeholder to maintain exposure."

Bloomberg Markets

By Carolina Wilson and Amanda Albright

July 30, 2018, 12:55 PM PDT

— With assistance by Kenneth Sexton, Kent Odina, and Tom Lagerman

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Public Pensions Are a Disaster. Here's a Fair Solution.

Employees and governments need to share risks.

Connecticut is at the cutting edge of a crisis unfolding across the U.S.: States and municipalities have promised their employees some $4 trillion in pension benefits that they can't afford to pay. Now the state needs to help lead the way out, by setting aside partisan politics and moving to a better system.

Thanks to decades of mismanagement by politicians from both parties, Connecticut has one of the largest pension funding deficits in the country, amounting to one fifth of its annual economic output. The burden crowds out investments in infrastructure and education, eroding the foundation for future growth.

So far, no one has offered a viable solution. Ripping up contracts would risk costly litigation. Requiring employees to make their own contributions, as in a 401(k) plan, won't work: It could apply only to new workers, and — even if it could get existing workers to change their contracts — the state would have to borrow the money to cover what it owes them (at least $34 billion). Given that Connecticut already has the largest debt-service burden of any state, this is an irresponsible way forward.

Policy makers need to focus on reality. Legislatures made promises that they had no ability or intention to keep. Taxpayers are starting to vote with their feet, further undermining the state's capacity to pay. The system needs a complete overhaul.

Fortunately, models exist. Consider New Brunswick, Canada, which moved to a shared-risk system in 2012. Instead of promising full, generous pensions, the government guarantees only a "base" level of benefits and pays added "ancillary" benefits if circumstances allow. Regular stress tests determine what the government can afford: If it falls short, it can increase required contributions or reduce benefits — within a narrow, agreed-upon band. If performance improves, the changes are reversed in an agreed-upon order.

To be sure, concessions must be made. Workers must agree to terms that are more in line with programs such as Social Security. This can entail, for example, calculating benefits using average career earnings (excluding overtime) rather than the last several years, capping payments at a reasonable amount and, in some cases, extending the retirement age. Politicians, for their part, must relinquish the power to make generous promises that require funding only after they've left office. Once the terms are set, professionals do the managing.

Such a system leaves everyone better off. Workers get a fair pension system with payments they can count on, rather than unrealistic promises. Government finances improve immediately: New Brunswick reduced its liabilities by 30 percent, allowing it to set a more realistic target for the return on its pension investments. Residents and businesses benefit from greater budgetary certainty.

Many ask: Why would unions agree to this? The answer is that they don't have a choice. Recent trends — such as the growing number of states with "right to work" laws and the recent Supreme Court decision outlawing mandatory fees — are highly unfavorable to them, so they would be wise to reach a deal before they are further disempowered. Connecticut's unions would do well to heed the example of Wisconsin, where risk-sharing has allowed the pension plan to remain 100 percent funded, with relatively low contribution rates and market-driven cost of living adjustments. No other major public pension plan in America can make those claims.

Connecticut can't put the issue off until 2027, when its current collective bargaining agreement expires. At this fall's election, voters must recognize the difference between realistic solutions and campaign slogans like "Tear up the contracts!" or "Convert everyone to a 401(k)!" The risk-sharing model works elsewhere and would be a game-changer for the state, improving its credit rating, delivering the budget certainty needed for economic recovery, and setting an example for the rest of the country.

Bloomberg Opinion

By Alex Bergstein and W. Gordon Hamlin Jr.

August 2, 2018, 5:00 AM PDT

Alex Bergstein is a Ph.D. candidate at Yale University and a candidate for state Senate in Connecticut's 36th District.

W. Gordon Hamlin Jr. is the founder and president of Pro Bono Public Pensions and a member of the Harvard Advanced Leadership Coalition.

Municipal Junk Soars as Economy Roars.

Distressed state and local debt is the strongest part of a weak bond market. If growth cools, watch out!

A funny thing happens when the economy booms: Investors crawl out on thinner and thinner limbs. It's happening right now in the bond markets, where the only part that is lucrative is usually the least appealing to all but the nerviest players: distressed state and local governments with the lowest credit ratings (or none at all). Think of bankrupt Puerto Rico, tobacco settlements with diminishing revenues, and the not-yet-finished New Jersey Mega Mall.

Investors can't get enough of this junk while shunning Treasuries and similar investment-grade securities. For them, the risk remains tolerable as long as times remain good. So they watch with the most interest for hidden signs of economic weakness even when the economy expands.

That's another way of saying that times must be good if demand exceeds supply for the highest-yielding, riskiest government debt. Excluding municipal junk, the year so far is the worst two quarters in the bond market since 2013, which happened to be the turning point in the recovery from the meanest recession since the Great Depression. The Commerce Department said last month that second-quarter gross domestic product increased 4.1 percent, the most since 2014. The chairman of the White House Council of Economic Advisers, Kevin A. Hassett, predicts a four-quarter growth rate of more than 3 percent, which would be the highest in 13 years.

Such robust data helps explain why junk munis outperformed the rest of the U.S. bond market over five years, three years and during the past 12 months, according to data compiled by Bloomberg. Bondholders lost money in 2018 owning investment-grade U.S. government, corporate and municipal debt. In contrast, they have a total return (income plus appreciation) of 4 percent with junk munis. The appeal is reinforced by the record investment in the VanEck Vectors High-Yield Municipal Index ETF, the largest exchange-traded fund tracking junk munis.

Among the 62 U.S.-based high-yield mutual funds with assets greater than $1 billion and at least three years of history, eight of the top 10 performing funds this year are focusing on municipal debt. The No. 1 Oppenheimer Rochester High Yield Fund, which outperformed its peers over five and three years, is beating the market for state and local government debt by 8 percentage points with especially large holdings of Puerto Rico, Ohio, Alabama, Wisconsin and District of Columbia securities, according to data compiled by Bloomberg.

The favorite for many of the top funds are Sales Tax bonds sold by the Puerto Rico Sales Tax Financing Corp. The securities, which are in default, are rated "highly speculative" by Moody's and have no rating from Standard & Poor's. They've almost doubled in price, from 43 cents on the dollar in January to 82 cents. Tobacco debt, such as California's non-rated $1.7 billion June sale due in 2047 and backed by its share from the state's 1998 legal settlement with cigarette makers, similarly rallied to more than 102 cents on the dollar as soon as they traded, according to data compiled by Bloomberg.

To be sure, any evidence that the expansion is on its last legs could make high-yield municipal bonds the first casualty of the downturn. For now, the bond market isn't forecasting that scenario.

In the meantime, the largest offering of unrated municipal bonds last year — the $1.1 billion raised to finish the American Dream complex in New Jersey's Meadowlands (a bet against the demise of shopping malls) is among the more profitable investments in the market, trading at 115.8 cents on the dollar — better than anything rated investment-grade.

Bloomberg Opinion

By Matthew A. Winkler

August 1, 2018

(With assistance from Shin Pei)

What 4.1% U.S. Economic Growth Means to Muni Bonds: Muni Moment

Jeffrey Lipton, head of muni research and strategy at Oppenheimer, discusses the impact of 4.1 percent U.S. economic growth on state credit and municipal bonds. He speaks with Bloomberg's Taylor Riggs in this week's "Muni Moment" on "Bloomberg Markets."

Watch video.

Bloomberg Markets

August 1st, 2018, 9:23 AM PDT

Muni Investor Redeems Bond ETF Amid Summer Supply Drought.

- **Trader moves about 1.2 million shares worth $135 million**
- **Muni ETFs can serve as convenient 'new-school' bond dealers**

You might think the first outflow in months for an exchange-traded fund meant investors were calling it quits. You might be wrong.

In the case of the $9.9 billion iShares National Muni Bond ETF, or MUB, one trader's move may simply signal how desperate for municipal bonds some people are these days.

In the summer months, the muni bonds maturing or being "called away" — redeemed early — often outweigh supply, making it harder for investors looking to put cash to work. But some MUB holders can redeem their shares and receive the underlying bonds themselves, rather than cash.

Trading volume in MUB soared to a record on Monday, fueled by one massive trade shortly before noon, when an investor sold about 1.2 million shares worth $135 million. The fund then saw an outflow of over $65 million, the first since May, as the investor likely redeemed shares of the ETF to directly hold the underlying bonds, according to Patrick Luby, municipal strategist at CreditSights.

“In the currently constrained market for blocks of well-structured bonds, redeeming ETF shares can be an efficient and quick means of establishing a large and well diversified position,” Luby said in a note Tuesday.

Bondholders are set to receive about $36.8 billion from muni debt that will be paid off over the next month, about $27.8 billion more than governments and other issuers are planning to sell, according to data compiled by Bloomberg as of July 30. This “has put investors in competition for the limited supply of well-structured bonds to replace the ones that have been redeemed,” according to Luby.

“In many ways, bond ETFs are new-school bond dealers and these trades are very popular because they can be cheaper and more convenient than doing it in the open market,” said Bloomberg Intelligence analyst Eric Balchunas.

Bloomberg Markets

By Amanda Albright and Carolina Wilson

July 31, 2018, 8:14 AM PDT

— With assistance by Tom Lagerman

Bond Sales by Cities Borrowing to Pay for Lost Court Fights Jump.

- **Municipal debt issues for settlements hit $1.6 billion in 2018**
- **‘It’s sort of like putting your mortgage on your credit card’**

After serving 13 years in prison for a murder he didn’t commit, Chaunte Ott won a $6.5 million settlement from Milwaukee, Wisconsin, in 2015. To pay him, the city didn’t draw from its tax revenue. It sold bonds to investors.

The 595,000-resident city has issued about $28 million of debt to cover the cost of legal settlements over the past decade, adding to a wave of borrowing by governments to pay for police misconduct, contract disputes and other adverse judgments.

This year, states and municipalities have already raised $1.6 billion in the municipal-bond market for such settlements, up from $826 million in 2017 and $281 million the year before, according to data compiled by Bloomberg. Last month, Michigan State University approved a $500 million debt sale to pay more than 330 women and girls who were sexually abused by doctor Larry Nassar.

The growing use of debt to cover legal bills promises to increase the cost to taxpayers by extending the payments for years, leaving governments with interest bills that will linger long after many current leaders have left office.

“What you’re doing is you’re putting on the backs of future taxpayers the cost of an event that occurred in the past,” said Michael Belsky, executive director of the Center for Municipal Finance at the University of Chicago’s Harris School of Public Policy. Debt “is supposed to fund hard capital that’s going to serve the public over the years.”

It’s not clear whether the rise in bond sales reflects an increase in legal settlements or just a greater reliance on debt to cover them, and the data doesn’t indicate what types of cases are behind the borrowing because securities documents vary in the degree of detail they disclose.

But the practice has drawn scrutiny in the wake of the the nationwide Black Lives Matter movement, which has focused attention on police brutality and unjustified shootings. The Action Center on Race and the Economy, an advocacy group, in June released a report that found that 12 cities and counties have sold $878 million of bonds to pay police-related settlements, with about $709 million from Chicago. It estimated that will roughly double the cost to taxpayers once interest payments are included.

Ruinous Consequences

The borrowing, though, can save some governments from potentially ruinous binds. South Tucson, Arizona, went bankrupt four decades ago after it was ordered to pay $3.6 million to a man who was left paralyzed after being mistakenly shot during a police raid on his home. The resort town of Mammoth Lakes, California, filed for court protection from creditors six years ago after losing a dispute with a developer. In 2015, Hillview, Kentucky, followed suit because of a property dispute with a truck-driving school.

“You should be using financing for capital improvements and necessary items that help develop safety and welfare, but in my mind not going into Chapter 9 and using it to prevent that because you need the liquidity is a social good too,” said Jim Spiotto, managing director of Chapman Strategic Advisors.

This month, Dallas issued $58.7 million of general-obligation bonds to contend with four legal settlements over police and firefighter pay.

California has its own designation for securities sold to cover legal costs: judgement-obligation bonds. Last year, Los Angeles considered issuing up to $90 million of them to cover unanticipated settlements, though it later decided to use surplus revenue instead.

“They have no public benefit whatsoever,” said city council member Mitchell Englander, who objected to the plan. “It’s sort of like putting your mortgage payment on a credit card because you want to keep your money in your savings account — it makes no sense.”

Big City Burden

Despite criticism of the practice from some quarters, municipalities have little trouble selling debt. Richard Li, the public debt specialist for Milwaukee, said he hasn’t seen investors shy from the city’s bonds that paid for legal settlements — which are usually large bond issues that also fund other government expenses. He said the settlements aren’t generally large enough sums to be a concern to bondholders.

“These deals are in the hundreds of millions of dollars, and we line item that five or so million we are going to pay for legal settlements,” he said. “It’s not really material to the investor at that point.”

The year after Ott was exonerated by DNA evidence in 2015, Milwaukee had to pay $5 million to 74 people who were victims of unlawful body cavity and strip searches by police officers. The city issued bonds to pay for that settlement too.

Li said the $28 million that the city has issued to pay off settlements and judgments is a normal — if unpredictable — expense for large cities. “A small city that doesn’t have a very active police force doesn’t usually encounter this issue as often as a larger city like Milwaukee, which has an active police force that is always engaging with the public.”

Bloomberg Markets

By Sophie Alexander

July 30, 2018, 5:53 AM PDT

— With assistance by Danielle Moran

Colleges, Cities and Pension Funds Pressured to Cut ICE Ties.

Public institutions across the country invest in the private prison operators of immigration detention centers and contract directly with the federal immigration enforcement agency.

MacKenzie Murdoch says she was surprised to learn that her state's university system receives money from U.S. Immigration and Customs Enforcement (ICE).

The 18-year-old rising sophomore at Northern Vermont University decided to reach out to school officials to voice her concern. She also started a petition calling for the state's public colleges to end their ties with ICE.

"I didn't understand why we would have any connection to ICE," says Murdoch. "I think that the mission Vermont State Colleges has for its schools doesn't line up with any connection to family separations and the treatment of immigrants being detained."

Murdoch's campaign comes amid a sea of calls from students and immigration activists who want state and local governments, public colleges and politicians to sever their financial ties with companies and agencies involved in detaining immigrants. There is also a movement growing to abolish ICE.

Continue reading.

GOVERNING.COM

BY CANDICE NORWOOD | JULY 30, 2018

What Cities Can Unpack from the House Infrastructure Proposal.

Since the president released his infrastructure proposal this spring, city leaders across America have called on Congress to follow up with a proposal of their own. On July 23, Representative Bill Shuster (R-Pa.), Chairman of the House Committee on Transportation and Infrastructure, released a discussion bill on a transportation and water resources infrastructure investment package.

While even the chairman, who is retiring, has said the bill is unlikely to gain traction before the midterm elections, putting pen to paper on a proposal for his colleagues to react to is a major step.

Now, city leaders will also have the opportunity to respond to the discussion draft and — to make their thoughts and needs known to Congress. Here are some of our key insights as to where the chairman's infrastructure proposal is leaning, and how that may impact cities:

Continue reading.

citiesspeak.org

By Brittney Kohler

July 31, 2018

As Amazon Enters Government Purchasing Market, Signs of a Bad Deal Emerge.

The online retail giant's new relationship with public schools and agencies raises concerns that the company is cornering the marketplace and costing taxpayers more money.

Amazon has already helped reshape the retail landscape for books, clothes and groceries. Now the online retail giant is moving into local government procurement. This new business venture is raising concerns that cities, school districts and counties will end up spending more money than they have to on supplies.

Early last year, Amazon contracted with the Prince William County School District in Virginia and by extension earned a contract with U.S. Communities, a purchasing group with public-sector members in all 50 states. More than 1,500 public agencies have since signed on to buy products through Amazon Business, the B2B counterpart to the company's popular Prime service.

While Amazon and U.S. Communities have touted their partnership as a cost-saver for public agencies and a boon for suppliers, a new report finds that Amazon Business does not always deliver the savings it promises. The report by the Institute for Local Self-Reliance, a frequent critic of Amazon, also argues that Amazon is increasingly cornering the supply market by forcing vendors to sell their products through Amazon.

Critics say the contract between U.S. Communities and Amazon is written in a way to favor the company and makes it next to impossible for vendors not on Amazon to compete for the job.

On a press call about the report, Mike Mucha of the Government Finance Officers Association explained the contractual problems with an example of a government choosing a new type of software, in which Apple is expected to be one of the proposed vendors.

"You can structure that process so that you can truly evaluate the merits of [different companies] through a fair process. Or you can include a requirement in the RFP [request for proposal] that says, 'The logo must be in the shape of a fruit,'" he says. "It's not a real RFP."

Prince William County Public Schools created a similar bid in 2016 when it required 10 product categories in an RFP for office supplies. Of the 12 firms that submitted bids, only Amazon was able to supply all 10 of the categories requested.

Additionally, the Amazon contract differs dramatically from traditional procurement contracts between governments and businesses. While government purchases are usually based on fixed prices, the Amazon Business prices can vary by the day and even by the hour. The report analyzed purchases made by a California school district and found that buying those supplies from a local vendor as opposed to Amazon would have saved the district between 10 and 12 percent.

Amazon has added a feature that freezes the price for seven days after a product is added to a

customer's online cart. But critics contend that still doesn't come with the guarantees made by a contract with fixed prices from the time of signing.

"The pricing terms in the contract are based on the dynamic pricing that is found elsewhere at Amazon and Amazon Business," says Olivia Levecchia, senior researcher at the Institute for Local Self Reliance and the report's author.

If public agencies have long-established relationships with certain vendors, they are now only allowed to continue buying from them if those vendors join Amazon's marketplace.

Adding to the list of concerns about Amazon Business is the profits the online retailer is raking in. According to the report, Amazon's dual role as both seller to government agencies and representative for third-party sellers gives the company a 15 percent cut, via a fee charged by Amazon, of all such sales. The company earned $31.8 billion in fees charged to government vendors in 2017.

In response to the report, Amazon says that its practices insure the best prices and allow public agencies flexibility in purchasing.

"The competitively solicited contract helps education and public-sector organizations purchase directly from the Amazon Business marketplace, which includes small, local and socio-economically diverse businesses," Amazon said in a statement. "More than 90,000 public-sector organizations, from individual schools to school districts to higher education institutions across the nation, can now access multiple purchasing categories in an online marketplace, as well as be confident that they are receiving dynamic and competitive pricing."

U.S. Communities also defends the contract with Amazon, citing the company's track record in delivering "lower total cost of procurement" as well as "improved compliance and reporting." The Amazon marketplace, the group says, "supports supplier diversity."

GOVERNING.COM

BY J. BRIAN CHARLES | AUGUST 2, 2018

S&P: U.S. State And Local Government Credit Conditions Improve As Economic Growth Picks Up.

Midway through 2018, accelerating economic growth is providing a favorable near-term backdrop for credit conditions in the state and local government sectors. According to S&P Global Ratings' updated baseline forecast, U.S. GDP is on a trajectory to expand by 3.0% in real terms in 2018.

Continue Reading

Jul. 26, 2018

Fitch: Trajectory Matters When Assessing Demographics for U.S. States

Fitch Ratings-New York-25 July 2018: While demographics play a pivotal role in the overall

health and growth of regions throughout the United States, a new report by Fitch Ratings says that how demographic and economic growth occur is also crucial.

A state's ability to attract and retain residents ultimately can have significant implications for the strength of the region's economy. And trajectory in key indicators matters. "Two state economies may grow at a similar rate over time, but one may have grown more abruptly, possibly with some significant retrenchment in between," said Senior Director James Batterman. "While narrower economies can exhibit solid demographics and growth over extended periods, more diversified economies can sometimes be less volatile over the cycle and more predictable." Consequently, Fitch seeks to measure not just the strength of key demographic indicators but also the stability of these over time.

Continue reading.

If Rich States Need Federal Help, Remember They Paid for It.

It would be a sign that progressive taxation has worked and should continue.

Yes, Connecticut is in trouble. No, it's not going to follow the path of the Greek debt crisis.

My Bloomberg Opinion colleague Brian Chappatta recently wrote about widening credit spreads on its municipal debt, and the prospect that one day the state could default. Other states like New Jersey and Illinois have similar woes.

Mitch Daniels, president of Purdue University and former governor of Indiana, compared the state budget crisis with the European debt crisis, with Connecticut and Illinois playing the role of Greece and Italy. But this analogy gets the relationship backward. Daniels also argued that the structure of the U.S. Senate will prevent "profligate" states like Connecticut from being bailed out by others, but given the structure of U.S. taxation, it's entirely appropriate for some of the overburdened states to get federal help.

Continue reading.

Bloomberg Economics

By Conor Sen

July 27, 2018, 4:00 AM PDT

Fitch: Good 2018 Returns Are Little Help for US Public Pensions.

Fitch Ratings-New York-24 July 2018: Several public pension plans have announced solid investment returns as of fiscal year-end 2018, which for most pensions was on June 30, 2018, says Fitch Ratings. Fiscal 2018 gains for most are likely to be firmly ahead of their investment return targets. However, most public pensions still face an uphill climb to improve funding levels, due to the depth of past losses, a historically slow economic recovery, the continued use of favorable but unrealistic actuarial assumptions, and for many plans, inadequate pension contribution practices.

Indices for corporate stocks, the largest component of most pensions' asset portfolios, rose by double digits, as of fiscal year-end June 30, 2018, with the Russell 3000 rising by almost 13%. The California Public Employees' Retirement System (CalPERS), the nation's largest public defined benefit pension system, reported a fiscal 2018 portfolio gain of 8.6%, propelled by 11.5% growth in holdings of public equities, while the Florida Retirement System estimated a portfolio gain just below 9.0%, according to press reports. Investment gains in this range are modestly higher than pensions' own long-term targets for asset gains, the all-important investment return assumption, which pensions use to measure liabilities. As of fiscal 2017, this target averaged about 7.4% for major defined benefit plans, compared to the 6.0% level Fitch uses to reflect the magnitude of liabilities.

While fiscal 2018 returns will have a modestly positive effect on funding levels, they are unlikely to change broader pension funding challenges. The gap between projected liabilities and the value of asset portfolios remains stubbornly high, pushing the actuarially determined contribution (ADC) paid by participating governments higher. The median ADC for major plans was 74% higher in fiscal 2017 than in fiscal 2010. We expect ADCs to continue growing in the near term, as plans recoup past asset underperformance, shift gradually to less favorable but more realistic actuarial assumptions, and absorb rising retirement outlays.

Looking forward, pension portfolio returns face additional near-term uncertainty. Volatility in financial markets is notable with the Russell 3000 gaining just under 1.5% in the second half of fiscal 2018. The current economic expansion, even with the recent strong investment returns, has been weaker than in past cycles, and likely is closer to its end than its beginning. Market gains that fall short of pension targets, or outright market losses, would erode recent gains and leave participating governments susceptible to further contribution increases.

Contact:

Douglas Offerman
Senior Director, US Public Finance
+1 212 908-0889
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Robert Rowan
Senior Analyst, Fitch Wire
+1 212 908-9159

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@fitchratings.com

Additional information is available on www.fitchratings.com. The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

Fitch Updates Rating Criteria for Infrastructure and Project Finance.

Link to Fitch Ratings' Report(s): Rating Criteria for Infrastructure and Project Finance

Fitch Ratings-Paris/London-27 July 2018: Fitch Ratings has updated its Rating Criteria for Infrastructure and Project Finance.

The update only includes minor clarifications. No rating changes are expected as a result of the updated criteria.

The report replaces the version dated August 2017. It is available at www.fitchratings.com or by clicking on the link above.

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Contact:

Olivier Delfour
Managing Director
+33 1 44 29 91 21
Fitch France SAS
60, rue de Monceau
75008 Paris

Cherian George
Managing Director
+1 212 908 0519

Ian Dixon
Managing Director
+44 203 530 1815

Glaucia Calp
Managing Director
+57 484 6778

Media Relations: Athos Larkou, London, Tel: +44 20 3530 1549, Email: athos.larkou@fitchratings.com

Additional information is available on www.fitchratings.com

Wells Fargo Bucks Muni-Market Herd With Push Into Local Bonds.

- **Lyle Fitterer says firm overweight general-obligation bonds**
- **As others avoid them, 'we've found pockets of opportunity'**

Since Detroit collapsed into bankruptcy five years ago, some investors have favored municipal bonds secured by specific taxes and revenue, wagering they'll fare better than debt backed by only a promise to repay should a local government run into financial distress.

But, lately, Wells Fargo Asset Management's Lyle Fitterer isn't among them.

Fitterer, who oversees $39 billion in municipal debt, said his firm has expanded its allocation to general-obligation bonds and bought those issued by localities in Michigan, Illinois, and Pennsylvania — states where some governments have struggled with fiscal strains even amid the

second-longest economic expansion on record.

“Because people have been avoiding a lot of local general-obligation bonds, we’ve found opportunities there,” Fitterer said.

Fitterer said doing extensive research on factors like a town’s cash reserves, debt levels, taxes and demographic trends can help locate the most resilient bonds. He also considers how much revenue is derived locally, as opposed to from state revenue-sharing.

One bet that has paid off is Southfield, Michigan, a Detroit suburb that Fitterer said has performed well. The city sold 10-year bonds in 2015 at a 2.72 percent yield, or about 73 basis points above the benchmark at the time, according to data compiled by Bloomberg. In June, it sold securities with a similar maturity for a 2.99 percent yield, about 50 basis points more than top-rated debt.

Bloomberg Markets

By Amanda Albright

July 23, 2018, 8:00 AM PDT

Letter To the Editor: Why Muni Debt Managers Reject OAS Methodologies.

Re: “Kalotay cites higher muni costs, need for MA training due to advance refunding halt,” The Bond Buyer, July 16:

As a 30-year public finance practitioner who has the privilege of working with some of the largest and most sophisticated issuers in the country, I have an answer for Mr. Kalotay as to why, referring to option-adjusted-spread (OAS) methodologies, “municipal debt managers have largely disregarded it, in favor of questionable seat-of-the-pants methods.”

Firstly, finance is not physics. Newton’s second law of motion has held up since the late 17th century because it is imposed on us by the realities of nature. Finance, however, is pure convention. It is a science/art that is organic and constantly evolving. It is the responsibility of debt managers to constantly seek superior decision making methodologies, not lock themselves into a generation old methodology that was never designed to address their programmatic realities.

Secondly, it is not correct to say that debt managers have largely disregarded OAS methodologies. Rather than disregarding OAS methodologies, my experience is that a large majority of sophisticated issuers have evaluated and rejected them in favor of more organic and integral methodologies.

The black box gang has always mistaken complexity for sophistication in the realm of financial modeling and it is both denigrating and arrogant to characterize non-OAS methodologies currently utilized by debt managers as “questionable seat-of-the-pants methods.”

They are, in fact, methodologies developed by earnest and sophisticated public finance professionals over the course of the generation that has passed since the advent of OAS methodologies who are not willing to cede complex decision making processes to antiquated black box models that do not in any meaningful way capture the broad range of programmatic considerations inhered in modern municipal debt programs. (How could they? They were developed for a completely different purpose.)

As the article states, Mr. Kalotay is a fixed-income expert and of that there is no doubt. I both acknowledge and applaud his significant contributions in this area. But the reality is that the fixed-income analytics he espouses, which are at best of dubious value for their intended security analysis purposes, as proven during the calamitous financial crises, have even less value for public finance debt managers. Rather than weld himself to OAS methodologies, I encourage Mr. Kalotay to channel his unique intellect and insights into the development of new methodologies that are more relevant to the realities faced by modern public finance debt managers.

Frank Lloyd Wright, the great architect, wrote that "five lines where three are enough is always stupidity." That is the lesson I recommend the MSRB impose on municipal advisors as our profession continues its efforts to improve public finance decision making through the development of more organic and integral decision making processes.

Sincerely,

Laurence H. Wadler

The Bond Buyer

By Laurence H. Wadler

Published July 26 2018

Muni Market Recap: Summer Lovin' for Munis.

Municipal bond markets go into summer slumber right around the last day of the school year. This year, the muni slumber has so far lead to an outperformance of municipal bonds relative to US treasuries.

As schools let out, bond traders, bankers and community financial officers stop making excuses for working too hard and everyone goes on vacation. In addition to taking some time for R&R, there's also a greater willingness to take vacation due to the collective liberation that comes from knowing your opponent is likely resting with a pina colada too.

The environment is self-fulfilling because the lack of activity breeds a more relaxed market environment. The most surprising aspect of the absence of market participants and lower trading activity is the trend for municipal bonds to outperform US Treasury bonds during the summer.

The muni/treasury ratio is the best measure of the relationship between Municipal bonds and US Government bonds. The muni/treasury ratio is the yield of Munis divided by the yield of US Government bonds, eg. 1.55%/2.60% (based on market clearing trade data as per MSRB and Bloomberg). This ratio usually reflects the tax benefit for owning a Municipal bond versus US Government bonds.

Munis have had good performance through the quiet of the summer. The 2 year part of the municipal curve has performed the best, with ratios decreasing from 65% to 60% (based on Bloomberg BVAL yields). 10 year ratios have decreased from 85% to 84%. The term used for this experience is outperformance or richening of Munis versus US Treasuries.

So why have munis outperformed? With everyone on vacation, literally and figuratively, everything

slows, bankers stop calling communities to fund projects and community leaders make plans to begin the funding of future infrastructure again in September.

Still, while we're all getting some much needed sun, the July 1 coupon payments and principals for past deals are paid into mutual fund accounts and the cash demands to be put to work in the form of new issue municipal bonds. The imbalance between consistent/increasing demand is met with lower new issue supply during the summer and this imbalance leads to municipal bond outperformance.

PS. Don't get any crazy ideas, the market is quiet for a reason: it is a delicate balance and the market participants could not handle heavy supply of municipal deals.

Note: The data are an amalgamation of market clearing yields from MRSB trade data. They are approximate Muni Yields and are not transactable.

Investing in municipal securities contains risks, including loss of principal. Please read the official statement before investing in any municipal security. Securities offered through Neighborly Securities, Member FINRA, SIPC and registered with MSRB.

Posted 07/20/2018 by Homero Radway

Neighborly Insights

States Finalize Fiscal 2019 Budgets - Updated July 26

As of July 26th, all states have enacted a new or revised budget for fiscal 2019. 46 states began fiscal 2019 on July 1 (New York began on April 1, while Texas begins on September 1 and Alabama and Michigan on October 1). Last year, 17 states enacted budgets covering both fiscal 2018 and fiscal 2019.

For the most current information on states' budgets, please visit NASBO's state-by-state listing of proposed and enacted budgets.

Additionally, for summaries of governors' budget proposals for fiscal 2019 please click here.

By Brian Sigritz posted 05-09-2018

NASBO

In Wake of Tax Reform, Muni Bond Market Gains Footing.

As banks sell munis, and the Fed hikes rates, supply and demand take over

Six months after the sweeping tax-reform package that cut corporate and individual rates rattled the $3.7 trillion municipal bond market, financial advisers say the fallout has proven to be a good thing for investors.

With deductions for state and local taxes now capped at $10,000, in many high-tax states muni bonds are "the only game in town," said Timothy Heaney, a muni bond portfolio manager at

Newfleet Asset Management.

“Our clients are as interested in muni bonds as ever,” said Theodore Haley, president of Advanced Wealth Management in Portland, Ore. “Many people lost deductions due to the new tax law, and especially here in Oregon, the limit on deductions for state and local taxes is a big hit for some,” he said.

Continue reading.

Investment News

Jul 23, 2018

By Jeff Benjamin

Four Ways to Make Wiser Infrastructure Investments.

America’s public infrastructure, particularly its transportation [1]and water systems[2], is decaying, underperforming our nation’s needs and goals. But the solution to our infrastructure problem is relatively straightforward. America, at all levels of government and in conjunction with the private sector, needs to: **Invest. More. Wisely.**

Each of these three words contains an idea and corresponding set of policies. This paper focuses mostly on the final idea: Wisely. At its core, ‘wisely’ means that whatever level of investment is chosen, it ought to be invested in the smartest manner possible. While straightforward in theory, the application of a wiser approach to infrastructure is more complicated in practice. There is generally a reason why sub-optimal choices that fail to maximize total social benefits or minimize total social costs are frequently made and often encouraged by problematic policy or outmoded regulations. Despite bipartisan recognition of the problem and proposals by both the Administration and Democratic leadership, Congress has yet to, and remains unlikely to, pass major new infrastructure legislation.

This paper explores a set of core ideas that can help America make wiser infrastructure investment choices. Changes are needed at all levels of government, especially the state and local levels including infrastructure authorities, where most infrastructure decisions are made. The federal government has an important, but limited, role in structuring these choices. The federal government’s most impactful role is to promote wiser federal infrastructure investment choices and to incentivize wiser decision-making at the local level. Incentive programs, even small ones, from the federal government such as the TIGER[3] competitive transportation grant program, or the Race to Top education program[4]have shown that “competitive programs have impact”[5]in promoting change at the state and municipal level.

Continue reading.

The Brookings Institute

Aaron Klein

Wednesday, July 25, 2018

Understanding the Impact of Local Governments' Financial Planning On Muni Investors.

Indra Nooyi, CEO of PepsiCo, once said that you can either run an organization for your duration or you can strive to run it for the organization's duration. The latter simply alludes to a strategic mindset to understand the implications of your actions in the future and preparedness towards future contingencies.

After some of the well-known bankruptcies of U.S. municipalities, including Detroit and Stockton, more and more local governments are breaking the monotony of simply following their revenue and expenditures and turning toward building a sustainable framework of long-range financial strategy to make budget decisions over future budget cycles.

In this article, we will take a closer look at understanding the need for long-range financial plans (L-RFPs) for local governments and how they can bring sustainable growth.

Continue reading.

municipalbonds.com

by Jayden Sangha

Jul 26, 2018

Municipal Bonds Weekly Market Report: Jobless Claims Hits 49-Year Low

MunicipalBonds.com provides information regarding the performance of muni bonds for the past week in comparison with Treasury yields and net fund flows, as well as the impact of monetary policies and relevant economic news.

- Treasury yields were all up big, while most municipal yields saw smaller gains this week.
- Muni bond funds saw large inflows this week.
- Be sure to review our previous week's report to track the changing market conditions.

Continue reading

municipalbonds.com

Brian Mathews

Jul 24, 2018

U.S. Bond Funds Draw Most Cash in Nearly 6 Months.

NEW YORK, July 25 (Reuters) – U.S. fund investors pushed the most cash in nearly 6 months into bonds in the latest week and inched back into stocks for the first time in 5 weeks, Investment

Company Institute data showed on Wednesday.

The data, collected over the seven-day period through July 18, shows investors tip-toeing into a market despite ongoing concern over the U.S. conflict with its trading partners.

During that week, Federal Reserve Chairman Jerome Powell expressed an optimistic view on the U.S. economy and early earnings reports mostly bolstered the outlook for the most recent quarter.

Bond mutual funds and exchange-traded funds based in the United States collected nearly $8.7 billion during the week and stock funds pulled in another $1.5 billion, according to the trade group.

The strong sales for debt funds were helped by nearly $1.8 billion pumped into municipal bond funds that offer tax-free income, the most cash for those products since late January, ICI's records show.

Seen as a lower-risk source of income than equities, bond funds have drawn strong demand despite the risk of rising interest rates and inflation, not to mention the year-to-date negative performance of many such debt funds.

Bond ETFs, in particular, have also drawn interest from institutions that traditionally favored trading individual bonds.

Nearly 87 percent of the cash that moved into stock funds went into products primarily invested within the United States, according to the ICI.

After strong demand for stocks outside the country in 2017 and earlier this year, investors started pulling cash in recent weeks as anxiety spiked about U.S. interest rate hikes as well as the consequences of a growing trade war for the dollar and equity markets around the world.

The following table shows estimated ICI flows for mutual
funds and ETFs (all figures in millions of dollars):

7/18 7/11 7/3 6/27 6/20/2018
Equity 1,492 -3,155 -10,614 -17,948 -5,173
Domestic 1,297 -1,546 -11,376 -12,535 -3,880
World 195 -1,609 762 -5,413 -1,293
Hybrid -1,829 -1,048 -2,552 -1,134 -857
Bond 8,659 7,445 4,587 2,980 4,549
Taxable 6,894 6,416 4,231 2,455 3,806
Municipal 1,765 1,028 356 525 742
Commodity -308 101 -1,027 -612 -264
Total 8,013 3,343 -9,606 -16,714 -1,745

(Reporting by Trevor Hunnicutt; Editing by Dan Grebler)

Municipal-Bond Funds Draw Flood of Cash as Market Extends Gains.

- **Funds got a $1.68B inflow last week, most since January**
- **Eleven straight weeks of inflows follows positive return**

Bondholders are no longer seeing losses from their investments in state and local-government debt — and they're pouring money back into the market.

Mutual funds that focus on municipal bonds picked up $1.68 billion in the week through July 18, the biggest influx of cash since the end of January, according to the Investment Company Institute. It was and the eleventh straight weekly gain.

Strong demand comes as the market recovers from losses in January that left it in the red for much of the year. Municipal bonds have since swung to a 0.04 percent gain, a relatively strong showing given the 1.47 percent loss for Treasuries and 2.79 percent drop for corporate debt, according to Bloomberg Barclays indexes.

“Solid returns of the muni market over all relative to other fixed income sectors is what’s drawing in the interest,” said Michael Pietronico, chief executive officer of Miller Tabak Asset Management in New York, which manages $1.2 billion of municipal debt.

He said there’s also “a lot of uncertainties in regards to tariffs and trade issues globally that is driving money into defensive sectors, particularly munis.”

Bloomberg Markets

By Danielle Moran

July 25, 2018, 10:41 AM PDT

S&P: The U.S. Not-For-Profit Senior-Living Sector Remains Stable, Supported By Favorable Demand And Growing Liquidity And Financial Flexibility.

The U.S. not-for-profit rated senior-living sector demonstrated continued stability in 2017, highlighted in part by ongoing strength in macro-level factors related to the economy and housing sector, as well as by sector-specific trends related to strong demand and growing liquidity and financial flexibility, particularly relative to operations.

Continue Reading

Jul. 23, 2018

Steel Tariffs Tightening Supplies, Raising Costs for City Construction Projects.

Columbus won’t need steel for the next phase of the Route 315/West North Broadway interchange project until February, but it’s putting in its order now.

That might not be early enough.

City officials say it recently has become harder to acquire the materials they need for public projects since federal steel tariffs took effect, and they have been unable to get waivers for federal Buy American policies that require domestically produced parts for public projects.

It could take six to eight months to obtain the girders, bearings and other steel parts for the highway ramp, so the city needs to order now — months before it even selects a contractor — if the project is

going to stay on track to open in May.

“Currently, right now in the country, steel is at a premium,” Public Service Director Jennifer Gallagher told City Council members before they approved spending $1.6 million on those parts last week.

Tariffs that President Donald Trump’s administration announced in May could be a boon to U.S. steel producers, but they also could make it more expensive for local governments to pay for public infrastructure.

And the tariffs could jeopardize timelines for completing projects if steel orders aren’t made early enough. Fabricators that take raw steel and turn it into usable components are seeing delays in acquiring the material because domestic producers have been overwhelmed by demand.

“For us to get the raw plate material to fabricate it used to be we would order steel today and get the steel two months later. Now, it’s five to six months,” said Evan Morrison, vice president of Ohio Structures Inc. in Canfield, southwest of Youngstown.

Buying steel for a construction project is an unusual step for the city. Typically, contractors include materials in their bids, but the city won’t put the Route 315/West North Broadway project’s second phase out to bid until the fall. By then, it could be too late to get steel in time.

“It’s just like anything else: You place an order and you get put in line,” said Jim Pajk, the city’s assistant administrator for design and construction. “You’ve got to get yourself in line as early as you can. We’re seeing that line was stretching out.”

Morrison said his company is considering bidding on the city’s steel contract for the interchange, but it already has asked whether the delivery date can be extended. Even if fabricators already have placed orders, barges, rail lines and trucks that deliver it are backed up, too, he said.

“There’s no fabricator that’s going to have this much inventory on hand,” he said.

Ohio Contractors Association President Chris Runyan said he hasn’t heard about significant delays on projects yet because contractors have submitted their orders early. But project price tags are rising as contractors bake steel price volatility into their bids, he said.

When the city received bids for a new police substation and fire station, the cost was more than $2 million higher than expected, said Joe Lombardi, the city’s finance director. Council members approved two contracts totaling about $18 million for those projects last week.

Construction prices have been increasing steadily for the past several years, and the Ohio Department of Transportation has “not seen recently anything that would be out of line with that trend,” spokesman Matt Bruning said.

As prices rise, public projects often are delayed or scaled back, said Kent Scarrett, executive director of the Ohio Municipal League.

“It sort of feeds on itself, because the more you delay, these costs aren’t going down. The delay is costing our communities on the residual side by missing opportunities now,” he said.

Columbus also is contending with potential delays because the Buy American policies are making it harder to acquire nuts and bolts for a project that would allow the city to treat more raw sewage at its Southerly Wastewater Treatment Plant during heavy rain.

The city is paying for the project using U.S. Environmental Protection Agency loans, but it has received waivers for the Buy American policy for nuts and bolts in previous years. Purchasing those components from domestic producers is backed up by about four months, said John Ivanic, assistant director in the Department of Public Utilities.

Buy American policies have existed for decades, but Trump issued an executive order in 2017 that doubles down on them. Under that order, the executive branch can require those who receive federal financial assistance to use materials produced in the United States.

The federal EPA has taken public comments on providing waivers to Buy American policies in 2018, but it has not taken any formal action, said James Lee, a spokesman for the Ohio EPA. Columbus is the only loan recipient that has expressed difficulty in complying with the requirement, he said.

“The policies were poorly executed, the tariffs and such. We’re all dealing with that. The people who are really suffering are the workers in the construction industry because these projects have to be scaled back,” said Robin Davis, a spokeswoman for Mayor Andrew J. Ginther.

By Rick Rouan

Jul 29, 2018 at 5:33 AM

The Columbus Dispatch

Wisconsin City to Offer Mini-Bonds to Residents.

Mini-bonds are similar to traditional municipal bonds, but on a smaller scale.

The city of Madison, Wisconsin, will sell mini-bonds to residents to help fund an expansion of a botanical garden, an approach to raising money officials there haven’t tried in 40 years.

The Olbrich Gardens expansion project includes construction of a learning center and an energy-efficient greenhouse. The project is being financed jointly by the city and the Olbrich Botanical Society, with each providing up to $6 million.

“Working alongside the capital campaign overseen by the Olbrich Botanical Society, this bond offering is another way to be a part of a facility that will serve all ages and demographics for years to come,” Mayor Paul Soglin said in a statement. “I am excited to give our residents easier access to investing in our community and getting a good return on that investment.”

The mini-bonds will provide an additional funding stream, allowing residents to invest in the project and reap tax-free interest on the returns. Mini-bonds are similar to traditional municipal bonds, which are typically issued to banks and other financial institutions, but on a smaller scale. They’re usually sold in denominations of $5,000, but will be lowered to $500 to “make the bonds more accessible to community investors,” the city said in a release.

Via broker-dealer Neighborly Securities, the city will sell up to $2.1 million in bonds during a seven-day order period from Oct. 3 to 9. Bonds will be issued on a first-come, first-served basis, with orders ranging from $500 to $50,000. Residents can set up an account online to purchase the mini-bonds rather than working through a traditional arrangement with a broker, said David Schmiedicke, the city’s finance director.

Other cities have had success issuing mini-bonds to help fund projects. In February, Cambridge, Massachusetts sold $800,000 in mini-bonds in one day to help pay for a variety of improvements, including solar panels at the public library. Four years ago, Denver sold out of $12 million in mini-bonds in one hour—during what was supposed to be a five-day sale.

It's the first real mini-bond offering for Madison, though the city "issued something akin to mini-bonds in the 1970s," Schmiedicke told Route Fifty. "It was a short-lived program. Today's technology provides a more streamlined approach for issuing smaller denomination bonds to give more Madison residents a chance to invest in their city."

The city will hold two as-yet unscheduled informational sessions for residents, one in late September and the other in early October.

Route Fifty

By Kate Elizabeth Queram,
Staff Correspondent

JULY 25, 2018

Key GOP Lawmaker Releases Last-Ditch Infrastructure Plan.

U.S. Rep. Bill Shuster's draft bill includes gasoline and diesel tax hikes.

The Republican chairman of the House Transportation and Infrastructure Committee released a draft public works bill on Monday that calls for phasing in a gas tax increase of 15 cents per gallon over three years, along with a raft of other measures.

For U.S. Rep. Bill Shuster, of Pennsylvania, who is not seeking reelection, the proposal amounts to a last ditch attempt during his final months in office to spark movement on an infrastructure package, after efforts to do so by the Trump administration lost steam.

In the long-term, parts of the bill are geared toward shifting how the U.S. pays for transportation infrastructure away from taxes on gasoline and diesel fuel, despite a nearer-term hike in those taxes.

Continue reading

Route Fifty

By Bill Lucia,
Senior Reporter

July 23, 2018

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